Garnaut CLIMATE CHANGE REVIEW UPDATE 2011

MEDIA RELEASE

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FINAL REPORT: OUR FAIR SHARE OF CLIMATE ACTION MUCH MORE EXPENSIVE WITHOUT CARBON PRICING

It will be much harder and more expensive for Australia to do its fair share on climate change without a carbon pricing scheme, according to the final report of the Garnaut Climate Change Review – Update 2011, *Australia in the Global Response to Climate Change*.

The economist leading the Review Update, Ross Garnaut, said that Australia was currently a long way behind in contributing its proportionate part to the global response to climate change.

"There is no risk of Australia becoming a leader in reducing greenhouse gas emissions – other countries are already too far ahead. But we do run the risk of continuing to be a drag on the global mitigation effort," said Professor Garnaut.

Professor Garnaut said that other substantial economies, including China, the UK and Europe, were taking stronger action to reduce emissions than Australia.

On current trajectories, Australia will overshoot its Cancun target of 5-25 per cent reductions by 2020 – even its minus 5 per cent target – by much more than other countries.

"Failure to do our fair share is not a clever position for Australia, which is the developed country most vulnerable to climate change. Especially when we are going through a once-in-history boom in incomes," he said.

"To do our fair share, Australia should begin by making sure it takes steps towards reducing emissions by 5 per cent, as it has committed to doing. Then in 2015, we should be ready to bolster our commitment to match the average contribution of developed countries to the global effort," he said.

Professor Garnaut said that a carbon pricing scheme would be critical to Australia meeting its commitments at the lowest cost. He warned against the return of an old political culture that favoured regulation over market-based approaches, and in which special interests dominated policy making.

"Carbon pricing, complemented by support for innovation, is the cheapest and fairest way to reduce emissions," said Professor Garnaut.

"Reliance on regulation, or 'direct action', to reduce our greenhouse gas emissions will cost Australians much more than a carbon pricing scheme. Direct action will still raise costs, but it will not raise any revenue to assist households or emissions-intensive trade-exposed industries in the transition, or to support biosequestration or innovation."

The final report recommends that Australia's initial carbon price be in the range of $20 to $30.

"The mid-point of this range would be appropriate in the absence of compelling reasons to move away from it," said Professor Garnaut.

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Professor Garnaut released two supplementary notes together with the final report. The first note, *'A 10-year plan for carbon pricing revenue',* outlines the recommended allocation of funds generated by the carbon pricing scheme.

The note recommends that upon the commencement of the scheme:

- **55 per cent** of revenue raised from the scheme is allocated to household assistance (increasing to 60-65 per cent by 2021-22), with the majority being channelled towards reducing personal income tax rates at the lower end of the income scale.
- **30 per cent** of revenue is allocated to trade-exposed emissions-intensive industries, falling to 20 per cent by 2021-22, depending on assessment by an independent agency.
- **Substantial funds**, rising over time, are directed towards innovation and the purchase of offset credits from rural Australia.

"With careful use, the revenue can fully compensate low- and middle-income earners for the costs of the scheme while supporting a substantial efficiency-improving tax reform," said Professor Garnaut.

The second note, *'Governance arrangements for Australia's carbon pricing scheme'*, outlines institutional and administrative arrangements to support the carbon pricing scheme.

It recommends the establishment of three bodies:

1. **An independent committee** to advise on targets, coverage, scheme reviews, the switch to a floating price and progress on international action.
2. **An independent carbon bank** to regulate the carbon pricing scheme. It would apply the legislated scheme rules and administer assistance to emissions-intensive, trade-exposed industries.
3. **An independent agency** to develop recommendations for a new assistance regime for emissions intensive, trade exposed industries to operate after the initial 3 year interim period.

"Good governance structures and processes will be critical to the success of Australia's emissions reduction scheme. They will help to protect the stability and credibility of the scheme, and support community and business confidence," said Professor Garnaut.

"The carbon pricing scheme represents an historic opportunity for Australia to reboot the era of reform in the national interest. We will be leaving very difficult challenges to the Australians who follow us if we are not able to seize this opportunity," he said.

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