

Speech Topic: Garnaut Review 2011

Location: National Press Club,
Canberra

Compere: Mark Kenny, National Press
Club Director

Speakers: Ross Garnaut, Garnaut
Climate Change Review
Update 2011

Date: 31.05.2011

Duration: 57:55

Transcript:

MARK KENNY:

Ladies and gentlemen, welcome to the National Press Club and today's National Bank address. Welcome also to the Climate Change Minister, Greg Combet, and to various members of the Climate Change Multi-Party Committee: Bob Brown, Rob Oakeshott, Tony Windsor. Adam Bandt's here as well, so welcome to those distinguished guests.

Our speaker today scarcely needs any introduction, having addressed this club on several occasions. He's a distinguished economist, a former diplomat, and he has the unique distinction of having once hit a six onto the roof of the Temple of Heaven. He can tell you a bit more about that, I'm sure. He's here today to unveil the latest iteration - or the final iteration, really, of his climate change review, the Garnaut Review 2011.

Ladies and gentlemen, Professor Ross Garnaut.

ROSS GARNAUT:

Thanks Mark. High Commissioners and Ambassadors, colleagues from the Multi-Party Committee, including Christine.

Well with a number of people from the Multi-Party Committee here, maybe that's the place to start. In the first meeting this year I was going through how I'd calculated the costs and the benefits of us doing our fair share on reducing emissions and contributing to the global effort to combat climate change in the Multi-Party Committee.

I got to the question of discount rates, and eyes started to glaze over a little bit, and I was trying to explain that you have to find a way of valuing the wellbeing of people who are living right now - us - and people who will be living in later years; later decades and later generations. Economists do that through a discount rate. You've got to think quite hard about what the appropriate discount rate is.

I made the comment that if you use the sort of discount rate that's used in equities markets and the share market, then anything that happens in half a century's time has very little value. So that if you get something that brings big benefits now and leads to the extinction of the species in half a century, you'll still do it. At that point the Prime Minister, chairing the meeting, started to smile; and the smile became a hearty laugh in which a number of the people here joined in.

The Prime Minister was able to sum up the mood of the meeting: you've got us there, Ross, she said. We're all against the extinction of the human species.

So my 2008 review used the mainstream science to estimate the impacts of climate change on Australia and compared the costs of climate change on Australia with the costs of Australia doing its fair share in a global effort to reduce the damage from climate change.

Some of the benefits of reducing emissions came through market processes, and could be estimated in standard economic models. Some, like the insurance value of protecting Australia from the risk of catastrophic change, and the value we attach to our environmental, our natural and our Australian social heritage, weren't calculated as part of the modelling exercise because you can't simply put monetary values on those.

Neither could the modelling place monetary value on good health - apart from the savings of not having to go to the hospital - and a healthy long life. The models only went out to 2100. Even that was stretching them because you're making assumptions about how the economy will work in eighty or ninety years time. So I was comparing the costs of doing something about it - doing our fair share in a global effort - with the benefits of avoiding climate change.

In the calculations - in the models that I started to work on, and then Treasury joined me and we did a joint exercise - all of the costs were counted because the costs come early and are capable of calculation in using economic models.

The benefits, some of those we could calculate in that way through the modelling; the benefits that came through money values, when you avoid future problems for agriculture; avoid extra costs of infrastructure from climate change. That's a benefit that you can model through economic processes.

But these calculations didn't take into account all of the benefits for future generations of Australians after 2100. It didn't take into account the fact that the average outcomes that we were modelling were just an average and things might be better or worse - and the worse included catastrophic outcomes. So it didn't include the effects of the insurance value of playing our part in a global effort to reduce the effects of climate change. And it didn't give any value to protecting, conserving our Australian natural heritage and Australian social heritage.

But even so, the sums that I did, using appropriate discount rates, said that by the end of this century the benefits of playing our part; doing our fair share in a global effort, pretty well had caught up with the cost. And that's without taking all those other things into account. So those sums showed that for a very small insurance premium we got the protection from catastrophic outcomes, we got the protection of our social heritage and natural heritage, avoidance of all that disruption of Australian life that would come through climate change, and we had the bonus of the value of climate change mitigation to all the Australians who come later, after the twenty-first century.

The Prime Minister and the Minister for Climate Change asked me to update those views; asked me to work out whether anything had changed in the meantime that changed that perspective. That's what the final report brings together, all of those update papers; eight major update papers that I released in February and March, and then two supplementary notes that I've released over the last couple of days.

My work on the update over the past seven months shows two changes that do affect the conclusions that I came to last time. Those two most important changes are that the mainstream science's expectations about the cost of letting greenhouse gas emissions rip have become a bit more grim. That increases the benefits of doing something about climate change. It's just a bit stronger benefit of avoiding climate change than the earlier calculations suggested.

The other change - and, again, it's only a few years since I completed that last work, so the changes are incremental. They are small rather

than transformational. But the other change is that there are fair few signs that the low emissions technologies are going a bit faster than we assumed in the modelling. Just take the example of electric cars.

In our modelling we assumed that as the carbon price rose there would be greater incentives to switch to electric cars. At the same time you'd have the decarbonisation of the electricity sector, so electric cars would actually reduce emissions as a result of that. By 2050, in the modelling, the assumptions from the technology said that about fifteen per cent of cars would be electric cars. Well, it's not yet happening very fast in Australia; although investments are being made in Australia.

But in the United States, in Japan, in China, in Europe, there's an acceleration of progress. It now looks as if that fifteen per cent by 2050 is wildly conservative in terms of the change that will occur.

So faster improvements in technology mean that the costs of doing our fair share to reduce emissions will be a bit lower than they otherwise would. So the benefits of avoiding dangerous climate change are a bit stronger. That comes from the science. The costs are a little bit less because of the faster rate of technological improvements. So, on balance, the bottom line is that the case for doing our fair share in a strong global effort is just a bit stronger than it was a few years ago.

Well, let's be realistic, lots of noise going on around this issue in Australia. And to be realistic, we are in the middle of a great struggle about whether Australia should encourage and do its fair share in an effective global effort to reduce the dangers of climate change, or whether we shouldn't.

It's partly a struggle about carbon pricing, but it's also a struggle over policy between special interests and the national interest. And when we look at the struggle from that point of view, it's a struggle between the old political culture of Australia – the pre-reform political culture.

The political economy and political culture that gave Australia the worst productivity performance of all developed countries between 1900 and 1980. We broke out of that for a while. Policy for a while was made in the national interest and not by vested interests. And, it showed.

In the '90s our productivity growth was the highest of the developed countries. Well, I've been saying for a while that we've slid back into the old political culture and so this struggle over climate-change policy is a struggle over economic policy as well. It's a struggle between the old political culture of Australia and the reform political culture of Australia. It's a struggle between the influence of vested interests on policy and the influence of the national interest.

Some business leaders have recently drawn attention to the need for long views and hard decisions in policymaking. And they say that the current minority Labor Government elected by the Australian people in 2010 is weak and lacks long-time horizons. Well, those of you who have followed my work for 40 years, will know that I'm all in favour of hard decisions in the national interest and long-time perspectives in policy.

But if you look accurately at the current debate about carbon pricing, a more accurate accounting would recognise that the current government has taken on the most difficult and long-dated policy reform that has ever been attempted in Australia. Parts of big business have taken on the role of spoiler.

This debate is being conducted at a time when Australians are enjoying the highest material standards of living in our history. Good times like these are a good time for structural reform. But while it may be a good time economically, it's a difficult time politically.

The resources boom and full employment are placing significant pressure on all of the non-resource sectors of our economy. With the exchange rate against the United States dollar at a thirty-year high and the real exchange rate – when you look at relative price levels as well as the currency levels are probably the highest since federation – we are living through the largest reallocation of resources outside the two World Wars in our national history.

Let's not let a genuine issue of pressure on all export and import competing industries outside the resources sector, the pressure on our universities – which get about a quarter of their revenue from exports – pressure on tourism, on manufacturing, on parts of farming which are not enjoying a boom in prices, luckily, fortunately - a lot of farming has got good prices at the moment, but parts aren't.

Let's not let the issue of pressure on these sectors get mixed up with false concern over carbon pricing. It's easy to make dramatic claims about jobs being lost in one industry, knowing that not many people will understand that this means that more jobs can be saved in other industries.

Read the lips of Governor Glenn Stephens of the Reserve Bank of Australia. The resources boom means that interest rates and the exchange rate have to go up. And that will kill jobs and investment in universities, tourism, manufacturing and farming.

Like it or hate it that is the reality. It is the other side of the coin to our currently high incomes from the resources boom. The economic analysis shows that putting a price on carbon, under the arrangements proposed in this final report, will not reduce the total number of jobs in manufacturing, universities, farming or tourism.

Let's not blame the protection of our grandchildren against the dangers of climate change for the loss of jobs and investment caused by the resources boom.

I noted a saving grace within this very difficult policy problem in my 2008 report. A saving grace that although it was a complicated issue, a long-term issue, an issue in which vested interests were putting powerful pressure on the policy process. The saving grace was that there was a very strong and widespread interest in the Australian community in doing something about the problem.

And despite the truckloads of misinformation that's dominated the airwaves and the presses in recent months, that saving grace is still there. I've found in my widespread consultations and community discussions on the update, that there is a very wide community interest in doing something about the problem.

The saving grace, the wide interest today in the community in doing something about the problem, creates an opportunity for the exercise of influence in the political system by what I call an independent centre of our political community. Informed people, thoughtful people, thoughtful Australians, thinking about their country's future and wanting policy to be developed in the national interest.

It's that independent centre of the Australian political community to which I direct my report. I'm hopeful and I think that that's a hope with some basis, that that will become more influential in the period ahead.

The political divide in Australia over this issue is very unfortunate. It's unusual. There's no reason why carbon pricing should continue to be a matter of partisan political division in Australia. In much of the world, perhaps everywhere except Australia and the United States, concern for global warming is a conservative as much as a social-democratic issue.

The conservative governments of Germany, the United Kingdom, France and the Republic of Korea are playing major global-leadership roles. Even in the United States, the most effective political leadership on climate change has come from a Republican governor of California and a Republican mayor of New York.

A concern to avoid dangerous climate change fits naturally within the conservative tradition. It may be rational for the radical to risk the institutions of human civilisation in a throw of the climate-change dice, just as Lenin saw merit in inflation in the capitalist countries.

The radical may hope that the outcome will open the social and political order to new shapes. It is strange for the conservative to embrace such risk.

The rejection of carbon pricing in this debate won't end the debate on climate-change policy. It might, however, end the possibility of action at relatively low cost.

If this current episode in policymaking does not lead to the legislation of a carbon price, we can be sure that increasing impact of climate change on overseas policy development will prompt continued pressure for new policy in Australia.

This issue is not back on the political agenda of Australia by accident and the same forces that put it here now, after it had been closed off for a while, will put it there again if we don't face up to the issue now. Inaction by Australia would invite retaliation in trade and other areas of international cooperation. Debate would continue over how much Australia should do and how we should do it. That would raise the supply price of investment in businesses if we weren't able to say what we were going to do in response to those pressures. The political system would respond to continued community interest in climate change by myriad costly interventions.

Amongst other things, it will lead to increasing clamour for closing down production, investment and trade in fossil fuels, especially coal. Without carbon pricing economic rationalists like me will not be able to raise an argument against such action. The failure of current efforts would lead to a long period of incoherence and instability.

Member for New England, Tony Windsor, has commented that if the whole world really were doing nothing there'd be no point in Australia seeking to reduce greenhouse gas emissions. We might as well enjoy joining the other lemmings as they rush over the cliff.

Fortunately for humanity, much of the rest of the world is not behaving like lemmings. The final report spells out in some detail how other countries have kept alive the possibility of effective global action.

I won't go through the detail here, but I've got a couple of chapters in the final report summing up what was there in the earlier reports, but updated somewhat the actions by other countries. I might just mention a couple of very recent developments.

The United Kingdom, under the Conservative-led Coalition Government will legislate to halve its emissions by 2025 over 1990

levels, notwithstanding Britain's slow economic recovery from the great crash of 2008.

China is cutting emissions intensity of output by forty per cent to forty-five per cent from 2005 levels by 2020 and I show in the report the steps that it's taking to do that. That is a major change in the trajectory that would have been there in the absence of policy change.

The United States, where President Obama and his Cabinet are very strongly committed to strong action, has a target of reducing emissions from 2005 levels by seventeen per cent by 2020.

The United States, despite not being able to get economy-wide pricing measures through the Congress, the United States administration is doing a lot to move towards that minus seventeen per cent target. It's worth keeping in mind how big an issue this is to the current United States Cabinet, to President Obama and his Cabinet.

They have as Energy Secretary a genuine expert in these things, Steven Chu, and I've been pleased to be able to discuss the United States policy at some length with him.

In this year's State of the Union address in January President Obama made the transition to clean energy the centrepiece of his address, of his call to the nation in the year ahead and I'll just quote a few lines from that. You would have all seen the address or read it at the time. But just to remind you of some of the themes.

I quote President Obama from the State of the Union, "meanwhile nations like India and China are investing in research and new technologies. Just recently, China became the home to the world's largest private solar research facility and the world's fastest computer. This is our generation's Sputnik moment", President Obama said.

"Two years ago", he said, "I said that we needed to reach a level of research and development we haven't seen since the height of space age. We'll invest in, especially, clean energy technology, an investment that will strengthen our security, protect our planet and create countless new jobs for our people."

"Already", he said, "we're seeing the promise of renewable energy. We're telling America's scientists and engineers that if they assemble teams of the best minds in their fields and focus on the hardest problems in clean energy, we'll fund the Apollo projects of our time."

"So tonight", he said to the House of Reps and the Senate, joint congress, "so tonight he said I challenge you to join me in setting a new goal, by 2035 eighty per cent of America's electricity will come from clean energy sources." So, he said, "So instead of subsidising yesterday's energy, let's invest in tomorrow's."

Well, I'll just say a few things about some issues that have arisen in the Australian debate recently. There's some commentary that while the US and China might be doing something, they're not putting a price on carbon. Well there's all sorts of ways you can reduce emissions.

President Obama would have liked to have legislated a carbon price, but he's blocked most strongly now in the House of Representatives.

But they're doing things in other ways, through regulatory measures, through a whole range of measures, which have the combined effect, for example, of making it virtually impossible for a new coal-fired power station to get underway in the United States.

The pressures are cleaning out a lot of the environmentally less efficient coal-fired generation. Now, that's not a reason for us not to have a carbon price, it's much cheaper to get where we want to go, to reduce emissions with a carbon price than through myriad regulatory interventions.

Why should we do the same thing in a more expensive way just because America and China have chosen to do things in a more expensive way? The only way to compare effort across countries in emissions is going to be looking at reductions in emissions.

I talk quite a lot about what will amount to a fair share in the final report, and I won't go through that now, but if you'd like to follow that through the detail is all there.

A fair share which is practical and ethical will have the developed countries committing to absolute reductions in emissions from a base year; will have the developing countries committing to substantial, large reductions in emissions intensity of output.

One thing that's not yet settled in the international discussion but I think is very important is that a transition comes when a developing country's emissions per person reach the average level of developed countries.

I think it's very important that then they come down, with the developed countries, come down absolutely, a position that China will reach sooner than we thought a few years ago because of its prodigious rate of economic growth.

On the whole the international community has taken substantial action, or at least made substantial commitments to move away from business as usual. Still not the action that's necessary to get us to a good outcome, but we're a long way from the extremely bad outcome that it looked as if we were heading towards a few years ago.

A second point that's sometimes made is that we shouldn't do anything because there's no international agreement. Well, I'm afraid that that view is simply poorly informed and I talk quite a lot in the final report about the international agreement that does exist.

There's an agreement of all of the substantial countries in the world on seeking to hold temperature increase to two degrees and there's quite a lot of agreement on how to go about it. It's not what we were hoping for at Copenhagen. It's not what Europe and Australia were hoping for.

It is what the United States and the big developing countries were hoping for and it just happens that the United States, China, India, Brazil, South Africa have quite a lot of weight in the international community. What we've got is an agreement, but an agreement that suits them and that's the agreement that we have to make work.

I talk in the final report about how we can make it work. The core of that agreement could be described as concerted unilateral action, countries making their own decisions on reducing emissions, but then - and pledging to implement those - but then reviewing progress and reviewing other's progress.

Within that framework there's now agreement on how to monitor, measure, verify emissions. Now, it's not as certain and reliable a process as a binding agreement like I would have liked, like Australia and Europe would have liked. But it's what we've got and I think that it can be made to work.

I conclude the discussion of the international situation in the report by noting that there are quite a lot of Australians who seem to genuinely fear that Australia will get ahead of the rest of world.

I said in the report if you're sitting next to someone who fears that Australia might get ahead of the rest of the world, take him by the hand and assure him there's no reason to fear. Who's sitting next to Mitch? Is Mitch here?

Another point that is sometimes made against carbon pricing is that Australia is an inconsequential country, Australia doesn't matter. I saw a big headline in one of our papers about the chairman of one of our large companies saying the rest of the world's not looking at us, by implication, Australia doesn't matter.

Well I don't think that that is actually a realistic view of Australia's place in the world. Obviously we don't by our own decisions shape the world, but we do influence the world. I don't accept that my country is a pissant country. All the evidence is against it.

We matter even on climate change, even though our emissions are only one point five per cent of the world's, just like the UK matters with its one point seven per cent.

The United Kingdom, ever since Margaret Thatcher's strong initiative to combat climate change, making it an international issue, the United Kingdom's views have had a big influence on the international discussion. I don't expect us to have that much influence, but we're not inconsequential.

When you look at the influence that Norway has had - or the Scandinavian countries, but Norway first of all - Norway's a country like us with huge fossil fuel reserves.

But it started - all the Scandinavian countries started to put a price on carbon back in 1991, that's one of the reasons why Norway, with even richer fossil fuel reserves than us per person and possibly, absolutely, certainly per person, has emissions a bit over ten tonnes per person, we've got twenty-seven tonnes per person.

Norway's had a big influence on the international discussion of how to bring developing countries into an international agreement. It's leading the way in the Indonesian effort.

Well Norway contributes nought point one three per cent to global emissions. So I don't accept that Australia doesn't matter. I think Australia can matter at least as much as Norway matters.

The problem of international action is a complicated one. It does require collective action. After a lot of groping on the issue I think we've moved towards the type of agreement that can move us forward for a while.

Since it's not possible for Australia to be a leader in reducing greenhouse gas emissions, because others are already too far ahead, we should do our fair share in what the world needs to do.

In the final report I recommend that in circumstances like the present, where developing countries are doing their fair share, appropriately measured, Australia should match its effort to the average of the developed countries.

That means doing a fair bit more than we're doing now, a fair bit more than some people are contemplating, but I think that's a reasonable ambition. It would make a difference if we were no longer the drag on

the international effort that we've been for more than a decade and started to do our fair share.

The first thing we have to do in doing our fair share is to put in place mechanisms to make sure that we get that minus five per cent. That's a fair way from where we are, business as usual, heading towards twenty-four per cent. Then we'll have to do more than that and the final report talks about how we can do more than that.

Good governance will be critical to providing stability and credibility to the scheme. Critical to how well the scheme works and how cheaply it delivers emissions reductions.

As soon as the parameters of the scheme are settled and legislated, business will focus on making money within the new rules, rather than on securing rules that make them money. That makes it essential that the rules really are settled and that depends on governance.

I propose the establishment of three new bodies: the independent carbon bank to regulate the scheme; the independent climate committee to advise on targets and the transition to a floating price regime; and the independent agency to advise on assistance to trade exposed industries within clearly defined principles.

I've laid out the details of this governance broadly in the final report and in more detail in a supplementary note that was released yesterday. So where do we start with the pricing of carbon?

I've recommended that Australia's initial price be in the range of twenty to thirty dollars and I've said that the mid-point of the range will be appropriate in the absence of compelling reasons to move away from it.

My supplementary note on presenting a ten-year budget, a budget neutral perspective on the scheme, which doesn't cost or gain anything for the budget for ten years, just uses the revenue from carbon pricing.

I've spelt all of that out; it basically brings together the story that's written there in various of the update papers. I suggest that the largest component of the expenditure should be on efficiency raising tax cuts for people on low and middle incomes, that can actually reduce the cost of introducing carbon pricing.

There needs to be substantial allocations for trade exposed industries, especially in the early years. There needs to be substantial allocations for innovation in low-emissions technology, substantial allocations for the land sector.

With a carbon price and with appropriate support for innovation, the Australian economy over the years immediately ahead will be a story of innovation, of transition towards the low-carbon economy of the future. We can't say now with any great precision exactly where the emissions reductions will come from.

The same issues used to arise when I used to talk, including on occasion here, about the many benefits to reductions in protection. The huge resistance to that was met by the cry "where will the jobs come from to make up for the jobs that were lost?" Well, I used to say they'll come from everywhere; everything will become a bit more competitive.

The total number of new jobs, it's mostly unlikely that they won't be as large as the old ones. Well, not everyone bought that story at the time,

but now we can see what happens. There are millions of new jobs since the reductions to protection.

Where did they come from? They came from everywhere, industries that were almost competitive in international markets, with the reduction of protection became a bit more competitive, got over the edge, became export industries. Industries that were already competitive expanded in export markets.

Some firms that had never thought of themselves as export industries placed in that open situation found ways of becoming competitive. So it will be with the reduction of emissions. If you've got an economy-wide price on carbon, the reductions in emissions will come from everywhere.

A bureaucrat or a political leader in Canberra won't be able to think of all the ways they will come from. Consumers will use less energy and other goods and services that embody high levels of emissions. Natural gas exporters will try harder to find opportunities for sequestration of emissions.

Land owners will think hard about the parts of their properties that would have more value for them as carbon sinks than they do carrying sheep. Lots of people with clever ideas of doing things in ways that reduce emissions will find equity investors and lenders more interested than they were before.

Every producer will think about whether it is more profitable to spend a bit to reduce emissions or to buy more permits. Millions of Australians will set to work finding cheaper ways of meeting their requirements and servicing markets.

My 2008 review and the treasury modelling assumed that there would be steady but not particularly rapid technological change. With the carbon price I'd be pretty sure that we'll get some surprises. I can't tell you what they are. But that's the way the market works.

That's the genius of the market; when you put incentives in place, people think harder about how to make money from them. It's that genius of the market economy that, above all else, is why West Germany absorbed East Germany and not the other way around.

Why south-east Asia is prosperous and South Korea is prosperous and North Korea in crisis. That's why the United States could afford the cold war and the Soviet Union could not. That's why economic growth accelerated in China, Indonesia and India, once they had scraped away the barnacles of protection.

That is why reliance on regulatory approaches and direct action for reducing carbon emissions is likely to be immensely more expensive than a market economy.

This is the fourth time that Australia has moved towards economy wide carbon pricing. Each time the retreat of economy wide action did not mean the end of climate change mitigation policies. An array of regulatory interventions took their place, with little effect on emissions but large effects on the Australian standard of living.

It would not be the end of costs if Australia were to cede victory to the regulatory approaches to the period before the reform era of the past century. The really big cost of conceding to the regulatory approach to direct action would be entrenchment of the old political culture that has again asserted itself after the late 20th Century period of reform.

The big rewards in low emissions investments under regulatory approaches would go to those who had persuaded the Minister, or the bureaucrat, that their idea was worthy of inclusion in the direct action plan, if not under the government that introduced the direct action policies, then under the governments that followed. That would entrench the return of the influence of the old Australian political culture in other areas of economic policy and we would be leaving really difficult challenges to the Australians who follow us.

In the best of circumstances we will be in those circumstances - well, in the best of circumstances anyway, we will be bequeathing the Australians who come after us a climate that is far more difficult to live in than the one into which we were born. It will be even worse if we left them with a political culture that was incapable of the flexibility through the use of effective markets that will be essential to Australian adaptation to a world of climate change.

If we reject carbon pricing today the climate change policy debate will still be here tomorrow, but our dreams of dealing with it in a way that preserves Australian prosperity may not. Thank you.

MARK KENNY:

Thank you, Professor Garnaut. As usual we have a period of questions from the media gathered here. I would ask the media to - obviously given the time constraints - keep it to one question if possible. Our first question is from Lenore Taylor.

LENORE TAYLOR:

Lenore Taylor from the *Sydney Morning Herald*. Professor Garnaut, you've had a lot to say about how some business leaders have contributed to this debate. Is this a situation where economists, like yourself, and businessmen look at things differently, because from an economist's point of view a price is obviously a more efficient way to reduce emissions across the whole economy, but if a business looks at a competitor in another country where the costs are borne by taxpayers, or by the central government, then what he sees is a competitor who isn't paying the tax that he's paying. And if the Productivity Commission doesn't find that there are real and comparable costs borne by businesses in competing sectors overseas, does it matter? What should we do?

ROSS GARNAUT:

Well, I've got both legs on the divide you're talking about. I've chaired the board of a top 20 Australian company, a company that ended up in the top 20 for 15 years, so I know a little bit about how business looks at these things as well as how an economist looks at these things. And yes, a well-trained economist does look at things in the national interest. It looks at the overall costs and benefits to the economy as a whole, but looking at things in the national interest includes looking at the competitiveness of trade exposed industries and it is - that's why from the beginning I've recognised that there's a role for support for trade exposed industries.

And now, there's the question of what's the appropriate level of support. The appropriate level of support is not the level each business thinks will be good for it. It has to be disciplined by some principles; it has to be subject to independent scrutiny. If we follow that approach we can give the trade exposed industries the amount of support that is justified by their circumstances and that will maximise the welfare of the Australian community.

LENORE TAYLOR:

And what about the commission?

ROSS GARNAUT:

The Productivity Commission. Well, already from what we've seen of Gary Banks' report, he's alluded to a lot of issues of measurement. I'd be surprised - they will - they are very thorough, an entirely professional organisation. I'd be surprised if they don't draw attention to very large numbers of things that other countries are doing,

because they are doing them they won't be missed. Some of them are difficult to convert into a single price.

I've discussed some of those issues in the report and that's why I've said the prime focus in working out what our fair share should be, should be related to reductions in emissions and the Productivity Commission's difficulties in coming up with a single price is one of the reasons why we need to head towards reduction of emissions as a way of comparing a fair share. I've discussed this in the final report.

MARK KENNY: The next question's from Sid Maher.

SID MAHER: Sid Maher from *The Australian*, Professor Garnaut. I just want to ask about fair shares. If the independent committee that you're proposing to set targets was meeting today and I realise you've done a lot of work in the last couple of months, I reckon you're in a position to tell us what target would it set for emissions reductions, would it more than the five per cent that's on the table at the moment? And secondly, just fair share too, is there any concern out of the G8 over the weekend with I think it was France, Canada and Japan and the US all being very lukewarm on the next round of Kyoto cuts. Does that - is that the start of a new trend that worries you, or...

ROSS GARNAUT: On the second one first. You'll see that discussed in the international chapters, I think it is chapter three. I say that's going to happen and that's not a bad thing. It's actually better to put Kyoto behind us, because Kyoto divided the world between developed and developing countries. We're moving towards an integrated commitment of a similar kind from all countries and that's - Japan has led that discussion. Japan doesn't have in mind everyone making no commitments, it's really a movement to the pledge and review situation that we've had since Cancun and I've discussed that in the report. And answering the second bit, I've forgotten the first bit, Sid.

MARK KENNY: To do with targets, would you go for a five per cent target?

SID MAHER: Would you go for a five per cent?

ROSS GARNAUT: Well, the independent committee will look at a lot - some things in a lot more detail than I've done, but if you look at the things I've said in the international paper, probably it would be more than five per cent. Really the independent committee would have the resources and the job and more than seven months to work it out properly.

MARK KENNY: Next question from Kieran Gilbert.

KIERAN GILBERT: Professor Garnaut, Kieran Gilbert from Sky News. You spoke about a great struggle that's taking place in Australia pre reform culture and economic - versus economic reform. So you spoke about the substance, tell me what have you made of the tone of the political debate in Australia, obviously you've been a very close observer of it over recent months?

ROSS GARNAUT: Well, I think in substance what we're seeing is a return to the old political culture, the political culture that gave Australia eight decades of under-performance that made us the under-performing country of the developed world in productivity growth from 1900 to 1983, so that's the substance. I see a lot of the same elements of political culture, the pressure of vested interests, the organisations like the Business Council just amplified and finding the loudest noise, rather than looking at an economy-wide approach.

It's not a general negative comment about the Business Council. I think they played a tremendously constructive role in the '90s in the

reform process, but we've reverted to the pre reform political culture, so that's the substance.

On the tone, I think the tone of the current discourse is less civilised than that in the old political culture. It's noisier, more ignorant, well, people are more comfortable with shouting ignorant slogans than I think they were in the old political culture before 1983. Whether that leads to a worse outcome for policy, or just a bad outcome like the old one, we'll have to wait and see.

MARK KENNY: Julian Draper.

JULIAN DRAKE: Professor, Julian Draper from Australian Associated Press. You said today that until the parameter of the carbon pricing scheme is settled, business will focus on securing rules that make them money. Is that just a fact of life, or could the Government have adopted a different process that would have avoided that bun fight with industry?

ROSS GARNAUT: Well, first it is a fact of life. In fact, it's the responsibility of business to get as much as it can whenever new policy issues are on the table, bonuses of business leaders are partly determined by how much they can get. And they have no responsibility for the national interest, so it's unrealistic to think that they will be seeking in their pressure for policy to advance the national interest. A lot of them are not even Australian, so why should they think of Australia's national interest?

But even the Australians have a responsibility to shareholders to get money for their shareholders, so that is a fact of life. I think the way you discipline the role of vested interests and it is legitimate in our democracy for businesses to explain clearly their situation, to explain the unforeseen consequence of policy pronouncements that others might not have seen. And in a polity, a political community that's discussing policy from the point of view of the national interest, those business voices will be respected, like the Business Council was respected and highly influential through the 1990s, a reform period late in the 1980s and through the 1990s.

I think you can make sure that the vested interests have a limited negative effect and a maximum positive effect if you put institutional disciplines around the process and that's why I put such emphasis on independent determination of at least recommendations for trade exposed industries.

MARK KENNY: The next question from Deborah Nesbitt.

DEBORAH NESBITT: Deborah Nesbitt, Thomson Reuters. Congratulations on finalising the update, Professor Garnaut. You've rung an alarm bell in there about electricity pricing and I think the deals that are done between generators and retailers being opaque. Is that one of the reasons there's a debate about exactly why electricity prices are rising, because it's not clear whether it's renewable or something else?

ROSS GARNAUT: There's not much doubt about why Australian electricity prices have risen so much in the last five years. It's the big increase in costs of network - of distribution. Some increase in transmission, of course, long distances, but the numbers of cents per kilowatt hour is increased distribution costs. That's clear. Generators actually haven't been getting that much out of the increase in prices so far.

Renewables have started to add to price, but it's much less than the increase in costs of networks and for distribution and transmission. So there's no debate about the past.

For the future, I think that a lot of the increases in electricity prices in Australia, especially in New South Wales and Queensland are a self-

inflicted wound, a product of regulatory processes. If we got rid of that, then we'd be easing the price environment for the introduction of carbon pricing.

DEBORAH NESBITT: Could you explain what you mean about contract prices, by being opaque?

ROSS GARNAUT: Oh no. Contract prices are opaque in the nature of things and I don't think that's a problem. There are commercial deals between different parts of the electricity process. No, that's - that is a factor of life, that's not one of the important points I've made. The point I made most significantly was we've got the wrong regulatory formula in there. We're paying - we're giving an excess - an excessive rate of return on investment in networks.

One consequence of that is that that higher return, unnecessary high return, for what is a very low risk investment, because the costs are just passed straight onto customers. That excess price goes straight to the price of electricity, but it also encourages excess investment in networks. And the investment in networks that's going on in Australia in recent years, which has been the main factor driving the price increases, is quite out of line with any other country, quite out of line with anything in our history.

MARK KENNY: The next question is from Matt Johnston.

MATT JOHNSTON: Matt Johnston from the *Herald Sun*. I just wanted you to flesh out a bit the structural assistance that you mentioned, the billion dollars going to certain regions that would be hardest hit. You said that communities and workers would get that money. Are there any particular areas, like in Latrobe Valley in Victoria, or any other areas that would get particular assistance in your view? And would communities in those areas survive without the direct Government assistance?

ROSS GARNAUT: Yes. Well, I'm not trying to predict which communities might be affected, that's for the market to work out, that's the idea of a carbon price. But one can identify some areas that might be vulnerable. The most vulnerable is the Latrobe Valley in Victoria, with that extremely emissions intensive production of electricity from brown coal. I visited people, communities, council, workers, others in the Latrobe Valley and discussed this issue with them. They know all about structural change. In - there's no scenario over the next couple of years that loses more jobs than were lost in that area during the privatisation of the State Electricity Commission a few years ago.

And people are looking down in the Latrobe Valley - looking at this issue realistically. They know that there has to be change; they know that that change may or may not lead to a balancing of a loss of old jobs in brown coal with new jobs in other forms of electricity and energy that might happen.

And what I've done in my 10 year budget is make provision for support for structural adjustment for communities and retraining of workers and so on, if that's necessary in particular regions, because the way we work best as a community we wouldn't leave a community to carry the whole burden itself, if it did happen that there was a disproportionate loss of jobs in one region like the Latrobe Valley.

But the people down there are looking at this very constructively and realistically.

MARK KENNY: All right. We're getting a little pressed for time on a Parliamentary sitting day, so I'll take three more questions. Marcus Priest.

MARCUS PRIEST: Thanks, Marcus Priest from the *Financial Review*. Professor, I'd like to ask you in your role, dual role as author and advisor to the Multi-Party Climate Change Committee. Since 2008 you've somewhat modified your views on petrol, transitional assistance for EITEs. You've added some recommendations on tax reform and also the agricultural sector. To what extent have you been influenced by your position on the committee and trying to find a pragmatic political solution on the committee, which will get agreement of the parties? And related to that, in your final report you've directly attacked the BCA, you've named Bluescope and Jac Nasser, is there a risk of you stepping out of your role as being an advisor on policy and becoming a partisan political player?

ROSS GARNAUT: Well, the Chairman of BlueScope had a few words about me when he was talking to the Press Club a few months or so ago. I don't know if he was stepping outside his role. But on the first part of the question, I try to keep on learning. I've actually learnt quite a lot from the discussions in the Multi-Party Committee and other discussions I've had with members of it.

And I've continued to learn from a lot of feedback from the Australian community from my original report and the discussions I've had during it. So certainly what I've learnt from people on the Multi-Party Committee is one of the things that's gone into the final report. But I haven't been deliberately setting out to work out a political compromise. That's for the members of the Committee, the politicians to work out and they're hard at it at the moment I think.

And then on the question of appropriate role of an independent expert, my terms of reference required me to exercise my independent judgement. If it had not done that, I might have been more cognisant of what one might call government priorities.

But I've felt a responsibility to tell the story to the Australian community as it is, honestly. And if that meant revealing a few home truths about what's happened to our political culture, I thought it was my duty to tell the truth.

MARK KENNY: Simon Grose.

SIMON GROSE: Simon Grose from Science Media. You talked about the great struggle to push our emissions down. You touched on the other great struggle that's going on which is the resources boom and how our economy is struggling to adapt to that.

The latest forecasts from ABARES coming off the resources boom are that our coal exports will rise by two-point four per cent a year over the next thirty years, so they'll double by 2030. At least double. Our LNG exports will rise by an amazing nine per cent a year on average over that time which I think is about fivefold increase. Do you think those forecasts are wrong and if so, are the energy companies making the investment decisions to drive that growth? Are they being ill-advised?

ROSS GARNAUT: I think it is most unlikely that our coal exports will grow by as much as that over thirty years unless there is major progress on sequestration of carbon dioxide waste from coal combustion. So I think the forecasts are wrong in the absence of technological change.

Are the companies making those decisions ill-advised? Well, their share prices may be determined by what happens in the next few years. The problems of declining coal exports, declining coal regions, come afterwards. And if it's the duty of a board of directors to hold up the share prices, then to take measures that are valued in the markets, then they're not necessarily ill advised. But I think the forecasts are wrong unless there is major progress on sequestration.

On natural gas, it's a more mixed picture. The - one of the things driving the gas boom is the seriousness with which Korea, Japan, China, Taiwan are taking environmental issues and gas is an improvement over coal. So in a world that's taking effective action on climate change, we may very well see continuation for a while, not forever, but for a while of a gas export boom. That's a different story from coal.

MARK KENNY: Final question today from Andrew Tillett.

ANDREW TILLETT: Andrew Tillett, *The West Australian*. Professor, you flagged in your report that there'd be enough revenue that you'd raise from the Emissions Trading Scheme to have two rounds of tax cuts, personal tax cuts. But given how the Government is travelling politically at the moment, do you think that that may be too hard for the Government to include in its final climate change package that it may not - it may lack the stomach to take on tax reform as part of climate change?

ROSS GARNAUT: Well that's for other people to make. I just give them independent advice on what I think would be best. I don't think it would be bad politics to have a big tax cut though.

MARK KENNY: Well we might leave it there. Thank you very much. [Applause] And Professor Garnaut, thank you very much for choosing the Press Club to wind up this very lengthy process, series of reports. Here's a bottle to send you on your way. I know you're about to do a national tour selling the report that you've got out there. And here's a gold card to get you into the car park. You've been a frequent visitor in the past, so I guess you'll be back here again. Thank you very much.

ROSS GARNAUT: Thank you. [Applause]

- ENDS -

Produced By Newscentre - Australian Associated Press

Contact: 02 9322 8222 or email newscentre@aap.com.au

AAP content is owned by or licensed to Australian Associated Press Pty Limited and is copyright protected. AAP content is published on an "as is" basis for personal use only and must not be copied, republished, rewritten, resold or redistributed, whether by caching, framing or similar means, without AAP's prior written permission. The information and content within and available through this document may be subject to error and cannot be guaranteed as totally accurate and complete. AAP and its licensors are not liable for any loss, through negligence or otherwise, resulting from errors or omissions in or reliance on AAP content. The globe symbol and "AAP" are registered trade marks. AAP content may contain other trademarks and logos of AAP's licensors and no rights are granted to use those trademarks or logos.