

Climate Change Challenge Of Our Time: Garnaut

The Federal Government's climate adviser Professor Ross Garnaut says there is a case for the emissions trading scheme to begin with a fixed, low price for permits as a purely transitional measure in the start-up period, in the context of over-performance on Australia's Kyoto targets.

"A fixed, low price would be better than a price cap because the separation from the post-2012 mitigation effort may lead to a zero price under an ETS, that would not allow the building of the ETS institutions and processes," Garnaut

said in a speech at the Australian National University. He says that the merits of such an arrangement will be discussed in detail in the Draft Report to be released on 4 July 2008.

"There is indeed need and room for flexibility in the system, to take account of any current misjudgements in the future costs of mitigation, fluctuations over time in economic variables affecting the permit price, and the shocks that from time to time enter any market," he says.

An economically efficient approach to mitigation would generate a rising carbon price over time, and therefore impose increasingly strong pressure for adjustment out of high-emissions technologies, and increasingly strong incentives for sequestration. For a given abatement task, emissions costs will be lowest if the emissions price rises at the interest rate, which will lead to optimal timing in investment in the mitigation effort, according to Garnaut.

"The costs of mitigation will be lower the higher are the market prices of petroleum, coal and natural gas. This is because the costs of 'business as usual', to be compared with the costs of using the alternative, low-emissions technologies, will be higher," says Garnaut. "This is a matter of high current interest, at this time of historically high fossil fuel prices."

"The costs of mitigation will be higher the more ambitious the extent and speed of reductions in emissions. It will be lower the more efficient the instruments chosen to give effect to policy," Garnaut adds. Garnaut says that the annual costs of mitigation are likely to rise for some time, as a rising emissions price forces deeper abatement. "At some time, this tendency would be moderated and eventually reversed by improvements in the technologies that emerge to replace fossil fuels and other sources of emissions," he says.

At some time in the future – when economic constraints on the use of fossil fuels would in any case be forcing structural change comparable with what had been achieved for mitigation purposes – the incremental costs of mitigation will become negative, Garnaut says. "The sunk costs of technological improvement and structural change associated with mitigation will avoid the need for some investments to accommodate the constraints on availability of fossil fuels," Garnaut adds.

He says that since releasing the Garnaut Climate Change Review's Interim Report in February 2008 and the Emissions Trading Scheme Discussion Paper in March, the big external development has been the continued lift in oil, gas and coal prices, to levels that are several times forward market expectations only a few years ago.

“Rising gas prices – to go much further with the internationalisation of the eastern Australian gas market that is now in process – and coal prices have begun to affect households' utility bills,” he says. “They will have much larger effects over the next few years, and would do so even if there were no Emissions Trading Scheme in contemplation.”

“In this period before the introduction of the Australian ETS in 2010, higher fossil fuel prices will cause Australian emissions to shift downwards. If we had been more or less in line with the Kyoto requirements, we will now be tending below,” says Garnaut. Garnaut says the discussion will be taken further in the Garnaut Climate Change Review Draft Report.

[Source essa news]