Garnaut Final Report – an urgent cry for action

The Final Report of the Garnaut Climate Change Review was released on 30 September 2008. The Review was set up to examine the impacts of climate change on the Australian economy, and the costs of adaptation and mitigation.

In the report, Professor Garnaut warns that failure to deal with climate change now will “haunt humanity” forever. This urgent cry for action is based on revised projections which show that the current outdated approaches will not hold the risks of dangerous climate change to acceptable levels.

Professor Garnaut has recommended that Australia push for a 25% reduction in emissions by 2020, aiming for an atmospheric carbon concentration of 450 parts per million (ppm), but being prepared to negotiate 550ppm (a 10% reduction) at the global talks in Copenhagen in December 2009.

The Final Report recommends medium-to long-term policies and policy frameworks for Australia, and the associated modelling of costs and benefits, within the context of moving towards global agreement on “contraction and convergence” of emissions.

The conclusion of the Final Report is that if the recommended policies are enacted, and the business community responds accordingly, the costs of avoiding the catastrophic impacts of climate change will be manageable for the Australian economy.

Key policy analysis

Five key policy themes were emphasised:

- Domestic policy must be deeply integrated into global discussions and agreements.
- Reductions in emissions must be consistent with continued economic growth and rising living standards.
- Practical steps to move towards a national and global solution.
- Equitable cost burden with majority of cost accepted by developed countries in the near term.
- Strong governance framework with articulation of clear and soundly-based principles, implemented by strong, effective and well-resourced institutions.

Policy recommendations for Government:

1. Australia must act in the global context.
2. Effective implementation of mitigation policies in Australia, including the commencement of the broad-based emissions trading scheme in 2010.
3. Improve climate change science research capacity and support for commercialisation of low-emissions technology and products.
4. Equitable distribution of the mitigation burden between industry and households.
Implications for Utilities and Resources

- Risk of network infrastructure failure, including changes to electricity demand, rapid deterioration of assets and impacts from severe weather increasing.
- Carbon capture and storage commercialisation key to future of coal-based electricity generation, coal exports and mitigation in Asia.
- Proposed $1 billion for structural adjustment assistance during transition to low-emissions technologies in coal-based electricity generating regions.
- Climate change provides impetus to water market reforms and clear definition of property rights.

Implications for Financial Services

- Independent authority to administer and support the long-term stability of an Emissions Trading Scheme.
- Rapid development of a range of financial services products to support the development of the forward price curve for the emissions trading scheme.

Implications for Consumer and Industrial Products

- Increased cost of goods and services as a result of mitigation and adaptation likely to result in reduced spending on luxury and discretionary items.
- “If Australia becomes increasingly dependent on food imports ... rising global prices and price volatility could become increasingly important issues for consumers.”
- Implementation of low-emissions technology, including commercialisation of near-zero emissions road vehicles, both consumer and commercial.
- Strategic consideration of location of production facilities.

Mitigation and adaptation challenges

The Final Report identifies five key potential contributors to Australia’s mitigation task:

- Energy efficiency (electrical equipment, appliances and building materials and design).
- Electricity generation (geothermal, generation efficiency and solar).
- Transport (low-emissions vehicles, biofuels and electric cars).
- Agriculture and forestry (reduced methane and nitrous oxide output, altered savanna management).
- Sequestration (soil-, geo- and algal-sequestration).

The key contributors to facilitate the Australian response include changes to agricultural practices, changes in the built environment and increased biodiversity.

Key steps for Government action

The Final Report sets out perceived key actions for Governments. Principal among these is the development of mitigation and adaptation policies in the context of the modelling of costs and benefits included in the report. Professor Garnaut also considers that work towards successful development and deployment of new technologies is necessary to minimise cost of adjustment for business and households to the emissions trading scheme.

To reduce domestic and trade distortions, the Final Report considers that development of price-based sectoral agreements for trade-exposed emissions-intensive sectors are desirable.

Finally, the formation of regional partnerships with Papua New Guinea and Indonesia, to drive land use and forestry mitigation efforts regionally – as a model for global adoption – are appropriate.

Key initiatives proposed

Professor Garnaut proposed a number of initiatives. Key amongst those were:

- Increased investment in the Australian Climate Change Science Program, which will provide opportunities for research into sector-specific mitigation and adaptation issues for impacted companies.
- Allocation of “green permits” to households for investment in energy efficiency, household appliances and transport.
- $100b annual International Low-Emissions Technology Commitment, including $2.8b contribution from Australia.
- Development of an International Adaptation Assistance Commitment, to facilitate the flow of adaptation technologies to developing countries with significant exposure to expected climate change impacts.
- Global collaboration to refine carbon accounting rules in the land use sector, including agriculture and forestry, to facilitate significant reductions and facilitate the inclusion of this sector as part of the global mitigation effort.
- Redistribution of permit revenue raised through sale of CPRS (Carbon Pollution Reduction Scheme) permits to businesses in covered sectors in the following proportions: 50% to households, 30% to emissions-intensive trade-exposed entities, and 20% to industry.
Business concerns recognised

The Final Report also recognises key business concerns needing to be addressed, which include:

- Transitional measures to apply in the early years of an Australian emissions trading scheme until such time as a comprehensive global agreement is reached.
- A ‘soft-start’ to Australia’s emissions trading scheme with a fixed price emissions trading mechanism during the remainder of the Kyoto Protocol period (2010 to 2012), with the fixed price to be set at $20/tonne.
- The ‘global’ approach to trade-exposed, emissions-intensive entities, where credits would be provided to companies which meet the specific thresholds, on the basis that the compensation is equivalent to the expected uplift in world product prices that would eventuate if Australia’s trading competitors had similar emissions permit policies.
- The cost of inaction has been partially modelled, with significant non-market costs certain to impact on the Australian economy, but as yet unable to be accurately quantified.

In conclusion … Australian business must develop strategies to mitigate current emissions

The Final Report concludes that Australia has more to lose from climate change impacts than most other countries. Australia’s recent prosperity and material living standards are based on low energy prices and strong commodity demand from the growth economies in Asia. Both drivers are now under threat.

Australian business must develop strategies to mitigate current emissions levels in the context of the policy goal to stabilise global emissions at around 450ppm. Although the Final Report suggests that 550ppm is a more realistic short-term policy goal, the mid- to long-term goal must be 450ppm. It is this level of emissions reduction that Australian businesses should prepare for now.

Whilst the Final Report provides clarity over the modelling of costs and benefits of acting, the specific outcomes for Australian business must wait for the Australian Government response to the policy recommendations contained in the Final Report.

Companies must now develop their strategic approach to seize the significant new opportunities available as a result of the transformation of the Australian economy.

What’s next?

The Garnaut Final Report provides a comprehensive review of the costs of action and inaction to address the expected impacts of climate change on the Australian economy. However, it is only an input into the Government process for drafting the legislation to implement climate change policy. The Government will use the recommendations, particularly the emissions reduction trajectory data (detailed in the Garnaut Supplementary Draft Report released in September 2008), to inform the final content of the White Paper and the exposure draft of the CPRS legislation to be introduced to Parliament next year.

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<tr>
<th>Date</th>
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<tr>
<td>Mar 2009</td>
<td>Introduction of legislation into Parliament following final consultation period</td>
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<tr>
<td>Sep 2009</td>
<td>Legislation expected to be passed into law</td>
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<td>Dec 2009</td>
<td>Copenhagen Climate Conference</td>
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<td>Jul 2010</td>
<td>Expected commencement of the CPRS</td>
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