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Designing Complementary Policies for a Low Carbon Economy

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The Closing Window: Implementing Effective Climate Change Policies
Victoria University, 7 September 2011



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Overview

1. Current framework
2. Unlocking economic opportunities
3. New 'strategic' framework needed?
4. Future challenges post carbon pollution price
5. Conclusions






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Current framework

- Reduce pollution and meet targets
 - ... at least cost
 - ... while promoting flexibility
- Much of policy discussion assumes:
 - a short-term focus and ignores long-term impacts
 - confuses privately vs socially cost effective policy
 - assumes Australian firms are not innovators
 - ignores barriers to scaling of new industries



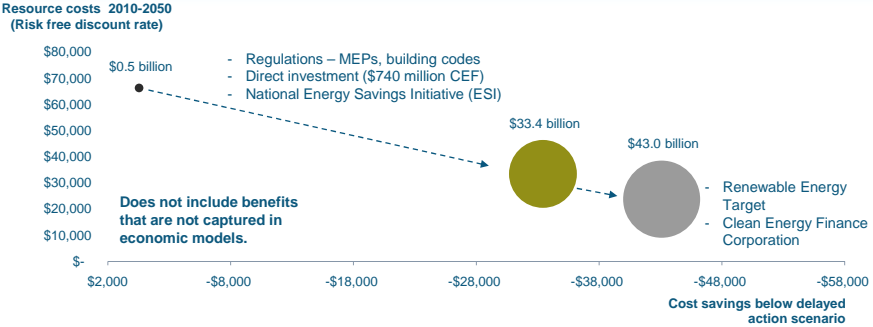



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Unlocking economic benefits

● Early action ● Early action with EE ● Early action with EE/RET



Resource costs 2010-2050
(Risk free discount rate)



Does not include benefits that are not captured in economic models.

- Regulations – MEPS, building codes
- Direct investment (\$740 million CEF)
- National Energy Savings Initiative (ESI)

- Renewable Energy Target
- Clean Energy Finance Corporation



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New strategic framework needed?

- Economic output + low emission = economic advantage
- Low carbon economies better able to provide prosperity
- Need to manage long-term strategic economic risks
- Policies rarely have a single objective:
 - Energy efficiency policy:
 - Manage energy price shocks
 - Improve health and standard of living
 - Improve international competitiveness
 - Reduce local and global pollution






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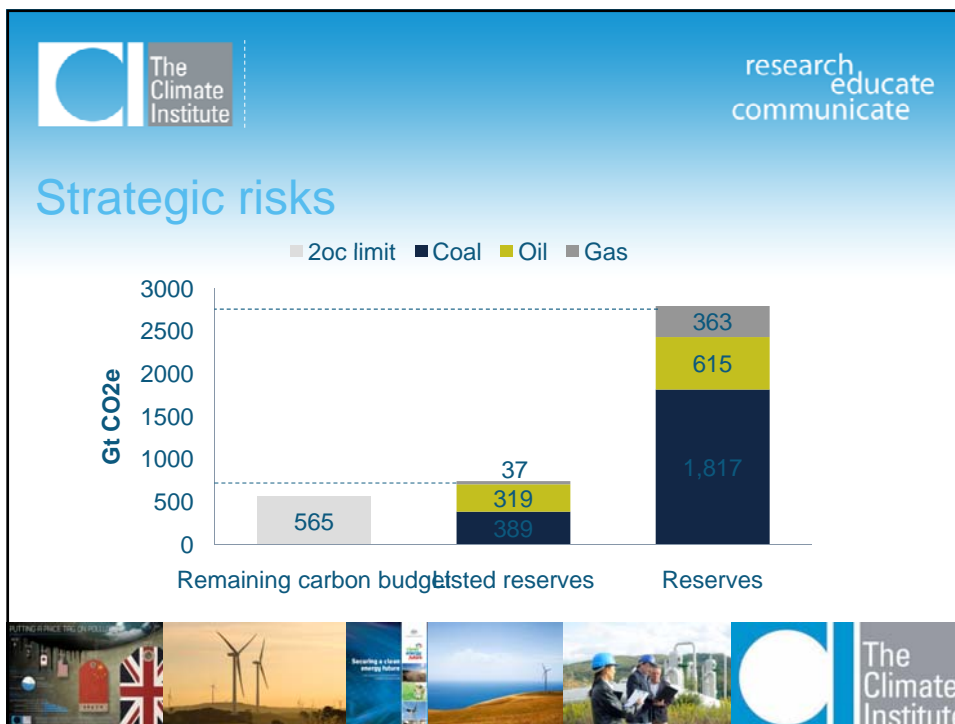
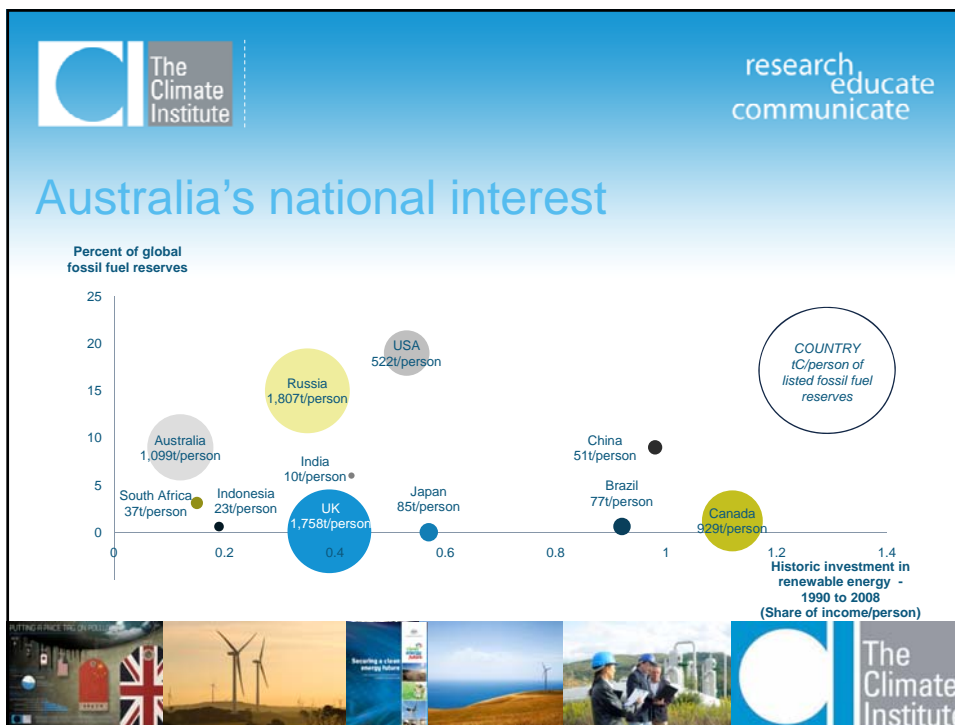
Australia's national interest

Impact on GNI
(% reduction below reference in 2050)



Country	tCO ₂ e/person	Impact on GNI (% reduction below reference in 2050)
EU-25	8	~1
Japan	8	~-2
India	7	~-5
USA	18	~1
Canada	19	~-6
Australia	23	~-7
China	21	~-9





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Post carbon price priorities

- National Energy Savings Initiative (ESI)
 - Avoid politics of federalism/build bipartisan support
 - Robust target and broad coverage
- Low carbon RD&D
 - ARENA/Clean Energy Finance Corporation/Energy White Paper
 - Greater focus on comparative advantage needed
- Regulations to ensure disclosure of carbon risks
 - 83% funds believe systemic risks like climate change not currently priced in asset valuations
 - Role for ASX, APRA and ASIC





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Conclusions

- Currently proposed policy framework a step forward
 - ... but lacks focus on longer-term strategic risks and opportunities
- Carbon price critical but targeted complementary measures can
 - decrease long-term abatement costs
 - increase flexibility and competitiveness
 - reduce systematic carbon and policy risks to economy