

TRANSCRIPT

AusSMC Briefing on carbon emissions trading

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Thank you and it's a pleasure to be here. And to be getting to a nice milestone in the six months of work that we did with the Thinker and Residence Program and with so many agencies, stakeholders, vintners I'm glad to say that it's nice to have the report launched.

Let me just be brief about it. I think Barry summarised very well the issues of capping trade and carbon tax and I'll just add one other thing which makes you perhaps understand more easily why different people advocate different strategies.

Economists and businesses typically prefer a carbon tax. The reason they prefer it is they can control their costs because they know what the emissions are, they know the price of carbon and as long as you don't give too many permits away, as very correctly said, you know what your costs will be.

Environmentalists don't like it because you don't know what those costs are going to do to absolute emissions. You don't know whether it's going to be a 5% reduction or a 50% reduction. In other words, are you going to start going down or just marginally a little less growth? So therefore, they like caps because you can name a cap that actually would be reducing emissions not just simply a small decrease relative to the baseline of what would have been there. And of course the industry and a lot of economists don't like it because when you cap you're not sure what the price of carbon is going to settle at, so you don't know whether you can control costs.

And then there are some very clever schemes which are called hybrid schemes that people have proposed which say, alright well if the industry is so pessimistic that it's afraid of a cap because it thinks the prices unbounded, let's start out that way and see if it's true. If it's really true the government can sell you permits at some fixed cap of price and you can have a mixed system between the two.

Whatever you do in the end they're equivalent because what they do is create what we call a shadow price on carbon. What that means is you cannot use the atmosphere as a free sewer to dump tail pipe and smoke stack wastes without costs. Because without having those costs internalised into the price of doing business, you don't give incentives not only for the companies to use less and to be buying better technology, but you also don't give incentives to alternative companies whether they're deeper sequestration, hot rocks, solar whatever – your system is that you like when. When they find out that the competitor cost more people invest more money in getting those systems to become more efficient.

So sooner or later, you've got to have a real shadow price on carbon and it has to be significant so that it brings our emissions down to at least half where it currently is by mid century and then well below that by the end. Where did I pick that number? Not out of my head. The Inter-governmental Panel on Climate Change will tell you if we don't go down to at least half and then well below that, we're going to be at least doubling carbon dioxide in this century and more in the next century. So those targets like the Premiers here, like Mike Rann's target of 60% cut was not based on cost benefit analysis, it was based on an analysis of what would be dangerous climate change and that would be anything where you start getting over 500 parts per million, we're now 380 and we're probably headed up to way higher than that. So it was an anti-dangerous target.

So now the question that's tough and this is what you're going to hear all sorts of debate about. You're going to hear those people who want them to move faster - you're not moving fast enough. Then you're going to hear people in the industry – you're moving too fast. And that's natural. You'd expect that from stakeholders. So what's the key is that it be inexorable.

It's important to have it mandatory but it doesn't have to be mandatory the day after tomorrow. What we have to do the day after tomorrow is announce that within a fixed period of time – two years, four years, whatever it is, stakeholders can try to make their case on what they can afford or not and we can have a long and open discussion about what's cost effective, what's fair and what's environmentally successful. But then sooner or later, and it can't be too much more later, we have to start having absolute enforced caps. Even before that there's lots we can do. The sequencing problem is the whole key to successful politically and economically successful climate policy.

Performance standards – in other words refrigerators, air-conditioners, automobile, gas mileage, the insulation of the windows, the lights – all these kinds of things are critically important.

California has the lowest per capita emissions in the United States. The reason we have a 30 year record of mandatory performance standards in buildings and appliances and in energy producing materials. Now, why isn't it opposed by industry anymore? It's not because California has hired engineers and others to make certain that all the rules that it imposes (a) industry can produce the products, and (b) that the extra cost of those products is going to get you a return more than about 7% per year – less than 11 year payback. In other words, better than the mortgage interest rate. You can lower the average monthly payment of the average family in California and you can reduce pollution that sends kids to hospital with asthma and affects climate, it's a win/win and you end up with the bipartisan support for it.

That's set phase 1, phase 2 is you need these public/private partnerships where you have investments in alternatives, where you have money that's seated whether it's by a tax incentive or a direct grants or some kind of concession on some other important asset for a company. That's important to get the R&D done and then finally it's cap and trade of carbon taxes. You can't do it without having down the line a shadow price on carbon that's significant enough to change behaviour though I would personally argue you don't have to have that start tomorrow. What has to start tomorrow is that everybody knows it's going to start within five or ten years and its going to be real when it starts because that way they have lead time to be able to react.

So the key is start with the easy stuff - the performance standards, get those partnerships built and make certain that everybody knows they're not going to escape it, that they're going to have a cap of real shadow price and maybe they need a few years to figure out how to transition, and what the right number of years and how strong to do it that's going to be a horse trade. It's going to be a political negotiation with all sides involved. So I think that's where we stand now.

I'm very pleased if Australian Federal Government is finally going to stop this nonsensical talk about bankrupting the country and worry about whether its future is sustainable. I hope that they're serious and they'll mean it. I'm absolutely certain the State of South Australia means it and that they've really got a very good plan to get going. But it's going to take a few years before it becomes crystal clear exactly how much who will have to do because it's not an easy thing to figure out what is as I said environmentally effective, cost effective and fair. Those are the three criteria and it's learning by doing experiment that can't be answered in a microsecond. It's going to take a few years to sort that and the absolute key is that it's clear that it's only a few years.

Okay, thank you.

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