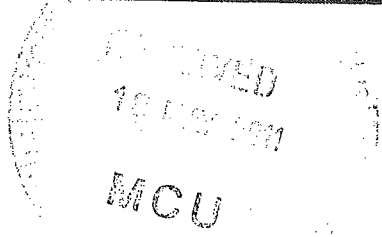


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**Garnaut**  
CLIMATE CHANGE  
REVIEW UPDATE 2011

The Hon. Julia Gillard MP  
Prime Minister  
PO Box 6022  
House of Representatives, Parliament House  
Canberra ACT 2600



Dear Prime Minister,

I am pleased to enclose copies of the fifth, sixth, seventh and eighth update papers released by the Garnaut Climate Change Review – Update 2011 last month.

Paper five, entitled *The Science of Climate Change* examines developments in the science since 2008, in the context of longer term trends. Specifically, it notes that:

- The overwhelming weight of the mainstream climate science has strengthened in the last three years in its conclusions that the Earth is warming and that human emissions of greenhouse gases are the primary cause.
- The judgement of the 2008 Review – that the greater risks of severe consequences under a scenario of 550 ppm concentrations of greenhouse gases make the extra mitigation cost to achieve a 450 ppm outcome worthwhile – has been confirmed.
- Australia's mitigation approach should be prepared for the possibility that large damage could occur at smaller increases in global average temperature than the IPCC focus and United Nations agreement on holding the temperature increase to 2°C.

Paper six, *Carbon pricing and reducing Australia's emissions*, proposes:

- The introduction of an economy-wide emissions trading scheme, with a fixed price start for the first three years, before moving to a floating price in mid-2015. The starting price should be between A\$20 and A\$30 per tonne of carbon dioxide equivalent, rising at 4 per cent (real) per annum.
- Assistance should be provided to emissions-intensive, trade exposed industries to the extent that they are disadvantaged in sales prices by other countries not having comparable carbon constraints. While the independent governance arrangements are established and the data collected to implement this approach, the interim assistance arrangements could include a modified version of the former Carbon Pollution Reduction Scheme.
- Wise use of the revenue can reduce the cost to the economy and promote productivity. The largest element of revenue should be applied to productivity raising reform of the income tax and transfer system, focussing on low and middle income households.



Paper seven, entitled *Low-emissions technology and the innovation challenge*, examines the role of technological innovation in reducing the costs of global and Australian transition to a low-emissions economy. The paper:

- Finds that the urgency of the adjustment task justifies a large transitional increase in public support for innovation related to low-emissions technology.
- Shows how recent increases in global expenditure have accelerated progress in reducing costs across several low-emissions energy technologies.
- Proposes a package of measures to ensure the optimal level of innovation in Australia in the transition to a low-emissions economy.

Paper eight, *Transforming the electricity sector*, considers the response of the electricity sector to carbon pricing. This paper finds that:

- The electricity sector will respond strongly to reduce emissions with carbon pricing, with early switching of fuels and an increasing focus on less emissions-intensive forms of generation.
- While the introduction of a carbon price is highly unlikely to threaten physical energy security, it may be prudent to implement cost-effective policy measures to assuage concerns about energy security and to improve the regulatory functions of the energy market.
- Suggested changes to regulatory arrangements for electricity transmission and distribution would help to moderate electricity price increases as carbon prices are absorbed over the next several years.

I am happy to call on you to discuss any questions you may have.

Yours sincerely,

**Ross Garnaut**