



Australia's Low Pollution Future Fact Sheet

Economic Impacts

Economic prosperity will continue to grow in a low-pollution future

Australia's economic prosperity will continue

With efficient policy settings, Australia and the world continue to prosper while making the emission cuts required to reduce the risks of dangerous climate change.

From 2010 to 2050, real GNP per capita grows at an average annual rate of 1.1 per cent in the policy scenarios, compared to 1.2 per cent in the reference scenario. Real household income grows at an average annual rate of around 1 per cent in the policy scenarios, compared to 1.2 per cent in the reference scenario.

Stabilising greenhouse gases at lower concentration levels requires faster cuts in global emissions and higher emission prices. Stabilisation at 550 parts per million (ppm) requires an initial emission price of A\$23t/CO₂-e in 2010 in nominal terms. The starting price is 40 per cent higher to achieve 510 ppm and 110 per cent higher to achieve 450 ppm. Higher emission prices generally result in higher aggregate economic costs.

Based on the CPRS scenarios in the report, introducing emission pricing is likely to produce a one-off rise in the consumer price level of around 1-1.5 per cent, with minimal implications for ongoing inflation.

Australia's comparative advantage will change in a low-emission world, presenting new opportunities for our economy. With coordinated global action, most sectors of Australia's economy will grow, low-emissions sectors will grow strongly, and many emission-intensive sectors will maintain or improve their international competitiveness.

The report does not consider the economic impacts of climate change itself, and therefore does not assess the benefits of reducing climate change risks through mitigation. A report released earlier this year by Professor Garnaut estimated the costs and benefits of climate change mitigation and found that the benefits of mitigation outweighed the costs of climate change.

Improving Australia's emissions efficiency

Large reductions in emissions will not require reductions in economic activity.

A market-mechanism will break the link between economic growth and growth in emissions by driving the economy to restructure in response to an emission price.

Demand will shift from emission-intensive products towards lower-emission products, and production methods will switch to less emission-intensive technologies and processes.

This will reduce the amount of emissions per unit of output, allowing incomes to rise while emissions fall. Under the CPRS, emissions per dollar of GDP in 2050 drop to less than one quarter of 2005 levels.

Australia is well placed to reduce emissions

The Australian economy is well placed to face the challenge of responding to climate change. Wide-ranging reforms over the past quarter century have resulted in a flexible, prosperous Australian economy.

The modelling indicates the Australian economy will respond to efficient price-based policies, such as the Carbon Pollution Reduction Scheme, ensuring a smooth transition to a low-pollution future.