

MEDIA RELEASE

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Experience shows that carbon prices drive innovation cheaply

"Innovation and carbon pricing can combine to reduce carbon emissions more cheaply than we expect," Professor John Daley, CEO of Grattan Institute said today on the release of the Institute's second Energy Report entitled, *Markets to Reduce Pollution: Cheaper than Expected*.

http://www.grattan.edu.au/pub_page/064_report_cheaper_pollution_markets.html

"Technology innovation is the key to reducing carbon emissions cheaply. Experience shows that markets are more likely to deliver more innovation, at lower cost, than specific government programs. However, technology needs certainty and a price. A floor price should be set to encourage the market to do what it does best."

Grattan Institute investigated the experience of six pollution pricing schemes in Australia and overseas. In each case, costs to reduce pollution, and actual prices, were much lower than governments and their experts expected. Environmental markets routinely delivered substantially lower prices in practice than in forecasts.

Government consistently underestimated commercial innovation when money was at stake. They consistently got it wrong when predicting which technologies would deliver the cheapest reductions.

Our analysis suggests a general price for carbon is preferable to government funding for specific measures. Markets unlock ingenuity across the community to find reductions cheaper than we expect.

"In addition, the poor record of forecasting shows that any scheme should have a floor price to provide certainty for investors. Floor prices effectively reduce the total amount of pollution permitted if it turns out to be easier than expected to reduce pollution."

"Markets may not be perfect, but they are consistently effective at identifying lower cost opportunities, promoting innovation, and responding flexibly to changes. Markets are likely to deliver more innovation at lower cost than specific government programs."

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