



**Australian Government**  
**Productivity Commission**

# Promoting Better Environmental Outcomes

Roundtable Proceedings



Canberra, 19-20 August 2008

The views expressed in this publication are those of the authors and do not necessarily reflect the views of the Productivity Commission.

© COMMONWEALTH OF AUSTRALIA 2009

ISBN 978-1-74037-277-0

This work is subject to copyright. Apart from any use as permitted under the Copyright Act 1968, the work may be reproduced in whole or in part for study or training purposes, subject to the inclusion of an acknowledgment of the source. Reproduction for commercial use or sale requires prior written permission from the Attorney-General's Department. Requests and inquiries concerning reproduction and rights should be addressed to the Commonwealth Copyright Administration, Attorney-General's Department, Robert Garran Offices, National Circuit, Canberra ACT 2600.

*This publication is available in hard copy or PDF format from the Productivity Commission website at [www.pc.gov.au](http://www.pc.gov.au). If you require part or all of this publication in a different format, please contact Media and Publications (see below).*

**Publications Inquiries:**

Media and Publications  
Productivity Commission  
Locked Bag 2 Collins Street East  
Melbourne VIC 8003

Tel: (03) 9653 2244  
Fax: (03) 9653 2303  
Email: [maps@pc.gov.au](mailto:maps@pc.gov.au)

**General Inquiries:**

Tel: (03) 9653 2100 or (02) 6240 3200

**An appropriate citation for this paper is:**

Productivity Commission 2009, *Promoting Better Environmental Outcomes*, Roundtable Proceedings, Productivity Commission, Melbourne.

JEL code: Q28

***The Productivity Commission***

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Further information on the Productivity Commission can be obtained from the Commission's website ([www.pc.gov.au](http://www.pc.gov.au)) or by contacting Media and Publications on (03) 9653 2244 or email: [maps@pc.gov.au](mailto:maps@pc.gov.au)

---

# Foreword

The Productivity Commission convened a roundtable on *Promoting Better Environmental Outcomes* at Old Parliament House in Canberra on 19–20 August 2008. Participants included government officials, academics, consultants, journalists and representatives of environmental organisations and agencies. Keynote addresses were presented by Professor Gary Libecap from the University of California and Professor Robert Stavins from Harvard University.

Over the past decade or so, the Commission has undertaken inquiries, prepared submissions and pursued its own research on a range of environmental policy topics. The focus has been on the efficiency and effectiveness of different policy options, the regulatory burdens they impose and the potential for unintended consequences. In many cases, the projected benefits of policy intervention have not materialised, reflecting the difficulties of formulating effective policy instruments.

The *Promoting Better Environmental Outcomes* roundtable sought to address two questions central to developing good environmental policy:

- under what conditions can governments improve environmental outcomes?, and
- how should governments intervene to ensure effective and efficient results?

The roundtable proceedings are being published to enable a wider audience access to the information and insights that emerged. This volume includes papers by the speakers and a summary of the key points covered in the discussion sessions.

The Commission is grateful to the speakers and other participants whose contributions made the roundtable such a valuable exercise.

Gary Banks AO

Chairman

February 2009

---

# Contents

<b>Foreword</b>	<b>III</b>
<b>1 Introduction</b>	<b>1</b>
<i>Gary Banks</i>	
<b>Session 1 Stocktake of the effectiveness of current approaches to environmental issues</b>	
2 Allocation of and investment in the environment	13
<i>John Freebairn</i>	
3 Threats to effective environmental policy in Australia	29
<i>Drew Collins</i>	
4 Letting markets work for the environment	41
<i>Arlene Buchan</i>	
General discussion	53
<b>Session 2 Market and cooperative solutions: strengths, limitations and the appropriate role of government</b>	
5 Promoting better environmental outcomes through property rights and markets: opportunities and limits	57
<i>Gary D. Libecap</i>	
6 On common ground: designing strategic spatial governance to advance integrated natural resource management and environmental outcomes	85
<i>David J. Brunckhorst</i>	
7 Greenhouse gases and nutrients: the interactions between concurrent New Zealand trading systems	103
<i>Suzi Kerr and Marianna Kennedy</i>	

---

8	Environmental policy for environmental outcomes <i>David Pannell</i>	115
	General discussion	129
<b>Session 3 Institutions and incentives for promoting better policies and outcomes</b>		
9	Getting serious about global climate change: post-Kyoto international climate policy architecture <i>Robert N. Stavins</i>	133
10	Institutions and incentives for promoting better policies and outcomes: challenges of achieving environmental outcomes that require coordination across multiple jurisdictions <i>Wendy Craik and James Cleaver</i>	149
11	New policies create a new politics: issues of institutional design in climate change policy <i>Henry Ergas</i>	165
	General discussion	189
<b>Session 4 Reflections for public policy</b>		
12	Reflections for public policy: a drawing together and drawing apart. Comments on proceedings <i>Geoffrey Brennan</i>	195
	General discussion	207
<b>Dinner address</b>		
13	Lessons for climate policy from monetary history <i>Warwick McKibbin</i>	213
<b>Appendices</b>		
A	Roundtable program	229
B	Roundtable participants	231

---

## Figures

2.1	Externality correction	19
2.2	Least cost market instruments	23
2.3	Imperfect knowledge costs	24
2.4	Price versus quantity intervention	25
3.1	Stylised overview of water recovered and needed under the Living Murray Initiative	32
6.1	Separation and allocation of landscape resources for collective management across landscapes of property and policy	89
6.2	Summary diagram of the Eco-Civic regionalisation method and results for the state of New South Wales	97
6.3	Community Capture Index (CCI) for various administrative regions and Eco-Civic regions	98
7.1	Emission reduction/mitigation cost curves	110
7.2	Decision tree for allocation to address leakage and economic regrets	112
10.1	River Murray system inflows 1891–2008	151
10.2	Murray–Darling Basin Commission governance structure	153
10.3	Living Murray Icon Sites	155
10.4	The MDBC environmental water purchase was positively reported in the media	157
10.5	Options for works at the Gunbower, Koondrook, Pericoota Icon Site	158
10.6	Barmah-Millewa Forest environmental flow event, 2005–2006	160