

COMMENT

Ross Garnaut

Indirect action

Lord Deben was once Margaret Thatcher's minister for the environment. He is now head of the British committee on climate change – the model for Australia's Climate Change Authority. The Tory pulled no punches in his comment on the Abbott government's push to change established climate change policies:

"It lets down the whole British tradition that a country should have become so selfish about this issue that it's prepared to spoil the efforts of others and to foil what very much less rich countries are doing ... It's wholly contrary to the science, it's wholly contradictory to the interests of Australia and I hope that many people in Australia will see when the rest of the world is going in the right direction what nonsense it is for them to be going backwards."

Christine Lagarde was France's conservative finance minister before taking up her current post as managing director of the International Monetary Fund. On the eve of departing for the February G20 meeting in Sydney, her natural diplomacy did not disguise her thoughts on repeal of Australia's carbon laws:

"Climate change issues and progress are critical ... Australia was very much at the forefront and was pioneering in this field and I would hope that Australia continues to be a pioneer."

Conservative Australians usually consider the position of United States governments on major international policy issues with respect. Yet here is what Secretary of State John Kerry said in Jakarta last month:

"President ... Obama and I believe very deeply that we do not have time for a meeting anywhere of the Flat Earth Society ... It is time for the world to approach this problem with the co-operation, the urgency and the commitment which a challenge of this scale warrants."

In sharp contrast, Prime Minister Tony Abbott asked the visiting Canadian foreign minister late in February for confirmation that climate change was a fad. But even the Canadian government – probably the closest to our own in its reluctance to take strong action on climate change – has accepted the reality of global opinion if not of climate science, and is taking seriously its commitment to match the US target to reduce greenhouse gas emissions by 17 per cent from 2005 levels by 2020.

The Abbott government's plans on climate change appear to make it an outlier among international conservatism. It proposes the repeal of laws supporting carbon pricing, the dissolution of the Climate Change Authority and the Clean Energy Finance Corporation, and possibly the amendment of laws supporting the operation of the renewable energy target. The government proposes replacing these laws and agencies with an Emissions Reduction Fund (ERF), to purchase reductions in emissions from businesses as the central part of its "direct action" policies.

The international community, through the United Nations Framework Convention on Climate Change, has agreed on an objective for climate change mitigation policies: to reduce emissions enough to create a reasonable chance that human-induced warming is held to no more than 2 degrees Celsius. Our government has said that it accepts that objective. Before the 2013 election, the Coalition agreed with the then government that Australia's fair share is to reduce emissions from 2000 levels by 5 per cent whatever other countries are doing, by 15 per cent under a set of conditions that can be summarised as "if other developed countries are making comparable efforts and developing countries are significantly reducing emissions trajectories", and by 25 per cent in the context of an international agreement that puts the world on a path to reaching the UN's 2 degrees objective.

In 2012, parliament gave the Climate Change Authority the responsibility of advising on appropriate Australian targets for emissions reductions. In its

paper released late last month, *Reducing Australia's Greenhouse Gas Emissions: Final Report*, the authority advised that, in the light of actions by other countries, the appropriate 2020 target for Australia is minus 19 per cent, of which 4 per cent would be contributed by the overachievement of the 2008-12 target that Australia accepted under the Kyoto protocol. Further, as an acceleration of the global effort to achieve the 2 degrees objective, Australia would have to be ready for a faster rate of reductions after 2020.

My own assessment is that a target of at least minus 15 per cent is required, and the range of 15-19 per cent is broadly consistent with the minus 17 per cent target of the US and Canada.

We might characterise the thoughtful conservative position on climate change as doing what we can to avoid the disruption to society that would come with unmitigated increases in greenhouse gas emissions; seeking to apply cautious, market-oriented measures – with a minimum of discretionary government intervention – that reconcile rising material living standards with falling emissions; and avoiding budget decisions that risk pushing unmanageable debt onto future citizens.

So the question for Australian conservatives is: which of direct action or the policies currently in place would see us meeting our domestic and international commitments at the lowest economic cost?

The introduction of Australia's now established emissions reduction institutions and policies coincided with a reversal of the longstanding tendency for emissions outside the land sector to rise rapidly except in large economic downturns. Emissions have been falling since mid-2012. The Climate Change Authority's recent final report demonstrates that existing policy has made a substantial contribution to the reductions in emissions trajectories – in the form of the renewable energy target, carbon pricing, energy efficiency programs and other measures.

The government's December 2013 green paper on emissions reduction is not clear on how its alternative policies would work. It takes comfort from the recent fall in emissions trajectories, seeing these as evidence that the meeting of targets will be easier than had once been anticipated. However, these hopeful assessments rely on the continuation of trends that flow from institutions and policies the government proposes to abolish or to amend.

The green paper's economic impact assessment is also flawed. The money that has been allocated to direct action would not go near covering the budget cost in excess of current arrangements. With the Emissions Reduction Fund, the budget would deteriorate by a lower limit of \$4 billion to \$5 billion a year from a time just beyond the reach of the current forward estimates, assuming the target is minus 5 per cent. The total comprises around \$3 billion a year that is simply net revenue lost from the abolition of carbon pricing, and \$1 billion to \$2 billion of outlays on purchases by the ERF.

There are four big reasons why the budget deterioration is likely to be much larger: weakening the renewable energy target or other complementary policies would increase the spending necessary under the ERF; Australia's commitments are likely to require larger emissions reductions than just 5 per cent; the opportunity to trade with Europe and developing countries, within the clean development mechanism, places caps on the cost of abatement within established policies but not within direct action; and if any enterprises not receiving payments from the ERF increase their emissions, that would increase the abatement that would have to be purchased by the fund.

Correction of the fourth flaw is likely to lead to another. The setting of baselines and penalties for inclusion or omission from the ERF's payment scheme would be a huge and intrusive bureaucratic exercise.

"THE ABBOTT GOVERNMENT'S PLANS ON CLIMATE CHANGE APPEAR TO MAKE IT AN OUTLIER AMONG INTERNATIONAL CONSERVATISM."

Ultimately, such a deterioration in budget outcomes under direct action would render much more difficult – and perhaps practically impossible – the fiscal adjustment required for sustained economic stability once the resources boom fades.

If it is unclear how the government would meet its domestic political and international commitments through an ERF, even if massive budgetary resources were available, the genuine benefits to business or households from removing the "carbon tax" are even harder to determine, having been greatly exaggerated by the government and business lobbies.

The twofold benefits of its repeal are said to be an increase in the profits of companies with direct or indirect exposure to carbon pricing, and the reduction in the cost of living of households. Of course, these benefits are by nature exclusive of each other.

Moreover, the present policy regime includes free permits issued to the most emissions intensive of the trade-exposed industries, to provide protection against loss of competitiveness. The amount of free permits is set according to emissions intensities prior to carbon pricing and is not diminished if the company takes steps to reduce emissions. As a result, many trade-exposed enterprises – apparently including Alcoa, owners of the Point Henry aluminium smelter – have so far made a profit out of the carbon pricing arrangements. There is a partial exception in the coal industry, but even there the net costs of carbon pricing on profitability are tiny compared with the effects of recent fluctuations in the exchange rate and coal prices (see my 2013 book *Dog Days: Australia After the Boom*, p. 209).

For the non-traded industries, carbon costs have been passed on to consumers to the extent anticipated in the Treasury modelling that preceded introduction of carbon pricing. Low- and middle-income earners were fully compensated for the price increases by tax cuts (an increase in the tax-free threshold) or adjustments to social security payments.

The feature of the established policies that attracted most unhappiness was the setting of a fixed carbon price in the first three years. This was highlighted by Clive Palmer, when he told the National Press Club on February 12 that our carbon permit prices were about \$27 a tonne, when European prices were about \$3.

It was the fixed price that then prime minister Kevin Rudd proposed to remove when he said he would "abolish the carbon tax", by bringing linkage to Europe's carbon market forward from July 1, 2015, to July 1, 2014. Presumably this is what the Business Council, the Chamber of Commerce and Industry, the Australian Industry Group and the Mining Industry Council had in mind when their joint statement endorsed this proposal.

Our current fixed price mechanism is due to disappear in the middle of 2015. There would be no harm in "abolishing the carbon tax" by bringing forward linking to Europe to July 1, 2014.

If this were done, and the existing climate change policies were retained rather than overturned in the face of strong economic argument, conservative Australians and their friends abroad might then take comfort in Australia being able to do its fair share in the global mitigation effort at reasonable cost. The benefits of the alternative have yet to be sufficiently explained to justify the risk of change. ●



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