

TITLE: Abbott's direct action plan on carbon is friendless

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With the release of the Gillard Government's plan for reducing greenhouse gas emissions we can finally compare the government's carbon price with the Coalition's Direct Action Plan. Two different policies with the same goal, to reduce greenhouse gas emissions by five per cent on 2000 levels by 2020. While large amounts have been written about a carbon price, relatively little attention has been given to the Coalition's policy.

The Coalition's Direct Action Plan is a competitive grant program under which people would submit proposals to the government on how they would reduce their greenhouse gas emissions and how much it would cost. A Coalition Government would then choose those reductions that cost the least and use taxpayers' money to fund them to do so. It would continue to fund projects up to the reduction target. The Coalition has committed \$3.2 billion over the next four years to set up the Emissions Reduction Fund. In total, the Coalition claims the fund will be allocated \$10.5 billion to 2020.

Much like the government's carbon price, the Direct Action Plan is not a new idea. Competitive grant programs like the Coalition's plan have been used extensively by governments in Australia as a way of trying to reduce emissions. Over \$7 billion has been allocated over the past 10 to 15 years to competitive grant programs. We have a wealth of information on how effective these schemes have been in reducing emissions. The Australian National Audit Office (ANAO) and the Grattan Institute have reviewed competitive grant schemes in Australia and found that they:

- Take far longer to achieve their objectives than originally planned
- Achieve much less than expected
- Cost far more than was budgeted.

As a competitive grant program direct action will likely suffer from two main problems. The first is it will be unable to produce the level of reduction that is required to reach the target. The Coalition would need to fund projects that will reduce emissions by 713 million tonnes by 2020. The Grattan Institute found that previous grants programs, many of which were run under the Howard Government, were only able to spend about 18 per cent of allocated funds after 10 years because they couldn't find enough projects. Given this, the Direct Action Plan is unlikely to achieve more than 18 per cent of its planned reduction.

Even if the Coalition were to somehow overcome the problem of finding enough emissions reduction projects and getting them to deliver on time it has a second, even larger problem: the cost. The amount of money set aside for the Emissions Reduction Fund is highly unlikely to be sufficient to buy the quantity of reductions that would be required to meet the five per cent target. If we use the average cost of abatement for competitive grant schemes that have been previously conducted in Australia then by 2020 the Fund would have to allocate around \$100 billion. That is, on average, \$11.1 billion every year to 2020, or put another way, \$1,300 per household per year. This is far in excess of what the Coalition has budgeted for.

As part of its Direct Action Plan the Coalition proposes to offset 15 million tonnes of emissions from planting trees. To achieve this would require an area of 25,000 square kilometres and about 9,100 gigalitres of water, two and a half times the amount of water proposed to be bought back by the draft Murray Darling Basin Plan.

The Coalition plans to achieve 60 per cent of their emissions reduction from soil carbon. Soil carbon is currently a largely untested source of reduction. There are further issues to resolve around soil variability and the maintenance of the sequestered carbon over time. Due to uncertainties large scale use of soil carbon sequestration is a risky exercise. It requires further investigation and until the measurement methodology is resolved it seems unwise to rely on it as heavily as the Coalition does in its Direct Action Plan.

The Coalition's Emissions Reduction Fund would also require a large number of public servants to administer the tendering process. If we make the generous assumption that the average reduction in emissions per project is 25,000 tonnes then there would need to be about 28,500 successful projects to meet the target. If we assume four unsuccessful projects for every successful one then the number of projects assessed would be close to 150,000.

The public servants would need to have excellent up to date knowledge on all cutting edge technologies designed to reduce emissions as well as excellent knowledge on almost all production techniques currently carried out in Australia in order to accurately assess the applications. Given the wide range of possible projects the Emissions Reduction Fund could finance, grant applications are likely to be varied and dissimilar which would increase the time and cost of assessing them. How the Coalition would juggle the number of public servants needed with its commitment to reduce the public service is puzzling.

Past competitive grant schemes have come in at a cost of on average \$140 per tonne. This is far more expensive than the proposed carbon price of \$23 per tonne. The carbon price will also create a revenue flow that will be used to compensate households and emissions intensive trade exposed industries. The Direct Action Plan has no such source of revenue and would need to be funded from the budget.

There are many different ways to cut Australia's emissions. What economic theory brings to the development of climate change policy is some insight into how different ways of cutting emissions will affect the economy. What economists are consistently saying is that a price on carbon is the cheapest way to reduce emissions. So it is not surprising to find that after analysing the Coalition's Direct Action Plan we find that it is significantly more expensive than what could be achieved with a broad based carbon price. The Coalition's plan is an expensive approach funded from the budget and requiring a large number of public servants to administer effectively. Based on past experience it will take far longer to achieve much less than is planned at a much bigger cost. What's most ironic is that the Coalition's policy is a caricature of big government programs. It is not surprising then that the Coalition has been unable to find any economist that supports its direct action policy. It has also had great difficulty finding any business leaders to support it either.