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TITLE: An idea whose time never came

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It is often said that there is nothing more powerful than an idea whose time has come. But it seems that in the case of Minister Wong's version of emissions trading, the so called Carbon Pollution Reduction Scheme (CPRS), there is nothing more pitiful than an idea whose time never actually came.

The flaws in the CPRS are becoming obvious, not just to the public but to the government itself. As the start date for the scheme approaches, the public and the parliamentarians are starting to look a little more closely at Minister Wong's scheme and, as we saw with the debacle around the House of Representatives inquiry, they clearly don't like what they are seeing.

Minister Wong is now arguing that, under her scheme, individuals who lower their energy use will enable the government to reduce the number of permits the following year, effectively raising the cap and allowing individuals to 'do their bit'. This is a great idea, the kind of idea The Australia Institute has been calling for. But the problem for the minister is that nobody knows what she is talking about. The question for her is simple: What page of the White Paper is this spelled out on?

If the Rudd Government is to be taken seriously where the CPRS is concerned, it needs to make some significant changes both to the targets, which are pathetically small, and to the structure. The scheme needs to be modified so that when individuals, communities and any level of government make significant efforts to reduce emissions, the number of permits issued in subsequent years reduces accordingly. For example, when Kevin Rudd announced that \$3.9 billion was to be spent on insulation in order to decrease emissions by 4 million tonnes per year, he should have simultaneously announced that the number of permits issued would fall by four million per year.

The ACT Government has announced that it aims to cut emissions by 30 per cent by 2020. That is to be commended but unless the CPRS is modified to take advantage of such a plan, the only winners will be polluters in other states benefiting from the availability of more (and cheaper) permits.

While some of the measurement difficulties will need to be carefully considered, modifying the CPRS in this way is hardly rocket science. In addition to providing an

incentive for individuals to act, it would overcome the biggest problem inherent in emissions trading schemes, namely the inflexible targets. Under such an approach, emissions would genuinely be capped but there would be downward flexibility.

Assuming Minister Wong continues to ignore external advice, what should be done with the CPRS? Regrettably, it seems there can be little doubt that the current proposal is so flawed in its design, so lacking in ambition where its targets are concerned, that if the government refuses to consider amending it, the Senate will need to vote it down.

While there are risks associated with such an approach, it is important to spell out the reasons why even a badly designed carbon tax is better than a badly designed emissions trading scheme.

First, a carbon tax is a much more flexible instrument than the CPRS. While the politics of setting the tax will be tough, a carbon tax does not require Australia to 'set and forget' emissions between now and 2020. That is, if the scientific predictions get worse or the politics get better, it will be much easier to change the carbon tax than to change the CPRS targets.

Second, a carbon tax has the advantage of working much more effectively with other 'complementary measures' such as investment in energy efficiency, public transport and renewable energy. One of the major flaws with the CPRS, as discussed above, is that investment in such 'Green New Deals' will not reduce Australia's emissions, they will merely reduce the price of permits. Under a carbon tax, on the other hand, if the carbon price does not achieve sufficient reductions in emissions, any investment in other measures will add to the effect of the tax rather than substitute for them as is the case with the CPRS.

Third, a carbon tax provides price certainty. While this is of some benefit to polluters, enabling them to plan accordingly, the major benefit is to renewable energy providers, enabling them to make investment decisions with sound knowledge of the likely cost advantage they will have over their polluting competitors. Renewable energy assets require a large, up-front investment and they are built to last decades. Investors are understandably nervous that if they build large-scale wind, solar or other renewable energy sources, the carbon price may fall (perhaps due to a world recession) and their 'competitive advantage' will be lost.

What then should be done with the revenue from a carbon tax, assuming of course that it isn't all given back to the polluters as Minister Wong currently proposes to do? While there will continue to be a need to compensate low-income earners, who will experience higher energy prices, a carbon tax will provide a large pool of revenue into the future.

Given that investment in energy efficiency, public transport and other 'green projects' works well alongside a carbon tax, it would be desirable to invest a substantial portion of the revenue in these schemes. In order to spend that money wisely, a statutory body should be established with one simple priority: spend money in the areas that deliver the biggest reduction in emissions per dollar spent. Individuals and organisations could help to develop proposals for such schemes, with as much work going into evaluating the projects when they are completed as goes into selecting them in the first place. Mistakes would still be made, but if we learned from them the costs would be small.

A carbon tax is not perfect. For example, it cannot guarantee that a particular level of emissions can be reached. But it should not be forgotten that the CPRS cannot do this either. The CPRS does nothing to restrict emissions from the agriculture sector (which accounts for around 16 per cent of Australia's total emissions). Worse still is a poorly understood feature of the CPRS, which commits the government to print up as many extra permits as the polluters want in order to make sure the price never rises above \$40 per tonne.

In a comparison between a carbon tax and a textbook emissions trading scheme, it is the latter which appears most advantageous in addressing the problems of carbon emissions. But the CPRS is a poor proxy for the textbook model of an emissions trading scheme. The targets are not based on science, 90 per cent of the permits needed by the biggest polluters are being given away and the price is capped rather than set by the market. These shortcomings, together with its destructive impact on the motivation for individual action and the way the targets lock Australia into failure, make it easy to argue for its rejection if the government does not make serious efforts to fix it.

Minister Wong really has only two choices: start modifying her scheme or start designing a brand new one.

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A copy of the paper *The floor in the ETS* can be downloaded from www.tai.org.au.