Reading *Between the lines* this week:

1. The strange argument for carbon price compensation
2. Buying power stations vs compensating them
3. An uncharitable act
4. Bank profits out of this world

THE STRANGE ARGUMENT FOR CARBON PRICE COMPENSATION

There are lots of good reasons to oppose the Carbon Pollution Reduction Scheme (CPRS), but the claim that it will destroy our exporting industries is not one of them.

Within the last 12 months, the value of the Australian dollar (A$) has risen from 62 cents US to 93 cents US, a 50 per cent rise that has had a significant impact on the profitability of exporting industries, only partly compensated for by the general rise in commodity prices.

As the following example shows, the impact of this exchange rate volatility on the profits of our coal exporters dwarfs the likely impact of a carbon price.

Suppose, for example, an exporter of coal can produce at a domestic price of $100 a tonne and sell at a world price of US$100. In October 2008, that price equated to A$161; in October 2009 to A$108. The profit margin fell from 61 per cent to eight per cent.

On average, a miner emits 0.06 tonnes of greenhouse gases when digging out and exporting one tonne of coal. Even if the carbon price were A$30 a tonne, well above the A$10 starting price of the CPRS, the reduction in profit would only be around A$2 a tonne.

While it is obvious why Australia's polluters would demand billions of taxpayer dollars in compensation, it is inconceivable why the Climate Change Minister would agree to pay. As the above calculations show, the 'uncertainty' associated with Australia's floating exchange rate renders pointless any efforts to provide 'certainty' to our polluters through compensation, no matter how generous.

BUYING POWER STATIONS VS COMPENSATING THEM

Recent reports that the owners of the Hazelwood Power Plant in Victoria would prefer the Australian Government to simply buy the plant rather than subsidise its continued operation under the CPRS raises some interesting questions.

If the sale were to go ahead, it would allow the government to gradually mothball the brown-coal power station and dramatically cut pollution. This one purchase could make an enormous contribution to Australia's efforts to reduce carbon dioxide emissions as Hazelwood is responsible for around 18 million tonnes of carbon dioxide a year.

One of the few uncertainties about this plan is the total amount of emissions avoided over time due to uncertainty about the plant's life expectancy. When the current owners bought Hazelwood in 1996, it had an expected life of 40 years. This suggests that another 27 years is certainly likely.

Significantly, the Treasury modelling that underpins the CPRS suggests that no brown- or black-coal-fired power stations will be forced to close down until at least 2035.

If we assume that the government could buy Hazelwood for $2 billion and therefore avoid 15 years of pollution, it would effectively be buying back carbon at a cost of $11 a tonne. If the station were expected to pollute for another 25 years, the cost of each tonne would fall to $6.72. Even under the assumption of a very short remaining lifespan of 10 years, the cost per tonne is well below the projected carbon price of $20 to $25 associated with the CPRS.

Of course, something would have to replace the electricity from Hazelwood. Electricity from gas-fired power stations is the obvious short-term replacement.

While the proposal to mothball Hazelwood is a good one, it is important to remember that under the proposed CPRS, closing down one polluter under a fixed emissions cap merely allows other polluters to increase their emissions. The CPRS provides for a maximum level of carbon emissions but it also provides for a minimum level of carbon emissions. Hence the purchase of Hazelwood would only be worthwhile if the government also:

- modifies the CPRS to reduce the target emissions by the equivalent of Hazelwood
- bans the construction of new coal-fired power stations.

The possibility of purchasing Hazelwood demonstrates that the claim of the CPRS to provide 'least cost abatement' needs to be subject to much greater scrutiny.

AN UNCHARITABLE ACT

Labor's election promise to support and engage with non-government organisations (NGOs) and to encourage their involvement in public debate has, to some extent, been met. For example, the Rudd Government has removed the controversial gag clauses that existed in numerous contracts between the government and NGOs.

However, a recent ruling by the Federal Court of Australia has drawn attention to an issue that is yet to be addressed: what constitutes a charitable activity?

In September, the Federal Court ruled that AID/WATCH is not a charity. AID/WATCH is an NGO that monitors Australia's aid program and, in so doing, it has a clear charitable purpose, which is to assist in the alleviation of poverty in the developing world. While the Court recognised this to be the case, it nonetheless ruled that the means through which AID/WATCH seeks to achieve this goal are political, and hence that it is ineligible for charitable status.

The difficulty the Court had with classifying AID/WATCH as a charity is that its work includes attempts to influence government policy. AID/WATCH seeks to make Australia's aid program more efficient, fairer and more effective through research and media campaigns. It is because of this that the Court ruled that AID/WATCH has a dominant, non-charitable political purpose, even though these activities have the ultimate objective of alleviating poverty.

For AID/WATCH, the loss of its charitable status is likely to be significant. However, this ruling also has implications beyond AID/WATCH and may affect the NGO sector more broadly. In particular, organisations are likely to scale back their advocacy work if they are concerned that their charitable status is under threat. As such, this ruling may result in the silencing of NGOs, exactly what the Rudd Government has said should not occur.

If the Rudd Government is serious about supporting organisations like AID/WATCH, it must act on the recent draft recommendations of the Productivity Commission and direct its attention to developing a new Charities Act, one that reflects how modern charitable work is performed.

BANK PROFITS OUT OF THIS WORLD

How much graphic design can you buy for $15 million? Not much, if you're ANZ, which has reportedly spent that amount on a new logo rollout. ANZ CEO Mike Smith said that the new logo 'reflects ANZ today and our commitment to continue to change the way we do things by understanding what is going on in our customers' world and making banking more convenient and less complex'. The process of research and consultation to come up with the new logo took 18 months. ANZ's new slogan—'we live in your world'—has apparently been chosen with no sense of irony.

Some might suggest ANZ is indeed on another planet if it can afford to spend $15 million on such an exercise in futility. Indeed, ANZ enjoys a position of extreme privilege in a banking market that is growing ever less competitive. The profit of the big four banks prior to the global financial crisis was $23.6 billion before tax, or more than two per cent of gross domestic product. Since then, it has dropped to a paltry $19.6 billion, showing what a tough time bankers are having at the moment.

Across Australia, if you withdraw $100 from a 'non-bank' automatic teller machine you are charged $2 for the privilege. This is a good metaphor for what the big banks are doing to the country as a whole: receiving $2 as profit out of every $100 spent in Australia. Whether this represents value for money is a question for policymakers.

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