

TITLE: Flexibility the key to tackling climate change

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It's much easier to solve imaginary problems than real ones, which explains why the current Government is highly concerned about low levels of debt, and relaxed about high levels of greenhouse gas emissions. Since 1950 our national debt has fallen from 100 per cent to 14 per cent of GDP. Our greenhouse gas emissions have risen six-fold over the same time.

Bizarrely, while most politicians understand that current levels of debt are low, they are determined to focus our attention on what might happen in 40 years' time. The long-run cost of ageing, the long-run consequences of small deficits, the impact of demographic change on labour force participation - if we care about future generations, then we must act now.

When it comes to climate change it seems the opposite is true. If our emissions and the population keep growing, and we double our coal exports, scientists say we will fundamentally change the climate in dangerous and unpredictable ways. But to those politicians, that's not our problem. That's a problem for future generations to solve.

The fundamental contradiction that lies at the heart of our concern with long-run fiscal issues and long-run climate issues is ignored by most of our politicians, and by most of the media. This week the secretary of Treasury gave a hand-wringing speech about the need to tighten our belts lest our long-run budget problems pile up on us. Despite being the former secretary of the Department of Climate Change, he was strangely silent about how a modest carbon price could easily fill any of the budgetary holes his minister pretends to care about.

So, in an environment in which the Liberal Prime Minister is opposed to market forces, the ALP is opposed to government intervention, the Greens are opposed to higher petrol prices and Clive Palmer supports renewable energy investment, what can we do?

The first thing we need to do is to use different language. While words like "carbon tax" and "direct action" have become powerful political tools, neither has been linked to powerful policy mechanisms. We are stuck in heated political debates about relatively impotent policy mechanisms.

Clearly, it's better to have a price on carbon pollution than not to have one. That said, under existing legislation the carbon price was fixed for three years (it's currently about \$25) and is set to become a floating price in July next year. At this point it is expected to fall to between \$5 and \$7 per tonne of emissions. Such a low price, while better than nothing, will do little to transform the Australian energy system.

Emissions trading schemes set a target level of pollution and issue just enough pollution permits to meet that level. If, for example, you wanted to cap pollution at 1 million tonnes per year you would auction 1 million permits, each to emit one tonne of pollution. Like any auction, the price of the permits is determined by the supply of permits, and the demand from polluters for them.

The carbon price is expected to plummet next July because policymakers listened to the polluters instead of the science. Our measly five per cent emission reduction target may well have been "the best they could do" but, according to the science, it isn't nearly enough. Because we decided that high levels of pollution were "good for the economy" there would have been lots of pollution permits sloshing around July and, in turn, the price of each permit would have been low.

Despite the fact that the carbon price is soon to fall from \$25 to around \$9, Tony Abbott is determined to rip up the scheme. Having spent the past three years using exaggerated estimates of the economic impact of the fixed price, he is now making even more exaggerated claims about the benefits of removing the soon-to-be-floating, already low price.

The real problem with the carbon price isn't that it is too high, it is that it is too low. Accepting that fact is a bridge too far for our current crop of politicians. While a modest, and falling, carbon price must go because of the "pressure" it places on families, the Abbott government is set to charge \$7 more to go the doctor, increase university fees and reduce the age pension.

But while neither major party wants to talk about increasing the carbon price, and even the Greens are opposed to raising petrol prices, the fact remains that tackling climate change isn't all about price. When in power the ALP, backed by the Greens, wanted what they called "complementary measures". The Renewable Energy Target (RET), the \$10 billion Clean Energy Finance Corporation (CEFC), energy efficiency measures, the Carbon Farming Initiative... the list of non-price emission abatement measures goes on and on.

One short-lived "complementary measure" was the Contracts for Closure policy, in which the Labor government planned to hold an auction that would pay a coal-fired power station to close down. The power station that would accept the lowest price to abate the most emissions would "win". If that sounds familiar, it's pretty much exactly what Greg Hunt is proposing to do in his Direct Action Plan.

These days the ALP and the Greens are opposed to "paying the polluters", even though they wrote those polluters some pretty big cheques to compensate them for the introduction of the carbon price. Just as Tony Abbott's real problem with the carbon price is that the ALP and Greens introduced it, the Greens and ALP's real problem with Direct Action is that the Coalition introduced it.

There are some fundamental design problems with the current Direct Action scheme. The idea of paying landholders relatively small amounts of money to plant trees, commercial property owners to invest in energy efficiency and power stations to shut down, is a good one. That said, the idea of paying individual factories to install idiosyncratic bits of new machinery to potentially reduce emissions will likely lead to an administration and governance nightmare.

While modern politics seems to crave simplicity, good policy design often requires some subtlety. When it comes to discouraging smoking we simultaneously rely on taxes to increase the price, regulation to limit who can buy and sell cigarettes, and information campaigns to change community attitudes. We need a similarly broad and flexible approach to tackling climate change.

Removing the carbon price makes no economic sense but then again, neither does spending \$35 billion a year on tax concessions for superannuation, or taxing income from capital gains at half the rate that we tax income from honest, hard work. Economics is rarely central to policy design in Australia.

The decision by the Palmer United Party to support the retention of "direct action" policies such as the RET and the CEFC was a positive and unexpected step towards the political centre. Leaving aside whether it's called Direct Action or "complementary measures", let's hope that parliamentarians interested in reducing greenhouse gas emissions can agree on useful ideas to spend more than \$2 billion in the Emissions Reduction Fund on reducing emissions.

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