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TITLE: Climate debate cuts both ways

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Do you think cars are better than planes? What about apples? Are apples better than sandwiches? It is hard to answer some questions because they don't make much sense. Take our political debate about climate change, for example.

Do you think we need a price on carbon or do you support direct action? I struggle with that question more than most seem to. To be clear, I absolutely think that we need a price on carbon, but we could do with some direct action as well. Surely I am allowed to want both?

Until recently the ALP, the Greens and most of the big environment groups were fans of direct action. Of course it wasn't called direct action then, it was called "complementary measures" and the environment movement loved them.

But the fact that the ALP and Greens used to support direct action by another name does not mean the Abbott government's scheme will work. It does, however, make the current debate about whether people are on the "side" of carbon pricing or direct action a bit silly.

The main reason that direct action has a chance of working is that it doesn't actually have to do much. The carbon price deal between the ALP and Greens ignored the scientific evidence in locking in a target of only a 5 per cent reduction below 2020, an unambitious and unscientific target that the Coalition shares.

Australia's emissions had begun to fall well before the carbon price came in and before direct action was even a twinkle in Tony Abbott's eye. In fact a significant slice of our new target comes from the "surplus" we generated by exceeding our 2010 target. That is, because we did "too much" emission reduction pre-2010, we don't have to do as much in the lead-up to 2020. And then there is the high dollar and the devastating impact of the mining boom on the competitiveness of our manufacturing industry.

We have already seen two aluminium smelters shut down in recent years and Ford has said it is leaving. As more smelters and car factories close, our emissions fall. When the carbon price

could be blamed for such closures it was a national tragedy, but when the miners cause such job losses via the exchange rate, it seems we just call it progress.

The high dollar is also killing off the last of the export woodchip market, which has for decades been subsidised to turn old-growth trees that sequester carbon into woodchips for paper and cardboard. The fact that we are now chopping down far fewer trees means that our emissions are far lower and, in turn, Labor's 5 per cent target is easier to achieve.

Next is the spectacular inefficiency of our electricity market. Despite the promises that the deregulation and privatisation of our electricity industry would lead to lower prices, the retail cost of electricity has surged by more than 100 per cent since 2007. The inefficiency and profitability of the electricity market has driven far bigger increases in electricity prices than the deepest of deep greens ever hoped a carbon price would deliver. In turn, households and businesses have reined in their demand for electricity.

Finally, consider the ALP's successful direct action policies. Schemes such as the renewable energy target and subsidies for rooftop solar panels have delivered a flood of renewable energy capacity which, contrary to popular belief, is putting downward pressure on the price of electricity. It is also significantly reducing the amount of coal we need to run the airconditioners and clothes dryers that we tell developing countries we can't live without.

There are, of course, some clouds on Australia's emission reduction horizon. The massive expansion of our coalmining industry and coal seam gas industry will generate big increase in "fugitive emissions". That is the methane that escapes when fossil fuels are being extracted. Another problem for the Abbott government's plan to achieve a 5 per cent emissions reduction without a carbon price could be the exchange rate. If the exchange rate falls and the manufacturing sector rebounds strongly, so will our emissions. A problem that no doubt some in government hope they experience.

Even if the carbon price is not repealed and we move to a floating carbon price in 2015 as planned, the carbon price would fall to about \$6. And of course big polluters get 94.5 per cent of their pollution permits for free, meaning they would pay an average carbon price of 33 ¢ per tonne. Let's be clear, a carbon price that low was never going to be the driving force in a "transition to a low-carbon future".

While a low carbon price is better than none, the ALP's complementary measures or the Coalition's direct action were always going to have to do a lot of the work required to hit the 5 per cent target.

Similarly, if the Coalition botches the design of its direct action scheme then it may struggle to deliver on its promises. So what should they do?

The biggest problem with direct action as it has previously been described is that it could be an administrative nightmare. Hundreds of thousands of small and medium-sized businesses asking for grants to cut their pollution will take too long and cost too much to administer.

But, if the Coalition is strategic, it could buy large chunks of emission reduction at relatively low cost and, importantly, with low transaction and administration costs. The most obvious targets for such a strategic approach would be the logging and forestry sectors. Paying small amounts

of money to discourage the chopping down of trees would actually be cheaper than the large amounts of subsidies we currently provide to the same industry to chop down trees.

There is big scope for cash flow-positive investments in energy efficiency in commercial buildings. The government should start with the massive stock of Commonwealth buildings and then start some conversations with the state governments. Similarly, state governments own a large stock of public housing that was ineligible for previous efficiency policies, such as the Rudd government's insulation subsidies.

Dealing with the states allows the Commonwealth to significantly reduce its administrative costs. Abbott and John Howard have said plenty of things that suggest they neither understand nor are concerned by, the scientific evidence about the need to massively reduce greenhouse gas emissions. The decision to scrap the carbon price suggests the Coalition cares as little about economic advice as it does about scientific advice.

But, that doesn't mean that a \$6 carbon price was going to tackle climate change. Nor does it mean the Coalition will inevitably fail to meet the ALP's 5 per cent target. The important question facing Australia's leaders is not whether carbon pricing is good or bad. It is "how far and how fast does Australia need to cut its emissions to minimise the impact of dangerous climate change?"

Neither a \$6 carbon price nor a direct action fund of \$3.2 billion will get us within cooee of that level.

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