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TITLE: Good politics, good policy

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Julia Gillard's multi-party committee on climate change (MPCCC) has achieved what the Rudd government should have relied on its cabinet for – a good political outcome likely to deliver a good policy outcome on that wicked problem of climate change.

While there is still plenty of room for negotiations to go off the rails, the architecture announced yesterday stakes out ground that will ensure the various politicians involved will be able to focus on what unites them (support for a carbon price) rather than what divides them (the exact emission reduction targets for 2020).

It's not just good politics though. By focusing on the areas of broad agreement, the MPCCC architecture allows for the pursuit of an ambitious timetable for the introduction of a carbon price in July next year. While the exact carbon price is yet to be negotiated the preferred mechanism, a so-called 'fixed-price emissions trading scheme' allows for the introduction of a carbon price which will rise steadily over time while issues such as 2020 targets are being negotiated.

The rapid introduction of a carbon price, widely expected to be at least \$26 per tonne, means that both existing polluters and potential new investors can finally have some certainty about the medium-term carbon price. Similarly, the sooner the carbon price is introduced, the sooner the government can begin to collect the tens of billions of dollars in revenue that will inevitably flow. As long as the compensation payments to polluters are less generous this time around, this will mean the government can rapidly begin the task of investing in the new energy and transport systems Australia so clearly needs.

The fixed-price emissions trading scheme, in effect if not in name, is actually an interim carbon tax. The MPCCC has announced it hopes that the interim scheme will evolve into a flexible-price emissions trading scheme in three to five years if a range of conditions can be met. The most significant of these conditions will be the ability to agree on an emission reduction target for 2020. Put simply, it will be impossible to transition to a flexible-price emissions trading scheme if a majority of parliament cannot agree on the best emission reduction target.

That said, a number of environment groups expressed concern that the MPCCC was not planning to introduce a flexible-price emissions trading scheme from July next year. Ironically, none of the groups expressing such concern were saying publicly what emission

reduction target they thought was both acceptable to themselves and agreeable to a majority of both houses of parliament.

Presumably the Gillard government would happily introduce a flexible-price emissions trading scheme along the lines of the CPRS with a 5 per cent target for 2020. The important questions are, would the environment groups mourning the likelihood of a fixed-price emissions trading scheme support such a lack of ambition, and is there any chance of such a timid scheme achieving the necessary parliamentary majority?

While some in the environment movement do not appear to have moved on from the CPRS, the Prime Minister and climate change minister Greg Combet certainly have. The speeches yesterday made clear that the government is willing to take on the task of honestly explaining both the need for, and impact of, a price on carbon.

The Opposition leader certainly took the bait. Declaring rather repetitively that he was going to fight the carbon price "every second of every minute, of every hour, of every day, of every week, of every month," Tony Abbott either announced his intention to turn the Coalition into a single issue political party or, alternatively, made a promise that he will not keep.

There is no doubt that introducing a carbon price involves political risks for the Gillard government, but there is also no doubt that there are even bigger risks for Labor of going to the next election with the issue of carbon pricing remaining unresolved. The real issue is not whether the government is right to pick a fight with the Coalition over a carbon price but whether they pick the right battle on the right terrain.

Tony Abbott has signalled his biggest punch for the last three months with his continual reference to the "great big tax on electricity." The Liberals are obviously aware of the potential of running a scare campaign based on cost of living pressures, but what if the government doesn't take the bait?

Rather than walk into this predictable trap the members of the MPCCC might simply choose to step around it and insulate the domestic electricity price from the impact of a carbon price. That is, just as the Rudd government chose to ensure that the CPRS would not lead to an increase in petrol prices the Gillard government might adopt the same approach with electricity. Rather than letting the prices rise and then compensating households for the cost it would be simpler and more attractive to simply leave it out in the first place.

Such an approach may seem heretical to those who believe that price is everything when it comes to behaviour but when you realise that the domestic electricity price has already risen around 40 per cent in the last four years there is plenty of scope to believe that the household sector has already got the message to change their ways.

Major policy reforms need the right balance of good politics and good policy. The CPRS failed on both counts, but the announcement by the MPCCC suggests that lessons have been learned. At least, those of us hoping to see Australia's emissions actually begin to fall are hoping that's what we can see.

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