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TITLE: Look beyond a carbon price and examine whether your cuts will count

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Dr Richard Denniss, executive director of Canberra-based think tank The Australia Institute, writes:

The final version of the Carbon Pollution Reduction Scheme (CPRS) was a cobbled together compromise between Kevin Rudd and Malcolm Turnbull. The Government's own advisor, Professor Ross Garnaut, described it as one of the worst cases of public policy development he had ever seen. So why is it the starting point for negotiations between the government, Greens and the Independents?

Amid all of the talk about whether the fixed starting price will be \$24 or \$26 there is virtually no attention being paid to what will happen when the three to five year fixed price period elapses. Given how obsessed people were about 2020 emission reduction targets just two years ago, that seems a bit odd.

But it is not just the 2020 targets that we should be talking about, it is the overall design of any emissions trading scheme that the government hopes will rise from the ashes of a simple and effective carbon tax.

Will the proposed scheme ape the CPRS and rely almost exclusively on imported offset permits to achieve our 'domestic' targets? Will the proposed scheme emulate the CPRS's philosophically flexible design feature of simultaneously relying on market forces to set the carbon price while imposing a price ceiling in case the polluters think the price is too high?

And will the new climate change acronym replicate that most counterintuitive design feature of the CPRS and ensure that the actions of individuals, communities and even state governments are prevented from reducing emissions below the national cap?

The way in which the CPRS set both a cap above which emissions could not rise and a floor below which emissions could not fall was widely debated, if not widely understood, during 2009 and 2010. But it seems that in the hurly burly of the 24/7 news cycle, lessons learnt two years ago need to be taught all over again.

The clearest example of this need is the well-meaning, but poorly designed, goal of the ACT to reduce their emissions by 40% by 2020. While the willingness of the residents of the nation's capital to support such a science-based and ambitious target should be applauded, the refusal of the ACT legislators to integrate their local ambitions into the proposed national

scheme is evidence of what happens when the political sideshow becomes more concerned with spin than substance.

Put simply, under any national emissions target if the residents of the ACT voluntarily reduce their emissions by 40% then all they will do is free up pollution permits for polluters in other states and territories.

If the ACT government was determined to find savings in its health budget in order to provide extra funding to NSW or Victorian hospitals there would be an outcry. But for reasons that only they can explain, neither ACT politicians nor the local environment groups seem sufficiently outraged to demand the necessary changes to the national scheme to ensure that their local actions aren't pointless.

Of course it is not just the ACT's 40% reduction target that will be made redundant, from the climate's point of view, by a poorly designed national scheme. Indeed, any individual, local government or state government scheme to improve energy efficiency, increase investment in renewables or reduce the use of transport fuels will simply result in additional pollution permits for industrial polluters such as BHP or Alcoa.

Although the fact that one person's, or community's, reduction in emissions simply allows someone else to pollute more might seem counterintuitive this feature is what the "T" in ETS actually stands for - that is, trading.

If the emission reduction target was consistent with the scientific evidence of what is needed, and the operation of the scheme was sufficiently well explained that individuals and communities didn't make vain attempts to "go further", then the inability of individuals to "make a difference" might not be seen as a major problem.

But when the targets are set according to polling rather than climate science and some individuals and communities are determined to spend large amounts of their own money in order to "go further", then the national scheme should be modified to allow such individual ambition to add to, rather than substitute for, the efforts of others. Luckily, making such a change is not hard.

Simply introduce a "cap and slice" amendment to the proposed cap and trade scheme. That is, when it can be shown that individuals or communities have voluntarily reduced their emissions, then their savings should be "sliced" from the national cap, not just traded to other polluters.

The irony of introducing such an amendment is that it would do little more than make the ETS work in the way that the vast majority of people already think it works.

But the simple fact is that unless the Greens, Rob Oakeshott and Tony Windsor can convince the Gillard government to include a "cap and slice" amendment then all of the good intentions of the ACT Legislative Assembly, the local councils that are doing so much to reduce emissions at a local scale, and even the efforts of individuals in their own homes will, from the climate's point of view at least, be completely pointless.

It is not beyond our policy makers to develop a national scheme that empowers individuals and communities to ensure that Australia does more than the bare minimum being pursued by the Gillard Government. But such changes will only arise if the environment movement moves beyond just saying yes and starts asking some hard questions.

The principle of "cap and slice" was eventually included in the ill-fated final version of the CPRS, but it applied only to the purchase of green power. If this version of the legislation is

to be an improvement on that which was acceptable to the Coalition, then it will require a serious effort to make room in the national target for those with ambitions that are greater than the Commonwealth parliament.

Dr Richard Denniss wrote the 2008 paper, [*Fixing the floor in the ETS*](#).