

Combet's cut-price carbon caper blows \$25 billion budget black hole

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THE carbon floor price is dead, but it certainly hasn't died alone. Rather, there are so many fatalities in this announcement that Canberra will need a new cemetery.

The first victim of this double pike with lateral twist (nine points of difficulty) is the credibility of the government's budget forecasts.

True, they were already at death's door; yet it was merely a few months ago that Wayne Swan smugly announced a surplus predicated on a 2015-16 permit price of \$29.

But even if the carbon price falls to only \$10, and then rises after that by 4 per cent in real terms annually, the commonwealth's fiscal position during the period from 2015-16 to 2019-20 worsens by \$25 billion. To leave budget outcomes unchanged, the government therefore needs an additional \$25bn in revenues, spending cuts or both. Where are those savings, Mr Swan?

But the Treasurer isn't the only minister swinging in the breeze. After all, Climate Change Minister Greg Combet repeatedly stressed that the entire purpose of the carbon scheme was to provide a "predictable, long-term price signal" whose steady rise investors in renewables and other low-emissions technologies could rely on.

Moreover, the floor price was essential to achieving that goal, as it ensures "stability and predictability" and avoids "the risk of sharp downward movements in the carbon price, which could undermine long-term investment in clean technologies". Where is that predictability now, given the wild gyrations that characterise European carbon prices?

As for Treasury, it was so confident of the price path that its modelling simply assumed a staircase of ever-higher prices climbing to a carbon-free heaven. Indeed, such was the confidence of the oracles at Langton Crescent that they have no scenarios - not a single, solitary one - in which prices start high and then collapse.

And with good reason. For Treasury's modelling is premised on those continuous price increases "driving" the development of entirely new abatement technologies, which make it possible to reduce emissions without massive economic costs. So where is the revised modelling that shows what happens when, freed of their earthly shackles, prices plunge into the netherworld before pirouetting off in directions unknown?

As for the Climate Change Authority, established to advise on the future price path, what possible justification is there for spending taxpayers' money on seeking its sage counsel? After all, once our scheme is fully linked to the EU's, it is the EU's decisions that will determine our carbon price.

How then will we reach our targets? No one knows. And as for putting Brussels in charge of Australia's carbon policy, what a fine idea that is!

Not that anyone would want to say unkind words about the EU's economic policy skills - it is a sin to speak ill of the dead. But even assuming the EU manages to pull off the second resurrection in recorded history, it is hard to imagine economies less like Australia's.

And with the EU accounting for less than 5 per cent of world emissions, it is hardly as if we are linking to carbon markets that are particularly representative, deep or resilient. On the contrary, those markets' most striking feature has been persistent instability.

Then again, maybe that is why the Greens can live with this change: because it means the Australian carbon price will ultimately be set by countries without any base in natural resources, much less in mining.

No need for the Europeans to worry about what carbon prices, if any, are being charged by Australia's resource competitors - and worry about them the EU certainly won't.

Yet we should. The EU exempts virtually all its export industries from its emissions trading scheme; we don't exempt ours. So it is the EU that will decide, but our living standards that will suffer. With the Nobel prize in economics only weeks away, whoever devised this scheme won't be wasting any money in sending

the monkey costume off to the dry cleaners.

But if aligning our carbon price on the EU's is such a good thing, why make us wait? Since carbon prices are going to be allowed to fall in 2015, what useful purpose is served by keeping them at gravity-defying levels, all the more so as a study by the Centre for International Economics shows having a higher carbon price than Europe's will cost our economy \$1.6bn to \$3.4bn in 2012-13 alone?

No useful purpose at all. For as a signal to long-term abatement, the current high level of the carbon tax is entirely worthless. But there is one thing it does do: it raises revenue. And that helps feed the government's addiction to redistribution: to shuffling around bits of the pie, regardless of the losses incurred along the way.

So the current carbon tax is just that: a tax that serves only to raise revenue, and very inefficiently at that. As for all the fine words about "locking in predictability and stability", they are merely another commitment to be disposed of. Like soiled nappies. Jilted lovers. Or former colleagues. And then buried under the floor.
