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Greenhouse follies must end

HENRY ERGAS THE AUSTRALIAN JULY 28, 2014 12:00AM



Illustration: Eric Lobbecke. Source: Supplied

THE carbon tax may have gone, but the players have not moved on. For the Greens, its resurrection is only a matter of time. Labor, ever reluctant to face realities, pretends to maintain the rage, much as it did with the GST. Meanwhile, the lessons of the fiasco, and its implications for the Abbott government, are ignored.

At the heart of those lessons is a simple fact: the electorate is unwilling to bear crippling costs for the purely hypothetical benefits of decarbonisation. Despite all their apocalyptic rhetoric, the climate change advocates cannot secure and sustain popular support for the taxes needed if large-scale reductions in emissions are to occur.

Yet Labor's scheme was based on a carbon tax that rose ever higher, with the government's modelling envisaging an increase from an initial \$23 to \$60 (at today's prices) by 2030. Moreover, that increase was vital if the scheme was to achieve its goal of reducing emissions to 80 per cent below 2000 levels by 2050.

Steeply climbing carbon taxes might have been acceptable had they been part of a credible international agreement. But with support for costly climate change policies as brittle overseas as it has proven to be here, there was never much prospect of such an agreement being reached. And there was even less prospect of a concerted global effort to impose carbon taxes rising to the levels Labor's scheme expected.

Labor was therefore trapped between its promises to the Greens and political realities. Already at the

time of the tax's introduction, a Morgan Poll found that over 60 per cent of Australians agreed that "the carbon tax will have no significant impact on reducing the total worldwide volume of carbon dioxide put into the atmosphere", while an even greater majority thought the tax should not rise any further.

Little wonder the Gillard government quickly descended into a tangle of half-truths, untruths and contradictions. Promising salvation without sacrifice, its rhetoric of "you won't feel a thing" implied the "greatest moral challenge of our time" could be tackled without discernible pain. But even the government's own analysis showed each tonne of abatement the scheme achieved reduced Australia's GDP by \$48, several times the headline tax rate, for a cumulative cost to 2020 of nearly \$35 billion.

With claim after claim coming apart, Labor's backsliding began almost as soon as the scheme had taken effect. Less than two months into its operation, the government announced that there would not be a price floor after 2015-16; instead, there would be direct linking with the EU cap and trade scheme. Seemingly untroubled by the inconsistency, Greg Combet, who only weeks earlier had justified a floor price on the basis that it was needed to "reduce the risk (to investors) of sharp downward price movements", now claimed abolishing it, and linking to the extremely volatile EU scheme, would provide "investors with long-term certainty".

But with public hostility to the scheme mounting, those were merely harbingers of a torrent of absurdities. The direct linking, for example, should have slashed projected carbon prices to the very low levels prevailing in futures markets in the EU. But so as to reduce Labor's deficit, Wayne Swan's last budget envisaged carbon prices rising rapidly after 2015-16, and going even higher in 2019-20 than originally foreshadowed.

The farce reached its peak with Kevin Rudd's decision to scuttle the tax and move immediately to an emissions trading scheme. Like the character in Woody Allen's *Annie Hall*, whose proposal is "only a notion" but who hopes for the chance "to make it into a concept and later into an idea", Rudd's new scheme was scant on details; and even murkier was the magic by which the low carbon prices Rudd touted would achieve his ambitious emissions reductions pledges.

All that may seem behind us; but the harm done to Australia's international competitiveness is not. And with the Renewable Energy Target still in place, our electricity prices, which have soared far above those in other countries with abundant resources of coal and gas, will remain much higher than they can and should be.

Nor are the costs of the RET likely to decline. On the contrary, modelling by ACIL-Allen finds that over the period to 2040, it will increase the costs of electricity generation by nearly \$13bn; and accompanying those costs are massive transfers to the renewables sector, with estimates by Deloitte Access suggesting each \$1 in additional renewables investment the RET stimulates is bought at the price of nearly \$2 in payments to producers.

Perpetuating those policies is not only economically irrational; it also lends credibility to the carbon tax. After all, if the RET is legitimate, despite the distortions it imposes, why not consider an emissions trading scheme as a less distorting alternative? How can the Coalition, having conceded the goal, simply rule out a particular instrument?

But it is not the instrument that is flawed; it is the goal that makes no sense. What conceivable purpose is served by policies which have no effect whatsoever on global emissions but damage our prosperity? And were dangerous climate change indeed in prospect, how could making us poorer facilitate the adjustments Australia will have to undertake?

Tony Abbott understands all that. But he needs to say it: for as Enoch Powell put it in admonishing the British Tories' endless lip-service to ill-conceived economic policies, "it is impossible to go on behaving sensibly while constantly talking nonsense". And having said it, Abbott must start cleaning out the Augean stable of climate change follies, beginning with the RET. If the carbon tax has been repealed it is because voters know those policies are less than useless. The longer it takes the Coalition to catch up with that repeal's lessons, the greater the risk of squandering the opportunity it creates.

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