

# The Australian

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## Lies, deception and carbon tax

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**START with what is uncontested. First, once carbon emitters are issued permits, those permits will be property they own, so any government that abolishes them will have to pay compensation, possibly in the billions of dollars.**

Second, entitlements created by statute may be found by the High Court to be property even if that is not specified in the legislation creating them. But specifying it in the legislation, as the government intends, makes that outcome, and the need to pay compensation, far more certain.

Third, a future government could not get around the need to pay compensation simply by mandating a zero carbon price. This is because that would almost certainly require rejecting the Climate Change Authority's recommended abatement trajectory. But unless that government could convince both houses of parliament to adopt another abatement target, such a rejection triggers a default pricing mechanism. And far from reducing the carbon price, the legislated mechanism could increase it by up to 10 per cent in a single year.

Fourth, nor could a future government get its way by modifying the membership of the Climate Change Authority.

Rather, the legislation creating the authority limits the number of members it can have: unlike, for example, that establishing the Australian Competition & Consumer Commission. And a government has little scope to dismiss members once they have been appointed. The new government would therefore be stuck with its predecessor's authority.

In short, a new government would be comprehensively locked in. But that, Mark Dreyfus, the Parliamentary Secretary for Climate Change, assures us (The Australian, September 22), is not the legislation's intention. Rather, its aim is merely to provide certainty.

Dreyfus does not explain why certainty should be provided here but not for water entitlements, taxi licences, fishing quotas or development approvals.

But even putting that aside, Dreyfus's stated aim makes no sense. For the Gillard government can no more eliminate uncertainty about the future regime for climate change than King Canute could turn back the waves. Rather, that uncertainty is a fact. And its costs cannot be wished away.

Nowhere is that clearer than with the prospects for global agreement. Yes, credible agreement to reduce carbon emissions might be reached some time soon. But it is at least as likely that it will not, as the same changes in the global political economy that have killed the Doha round of world trade negotiations stall progress on climate change. And if

that happens, abatement by Australia will be futile and economically harmful. Forcing it to continue would only compound the harm.

As a result, when the Gillard government promises investors in "green" activities certainty, it is not eliminating risk: it is merely shifting it from those investors on to taxpayers and the community, magnifying its cost along the way. And while private investors get a choice about whether to bear risk and are compensated accordingly, the victims of this risk transfer do not.

To add insult to injury, the victims are not even being told how big the resulting loss could be. This is because Treasury has not modelled, or if it has modelled has not released, the scenario in which those losses eventuate: that is, in which Australia implements ever higher carbon prices while the rest of the world does not.

Dreyfus does not mention, much less attempt to justify, that fact. Nor does he mention, much less attempt to justify, the government's decision not to publicly release the models and data used by Treasury, though they were paid for by taxpayers. Rather, he claims Treasury's work has been "one of the largest economic modelling tasks ever undertaken in Australia".

Perhaps, but that only increases the need for full public scrutiny, especially given what is at stake. This is all the more the case as the modelling rests on implausible assumptions. Not that Dreyfus denies those assumptions. Rather, faced with the fact the modelling assumes much of Australia's abatement will be sourced from the former Soviet Union and "other Asia", Dreyfus merely says overseas abatement "may" provide emissions reduction that "can" reduce the scheme's costs.

That is indeed possible. And it is also possible that countries such as Uzbekistan, Burma and Laos will undergo the greatest moral regeneration since The Pilgrim's Progress and become the credible vendors of abatement to Australia Treasury's modelling assumes. But betting on that outcome is no way to sleep well at night.

And if taxpayers and the community are to pick up the tab for Labor's lock-in, why shouldn't they know just how big the loss would be if things don't go to plan?

That assessment should have been in the legislation's Regulation Impact Statement. But rather than analysing the risks, it parrots Treasury's assumptions, including about global agreement, and then adds mistakes of its own: for example, it argues market mechanisms are better than direct action, but ignores the myriad forms of direct action the government proposes to introduce; in estimating compliance costs, it ignores the costs of securing and auditing abatement overseas; and it also ignores the fact as the carbon price rises, the incentives to cheat, and hence the costs involved in preventing cheating, increase with it.

For all that, there can be no excuse. Nor is there any excuse for as intelligent a man as Dreyfus descending to such contortions. But the underlying reality is simple. Labor campaigned on Gillard's promise that "there will be no carbon tax under the government I lead".

Once in office, it turned its back on that promise. Now it wants to prevent an Abbott government from honouring its promise to repeal Labor's scheme. And if that inflicts massive costs on the community, more's the pity.

Little wonder the government faces a credibility problem. But what is surprising is that its own members don't worry about the ethics of its conduct.

Is that what Australia's oldest political party has come to?

If so, it will take far more than a make-over to save it from a historic defeat.

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