

The Australian

World of sham carbon policies exposed

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CONTRARY to repeated assertions by the Prime Minister, the Productivity Commission did not endorse an economy-wide emissions trading scheme. Rather, its recently released report on carbon emissions policies models an ETS that applies only to the electricity sector and excludes all trade-exposed industries.

As the commission shows, current policies aimed at subsidising renewable energy incur high costs for pitifully little outcome. No surprise then that its modelling finds that scrapping those policies and imposing a carbon price of \$9 a tonne on the electricity sector would cause less harm.

But that is not what the government is proposing. Despite the PC finding that "no country imposes an economy-wide tax on greenhouse gases or has in place an economy-wide ETS", its ETS will extend beyond electricity to the emissions-intensive, trade-exposed industries that are at the heart of our comparative advantage. And its carbon price will be three times that the PC models.

As the commission warns, without comparable measures in competitor countries, that could merely shift output and emissions to our commercial rivals.

Moreover, the government has no intention of removing the myriad measures that squander resources on uneconomic energy sources. Rather, it is committed to its Renewable Energy Target, with the changes it made last January further increasing the subsidy it provides. The PC suggests those changes alone will increase NSW electricity prices by 6 per cent, on top of the 4 per cent increase the RET has already caused.

It is important to understand that a carbon tax does not offset these distortions: rather, like turning up the volume on a faulty amplifier, it compounds the loss. This is because it amounts to an increase in the subsidies those schemes provide.

Assume an inefficient subsidy to buses; now impose a tax on using cars. The additional passengers who shift to buses valued cars more than those who shifted earlier, so the loss increases more than proportionately. At the same time, more must be spent meeting that demand, causing further losses as resources move from making cars to buses.

Even in such simple cases, cumulating distortions cause waste to rise exponentially.

Matters are even worse with an ETS because it affects not only what is consumed but how things are produced. As more efficient ways of producing are replaced by less efficient alternatives, a social loss is incurred on every unit supplied.

Nor is that loss trivial. According to a recent study by AGL, a strong advocate of an ETS, the running cost of a base-load

gas plant is six times that of Victorian brown coal. Given those cost differentials, changing the generation mix requires swinging penalties on low-cost energy sources, with AGL estimating that a \$30 a tonne carbon tax - not even enough to cause widespread substitution - would increase the running cost of brown coal plants by 10.2 times.

That 10-fold increase would not just hit struggling residential consumers. One-third of our direct emissions from electricity generation are associated with electricity use in manufacturing. Our trade-exposed industries would therefore suffer a double whammy as they were taxed both directly and through higher input costs.

The resulting losses might be worth bearing if they materially reduced the risk of dangerous climate change. But it is clear from the commission's report that current global efforts are derisory. True, the eight countries the PC analysed have more than a thousand policies in place, many focused on electricity generation. But in aggregate those policies yield barely 210 million tonnes of electricity sector abatement.

Take China, the world's largest and most rapidly growing emitter, which the Garnaut report says has "pledged large reduction targets, implemented reforms that deliver on its commitments, and set sail on a global mission to dominate new opportunities". But the PC finds China's abatement affects barely 1 per cent of its electricity emissions, while its abatement outlays, at one-third of 1 per cent of gross domestic product, are well below Australia's.

Moreover, the PC's measure of net abatement takes no account of subsidies to emissions. Recent estimates place subsidies to fossil fuel use in China at about 1.4 per cent of GDP. For each dollar spent curbing emissions, China therefore spends \$4 promoting them.

Yes, some countries, notably Germany and Britain, devote substantial resources to emissions reduction. But even there, the PC finds high costs for modest impacts. Indeed, as the report notes, the Germans spend \$150 to \$300 a tonne of carbon securing emissions reductions that under the European Union's ETS are simply offset by increased emissions in Italy and Spain.

That may seem irrational. But the reality is that this is an area whose politics are now entirely symbolic. Notwithstanding sweeping promises in international forums, and regardless of the homilies of climate change's high priests, governments do not believe communities have any stomach to make real sacrifices for a goal that seems ever more illusory.

Trapped between the zealots and that brute fact, they resort to what are little more than bribes, buying, at absurdly high cost, a bit of abatement here, dispensing an exclusion from obligations there, and sprinkling the whole with scarcely credible claims to moral principle. Unsurprisingly, the policies born from this combination of shabbiness of motives and pretence to public spirit are as incoherent as they are socially wasteful. But that does not mean those policies are not privately profitable. Indeed, studies find even the EU ETS increased European generators' profits by some 30 to 50 per cent, as free permit allocations ensured revenues increased by more than costs. Such transfers merely increase the inefficiencies, as profits are dissipated in attempts to secure and protect rents, while those who would bear the costs throw further resources at self-defence.

Only in bad light, and even then only by the weak-sighted, could such policies be confused for meaningful efforts at tackling climate change. That is the sham the commission's spotlight exposes. But none are so blind as those that would not see. Forcing the government to face up to the PC's findings is the task ahead.

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