

Greenhouse tax would galvanise fuel industry

[Food & Environment](#) | [Alan Moran](#)



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Last month a position paper of the coal based electricity generators opposed ratifying the Kyoto greenhouse gas agreement and carbon taxes. Coal accounts for three quarters of electricity generation. In the past, the different carbon content of fuels has divided the power industry: a carbon tax advantages black coal over brown coal, gas over black coal, and uranium and hydro over all of them. Each industry sector framed its policy position to bag its competitor.

This has changed as the reality of Australia's energy trends has become understood. Australia's business-as-usual carbon dioxide emissions by 2010 are forecast to be 43 per cent above the 1990 base. But Kyoto permits only an 8 per cent increase. Already, by 1996 Australia had passed its 2010 target! The enormity of the required reduction has finally persuaded the coal generators that they would be all but doomed by a serious commitment to Kyoto. Realistically, the only way to meet the target is a considerable paring back of fossil fuel consumption.

Some estimates suggest a tax equivalent of \$100 per tonne of carbon is necessary to meet the target. This would double the cost of electricity from brown coal generators and increase the cost of black coal-sourced electricity by 75 per cent (natural gas would increase by less than 30 per cent).

Such measures would virtually wipe out the value of the Victorian brown coal assets (which recent sales transactions valued at over \$12 billion) and would severely reduce the value of black coal. The knock-on effects to energy intensive industries like aluminium and steel would be devastating. A serious application of the Kyoto targets would require radical surgery to our industrial structure. And the additional energy costs would considerably reduce Australian living standards.

The call for emission reductions in Australia has assumed a renewed currency. This is ironic as much of the rest of the world is quietly shelving plans to reduce carbon dioxide emissions. This is inspired by the US where the issue was totally killed by the Senate voting 95-0 against the implementation of Kyoto (a bigger margin than the post-Pearl Harbor declaration of war on Japan). The assault of Kyoto-based measures on US living standards was sufficient to cause a rare solidarity among legislators.

The evidence mounting year by year that no global warming is taking place adds to this. While carbon dioxide emissions probably have a net warming effect, isolating this from general climatic factors is impossible. And the natural climatic variation over the past 100,000 years has been greater than any reputable forecasts attributed to greenhouse. Moreover, twenty years of NASA satellite data, our only reliable measures, have showed a negligible trend---doomsayers glee at an apparently warm 1998 has been diffused by a cooler 1999.

Why then the sudden flurry of activity in Australia? One reason is the Ralph report which potentially leaves a hole in tax collections. To press ahead with tax reform the Government is likely to need the Democrats. And though the Democrats are trying to purge themselves of their fairies-at-the-bottom of the garden image, they remain wedded to the greenhouse myth. Within the Government itself, the pro-greenhouse action Environment Department has assumed a considerable power. Treasury normally opposes distortionary taxes, but its overriding goal is to 'protect the revenue'. Notwithstanding Treasury officials' economics training, this causes them to treat a dollar gathered by the Government as much more valuable than one lost by the economy in general. And Treasury might just think that the \$1 billion plus from a 'token' tax at say \$10 per tonne of carbon (\$37 per tonne of carbon dioxide) would be an acceptable antidote to the Ralph pill.

This combination of the need to cut business taxes and Democrat zealotry, with Treasury acquiescence is a potent brew. Australia's fossil fuel riches and its industry structure has always made it the world's most vulnerable developed economy to the imposition of restraints on fossil fuel use. Australian industry cannot live with greenhouse taxes and a government imposing them would surely face a consumer revolt no less vehement than that which brought the rare Congressional unanimity.

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