

Lack of Global Agreement Offers a Chance to Cut Our Losses

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Most politicians across the world recognise that measures to reduce CO2 emissions impose costs on their economies, whether they employ a carbon tax, cap-and-trade or regulatory approach. Failure at Copenhagen showed politicians recognise such costs exceed the benefits.

Having basked in international approval by ratifying the Kyoto treaty at the Bali meeting, Kevin Rudd faced criticism in Copenhagen. John Bolton, the Bush administration's UN representative, accused him of pursuing an emissions tax in order to micro-manage the economy. Australia was condemned for its inclusion of emission reductions resulting from reduced land clearance and for excluding emissions from bushfires. China and India accused Rudd of being a show pony; and the main developing world negotiator, Lumumba Di-Aping, depicted Australia's approach as "climate change scepticism in action".

In fact, Australia is already implementing expensive carbon mitigation measures: subsidies to high-cost renewables and taxpayer-funded energy conservation subsidies. These programs cost \$2.8 billion a year on top of regulatory requirements for energy efficiency and green feed-in tariffs, which would add at least a further \$1.5 billion. These measures are equivalent to a tax of \$200 a year per person.

The Carbon Pollution Reduction Scheme costs would be additional. Treasury put the costs per head of a CPRS with a 5 per cent reduction in emissions at \$700 by 2020 and \$4300 by 2050. A 25 per cent reduction (and remember, the reduction needed is 80 per cent) was put at \$1200 and \$5700 for the two years respectively. Even these numbers assume a remarkable pace of new technological development and adoption for carbon capture and storage and renewables.

The NSW electricity price regulator said the CPRS would increase the average retail energy bill by 15 per cent, with the energy component increasing by 60 per cent. Even as early as 2012-13 about \$300 a year would be added to the average residential customer's annual bill and more than \$2000 for a typical business.

Some prominent business leaders say passing the CPRS is essential to give business certainty. Yet the bill before parliament cannot give such certainty because it simply gives authority to the government to determine emission levels. Even these levels are subject to disallowance by the Senate.

The price of CO2 emissions is the all-important trigger for new capital spending on low-CO2 emissions projects and for scrapping high-CO2 investments. And under the CPRS, it is parliament that would determine this on a year-by-year basis. The only certainty is where the government guarantees specific projects or provides "free" credits, a process that would turn into an ugly winner-picking exercise.

Established businesses with high emissions have opted to support the CPRS hoping to benefit from free allocations of carbon credits. They see the proposal as offering valuable competitive opportunities for their own activities or as minimising losses they might incur. The losers include small businesses and consumers that don't get a share of the tax spoils, and businesses that are not yet established and never will be if a punitive tax is threatened by Australia. The economy as a whole is the ultimate loser because higher energy prices are a result of the CPRS and any regulatory alternative would have a similar effect.

The ACTU's Sharan Burrow claims there is \$6 trillion in global funds for investment in clean technologies, renewable energy, sustainable design and green buildings. Few governments are convinced such funding is real: if they were, leaders at Copenhagen would have been outbidding each other with new carbon reduction proposals.

The outcome of Copenhagen gives us the opportunity to quietly adopt a wait-and-see policy. The government's rhetoric has already shifted from pursuit of world leadership in emission reduction programs to doing "no more, but no less" than the rest of the world on climate change. The CPRS tax-and-spend program or the alternative of further regulatory measures would inevitably induce cost increases and undermine the economy. Among world nations, Australia is among the most dependent on fossil fuels for its wealth creation. With no global emissions reduction program on the horizon, we have an opportunity to suspend further economically debilitating measures.

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