

Question mark over Stern treatment

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

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This week the British Government published the Stern report on the economics of climate change.

The report re-interprets some scientific measures of global warming and takes a stab at estimating some of the costs and benefits of taking action. It calls for a vast increase in regulations and taxes to reduce greenhouse emissions.

The major focus of the Stern report is energy.

The report calls for a reduction in carbon emissions and makes some optimistic assumptions about new technologies.

Its bottom line is that carbon dioxide emissions from energy need to be reduced by 80 per cent from those that would prevail under business-as-usual.

This is an enormous task. Even the former Communist countries managed a reduction of only 40 per cent when they abandoned their grossly inefficient power stations and embarked on an industrial restructuring that, at least initially, drastically cut their living standards.

One instrument to achieve reductions in carbon dioxide is a form of tax on emissions. The Stern report estimates, somewhat optimistically, that a tax of \$130 per tonne of carbon dioxide is needed.

For brown coal, which provides 95 per cent of Victoria's electricity, a tax of \$130 per tonne of carbon dioxide would increase costs from around \$40 per megawatt-hour to more than \$180 per MWh.

There are those who argue that new technologies will allow "clean coal" to remain competitive. This may be so but the technological breakthroughs necessary for this would be utterly breathtaking.

Energy supply in Australia is cheaper than anywhere else in the world.

Brown coal in Victoria is available for conversion into electricity at \$40 per MWh virtually forever. And the businesses producing it are constantly finding ways of increasing their efficiency levels.

Victoria's low-cost electricity has provided the platform on which much of the state's economy has been built.

The Stern report's tax regime would make wind, presently twice the cost of coal, much cheaper in Victoria. However, wind could never provide more than about 10 per cent of supply because of its instability.

Nuclear power is different. Uranium is relatively abundant and comprises only a small share of nuclear power's costs.

In a carbon-constrained world, we would have to give up most of our air and car travel. But at least the nuclear option offers a means of abundant and reliable electricity supply that will allow existing consumption with only a 30 per cent increase in costs.

However, the advantage Victoria and the rest of Australia possesses is not in nuclear power. Our strength is coal, and abandoning it or raising its costs will mean foregoing a natural asset.

In addition, it would mean Victoria is no longer the place to be for energy-intensive industries. At the very least, this would require a massive change in business structure and a huge amount of industry dislocation.

This would therefore, at a minimum, entail a drastic industrial restructuring.

We should therefore be reasonably certain there is a need for action before adopting the Stern report's recommendations and suffering the consequent vast economic dislocation.

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