Principles trampled underfoot

Energy | Alan Moran
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Many politicians have made vigorous statements about the need for carbon taxes or setting tradeable rights to emit carbon dioxide.

The West Australian government is the latest, foreshadowing a new carbon tax of $25 a tonne. This is below the $134 a tonne the UK Stern report estimated would be necessary.

The Stern report proposals would bring a $30 billion annual tax on Australian electricity production, quadrupling the wholesale cost of electricity. The nuclear option would raise wholesale prices by "only" 50 per cent, though Kevin Rudd has said "absolutely not" to nuclear power stations.

These measures come on top of annual costs approaching $1 billion from existing commonwealth and state schemes. The most important of these are a trio of acronyms: the commonwealth's MRET (mandatory renewable energy target) scheme, NSW's NGAC (NSW greenhouse gas abatement certificate) and Victoria's VRET (Victorian renewable energy target).

Carbon taxes and tradeable emissions have similar effects.

Taxes set a direct carbon price targeted at a desired level of emissions; tradeable rights set a required quantity of emissions, from which a price emerges. Taxes push the impost into the government's coffers by, in essence, expropriating the profits of carbon-intensive energy businesses. Tradeable rights give the revenue to the existing carbon emitters, with each emitter's rights being progressively reduced.

Politicians say they favour these "economic instruments" because price signals are a better means of facilitating reductions in carbon dioxide than the traditional command and control methods.

Those traditional methods provide ad hoc subsidies to certain activities or low-carbon power sources and forbid other activities. They entail a considerable intervention and exercise of judgements by government agencies and are open to political manipulation. So far, so good.

But for a start, no politician is saying we should abandon the mishmash of energy efficiency standards and subsidies to solar, and roll these and other interventions into a tax or tradeable right.

When push comes to shove, no government actually lets these neutral instruments operate. No government allows markets to take the decisions on what industries suffer, what technologies get used or phased out and which income sector loses most.

BlueScope, before proceeding with a $1 billion Port Kembla steel plant, has obtained an indemnification guarantee from the NSW government that it would be exempt from requirements under any carbon tax the state might introduce.

This is in addition to its exemption under the existing NSW carbon trading scheme.

And in Victoria, negotiations for smelter expansions incorporate excluding Alcoa from requirements under the VRET and the MRET.

Both the Victorian government and Labor's then environment spokesman Anthony Albanese agreed to this.

Such market overrides are seen across the world.

In the UK, Chancellor Gordon Brown is wrapping tax increases on air travel in sanctimonious statements about the need to discourage carbon emissions.

The air travel tax, like the UK requirements on wind farms, is over and above the European Commission's policed tradeable rights system.

In Germany, Angela Merkel's government has realised that the European carbon tradeable rights system would mean no new coal power stations. So the German government put forward proposals that new plants with state of the art carbon intensity would be exempt from the need to buy carbon credits.

The EC rejected this, pointing out it would frustrate the intent of the carbon trading scheme and place a greater burden on other emitters.

Among these are existing plants that would face a progressively reducing level of emission rights and would be disadvantaged against new plants in spite of their having been built without knowledge of the program.

So what we are seeing is politicians parading lofty principles about adopting efficient and neutral measures to bring about reductions in greenhouse gas emissions, but intervening in ad hoc ways when the outcome is not to their liking.

This opens the way to all the inefficiencies, lobbying costs and political corruption that the economic instruments are intended to counter.

One outcome is that the big developments dangling huge job numbers and political favours before politicians will prevail in obtaining exemptions. Smaller developments will suffer.

In addition to the direct costs involved, this puts us back on the "winner picking" road that has so badly served us in the past.

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