

Mission Impossible

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Professor Ross Garnaut is looking to the world stabilising emission levels at year 2000 levels "soon after 2020". Following this he sees a need for halving them by 2050 and reducing them to less than a quarter of 2000 levels by 2100.

He also considers that emissions must be based on some level of equality on a per capita basis. Realistically he recognises that there would need to be a phase-in to this and that population trends would need to be taken into consideration.

But, notwithstanding the cheer squad who were able to comment on detail about the report as soon as it was released, Garnaut barely scratches the surface in recognising the enormity of the task. Throw-away lines like "stabilisation at a uniform per capita level" mask economic turmoil.

Australia's emissions per capita are presently 16 tonnes of CO2 equivalent. Largely because much of the OECD has (unlike Australia) outsourced its heavy energy intensive industries, the OECD average is 11.5 tonnes. The world average is 4.5 tonnes. Given population growth, the world average would have to fall to under 4 tonnes by 2030 to get to stabilisation.

In other words, to meet the level that Garnaut sees as necessary, Australia would be emitting less than quarter of its present level of CO2. That degree of self discipline is possible only by accepting returning living standards to similar as those currently experienced in the developing world. Still more difficult would be the 90 per cent reduction that Garnaut speculates as being necessary.

Nobody purposefully emits CO2 (though until a few years ago it was not a concern). The simple fact is that its emission is a by-product of earning income. We know of no other way to enrich ourselves and raise living standards of the poorest countries than to do so using energy and that means carboniferous sources.

As Garnaut acknowledges, easy gains in emission reductions have been made, especially with the dismantling of the command economies of the Soviet bloc and China. Those countries' CO2 intensities have now stopped falling, and in fact are rising. Indeed, China has already surpassed the magic 4 tonnes per capita and has only pulled a fifth of its population out of poverty.

He hints strongly about the necessity of trade pressures on developing countries to reinforce their sense of public spirit. That in itself would destroy the world trading regime and retard all countries' living standards.

Mr Garnaut suggests that Indonesia and PNG could become vast sinks to offset other countries' emission levels. This is a pipe dream. It may allow for a windfall gain for the two economies but there are not enough trees for this to offer anything but a pinprick. Only by foregoing the use of oil, gas and coal is it possible to reduce CO2 emissions. And, though there are minor measures that could reduce emissions, a very high price or regulatory equivalent effect is required to achieve this (or his foreshadowed incentives to buy quotas from PNG and Indonesia). Nuclear could be useful, but Penny Wong was quick to rule this out for Australia.

In any event, emission reductions for Australia are exceedingly difficult. Our economy is built on low cost coal-based energy. Coal is also one of our most important exports. In a masterly understatement, Garnaut says, "Some coal mining and coal-based power-generating firms in Australia would be negatively affected ... and may struggle to operate profitably in a carbon constrained economy". As the Financial Review editorial made clear this morning, the New South Wales Government power stations, under the Garnaut regime, are stranded assets and almost worthless. That would only be a start.

Even if Australia were to restructure its electricity industry so that it became fundamentally nuclear-based (solar can only ever be a trivial and very expensive alternative) we would still be twice the 4 tonnes per capita level. It is barely imaginable to foresee what sort of economy could operate in the 90 per cent reduction scenario that Garnaut points to.

And in moving to that position the corollary must be a vast jump in prices. There is no other way of ensuring the constricted use of the energy. Already in Australia, with what to the environmental lobby is seen as totally inadequate measures at mitigation, prices of electricity are rising. Anticipating the measures foreshadowed the wholesale price of electricity for delivery in the first half of 2011 in Victoria and NSW is 50 per cent above present levels. And we have seen nothing yet.

The residual value of coal-based power stations must sharply decline with any move towards the foreshadowed emission cuts. So also will be the value of other energy assets - the cuts in emissions and consequent price increases must bring very sharp reductions in electricity and other energy consumption levels.

Garnaut is correct that the Kyoto agreement is only the start - and most signatories including Australia have found it impossible to meet their agreed targets without cheating.

In highlighting the fact that cuts of 90 per cent are necessary if we are really serious about stabilising emission levels, then Garnaut is, perhaps inadvertently, drawing attention to the Mission Impossible. Even with a nuclear future, unless some totally unexpected technical breakthrough comes along, the outcome of the measures proposed is a vastly poorer Australia and a much poorer world; the denial of income to those countries needing fossil fuels for growth and those countries rich in them would exacerbate such difficulties by creating intense political tensions.

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