

# Softly, softly

[Economics & Deregulation](#) and [Climate Change](#) | [Alan Moran](#)  
*Quadrant Online* 8th August, 2009



The goal of international agreements being considered on climate change is to stabilise the world's human-caused carbon dioxide emissions. This ambition is barely conceivable. For the main gas, carbon dioxide, it would require emissions to be set at an average global level of about three tonnes per capita. At present, Australia emits 16 tonnes, the United States 20 tonnes and the EU nine tonnes. China, which is only one-third developed, is already at 4.5 tonnes, i.e., 50 per cent above the required level.

Australia, even if it closes down its entire coal industry, including the 85 per cent of electricity that is coal generated, will still not get close to any such target. If we replace coal with gas (adding 50 per cent to the price), it would still leave excessive emissions. Replacement by wind is not feasible, and wind energy is, in any event, three or four times the cost of that generated from coal.

The Rudd government is suggesting that a step in the right direction would be to reduce Australian emission levels by 20%. There are only two feasible means of achieving such a target. The first is to adopt nuclear power generation, at a cost in terms of plant that is similar to a year's national income and would still mean an electricity generation cost premium of over 70 per cent. The second is adopt poverty as our national life style, i.e. to go backwards in terms of present living standards.

If an ETS is to be implemented globally, and it makes no sense otherwise, it would require the elimination of coal as a source of energy, at least until some cheap form of carbon dioxide capture and storage is available. There is no prospect of that on the horizon.

Australia has got about 76 billion tonnes of coal reserves. If we wipe out coal for power generation, then even at a value as little as \$10 a tonne, it is a sacrifice of \$760 billion wealth; compounding that, we would have wealth shedding also from shale oil and gas and various other things.

An Australian ETS would not only stifle current business operations, but would also virtually eliminate new investment in power generation as well as other energy intensive processing. Leakage of important industries overseas would inevitably follow, despite the energy intensive allowances which are in place or intended.

These issues are compounded if Australia continues with its plan to take a very high, proactive position. If we move in advance of other countries we will lose an awful lot of industry, as well as the inherent value of the coal and all the other natural energy wealth that we have. But introducing a carbon dioxide tax will also have deleterious direct affects on electricity producers. Canberra's CPRS proposal leaves Australian generation businesses far more vulnerable than their counterparts in the US and Europe. That's because only 4 per cent of total allowable emissions free to existing electricity generation businesses. The US Waxman-Markey bill provides 35 per cent of total emissions free to generators.

As a coal based power generation economy and with coal and other fossil fuels forming one third of our exports, Australia is perhaps the world's most vulnerable economy to carbon taxes and similar restraints. We therefore need to take particular care to shape a constructive and economically viable policy. One of the key outcomes of the Treasury modelling offers a promising policy approach, which is its implicit estimate that the cost of doing nothing to 2020, and then catching up with the 2050 target thereafter if necessary, would cost only 0.3 per cent of GDP by 2050.

Even if this is not overstated, 0.3 per cent of GDP seems a reasonable insurance policy price to pay

for keeping options open, rather than prematurely embarking on carbon dioxide taxation measures that will comprise, in the white paper's words, 'the most significant structural reform of the economy since the 1980s'.

By 2020, the need for emissions reduction policies will be clearer, and presumably we will have access to all the technological advances that Treasury claim will be forthcoming by that time.

Preparing for action should it be needed, but meanwhile deferring the introduction of a tax that will wreak massive economic damage, could be an ideal solution for Australia to adopt.

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