

## **Noise results from five carbon tax positions**

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A sensible carbon debate has been side-tracked by political point-scoring and lost in self-serving lobbying by sectional interests. Of course the issue is enormously complex. But it's worth restating some simple basics as a reminder of the implications of the various positions.

First, there are the "deniers", who are quite sure that all this is wasteful and unnecessary. Not much can be done to help these people. We should leave them to harangue us from soapboxes, alongside the flat-earth exponents.

Sceptics form the second group. Of course, nothing is certain. Clearly there are differences within the expert scientific community but uncertainty is not an excuse for inaction. Stakes are high because of the risk of catastrophic outcomes. The case for taking out insurance is overwhelming. The debate with this group should be about the nature and extent of the response.

The third group argues irrelevancy: anything done by Australia is too small to matter and therefore we should do nothing and be innocent bystanders. This is a powerful argument. But those who justify inaction on this basis must also argue that we should be a free rider when others act. This doesn't sound like "the Australian way".

This group ought to be arguing when, not if, we join international action. This doesn't just depend on the benefits of an early start and thus a longer adjustment transition. This group should also be arguing for setting a price on carbon now, but with implementation delayed until some specified future date when we join international action. With such a firm commitment, producers will begin the investment adaptation even before a carbon price comes into force.

For those in this group who think that there will never be enough international action to make a difference to climate, this is still no excuse for inaction. They should advocate doing things that will help Australia cope with the consequences of climate change. There is little doubt that this will be much more expensive than amelioration. Which sea dykes should be constructed to protect low areas? How will we handle the immigration pressures? How will we adapt to vastly different international trade? This group cannot just stand mute.

The fourth group, the "subsidisers", accepts that something should be done but favours direct action rather than market solutions. They would address the problem through direct subsidies. For this approach to be credible, this group has to provide detail on: who would be subsidised - brown-coal conversion, wind energy or energy research; how much it would cost; and where the revenue would come from. The intrinsic problem with this strategy is that there will be too many claimants, all with a compelling political case for subsidy. There isn't enough revenue.

In any transition strategy, there may be a legitimate role for temporary subsidies with clear expiry dates. But it's very easy to get it wrong: the home solar electricity initiative costs \$300 for each ton of carbon saved.

And nonsense projects sneak in under the carbon-saving umbrella, such as Australia's subsidy of ethanol production.

The fifth group sees a market-based approach - either a carbon tax or an emissions trading scheme - as most promising. The key objective is to raise the price of carbon-intensive production relative to everything else.

Both producers and consumers will respond to the relative price change. Producers find less carbon-intensive ways of production and energy research is encouraged. Consumers shift to less carbon-intensive expenditure.

Relative price change is the powerful key to transforming the structure of the economy with minimal loss in living standards. Just to keep the story simple, let's think about a simple carbon tax, with all the proceeds redistributed to consumers as cash grants. Who is worse off? Consumers could use their cash to cover most of energy's higher cost. But they can do better still by responding to the relative price change, using less-carbon-intensive energy and less of it.

Of course the carbon tax raises costs for energy producers and demand for their products declines. Their investments in carbon-intensive capital - brown-coal generators and so on - are worth less. Other producers, even outside energy, will find that demand for their product also falls: electric radiators will be an expensive way of staying warm, so demand will fall. Thus, there will be many claims for compensation.

Every dollar used for these subsidies is a dollar that can't be returned to compensate consumers. How do we minimise producer subsidies? As producers are being compensated for the outmoding of machines (generators, for example) which in any case have finite operating lives, the key to minimising compensation is to maximise the length of the transition by starting earlier rather than later. Putting time limits on the subsidies minimises the long-term cost and maximises the incentive to restructure.

There are vexed issues to sort out within this group. Distributing the revenue from a tax or from the sale of pollution permits will foster much self-serving clamour and obfuscation.

A carbon tax levied on production rather than consumption would expose Australia's traded-goods sector to unfair competition from countries that do not have a similar tax. Putting the tax on consumption, catching imports and exempting exports, sounds like the answer, but it would be very complex and doesn't mesh well with international carbon efforts.

There is much detail and complexity still to be debated.

But the argument could be sharpened if each participant began by identifying which basic group they fall into: deniers, sceptics, innocent bystanders, subsidisers or for market-based solutions?

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