

Warwick McKibbin

**Nip greenhouse handouts in the bud**

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Climate change requires sophisticated responses, argues Warwick McKibbin. The rejection by the federal government in late 2003 of market-based mechanisms as a response to climate change was a surprise. The various market-based proposals, particularly the McKibbin-Wilcoxon blueprint (2002), was a way to establish the markets needed by industry to compensate shareholders for any losses on their existing activities, and to reduce and manage the uncertainty regarding climate change and climate policy well into the future.

It was also an opportunity for the government to seize the initiative and introduce sensible and low-cost climate change policies before others could introduce policies less favourable to the Australian economy and the government's traditional constituencies.

Clearly technology will ultimately be the answer to reducing emissions. However, what is very strange is that this idea has generated an unusual rabble of lobbyists, ranging from those with interests in fossil fuel based corporations to small alternative energy suppliers queuing up for government handouts to support "their technological solution".

It has reached the point where the debate in Canberra looks decidedly like the technological approach of the former Soviet Union in its quest to pick winners in technology through central planning.

This is very bad policy. How can a government, and even its most talented bureaucrats, be expected to know what technologies will succeed over the coming decades in addressing climate change? They can't even properly measure the benefits from greenhouse gas abatement, so how can they know how much taxpayers' money should be spent in search of the ultimate technological solution?

The answer brings us back to using market-based solutions as a starting point. The solution to managing climate policy and all the uncertainties surrounding climate change must be in providing market signals and reward inventiveness via the profit motive for the discovery of new technologies. This market-based incentive requires carbon-based technologies to be more reasonably priced, and it requires the creation of markets to stimulate innovation.

We have already seen how difficult it has been for the Australian Greenhouse Office, despite its best efforts, to induce a technological response through cash payments when these payments have depended on the delivery of actual outcomes in emission reductions. The alternative handing out funds for technological development without linking payments to outcomes will generate a never-ending stream of subsidies to industry without necessarily a reduction in emissions.

Industry should be focused on maximising profits, given the incentives set by government, and not on maximising handouts.

Those inward-looking groups within industry, who behind closed doors killed the market-based approaches to climate policy, must be stunned (one would hope) by the approach that has now replaced the more sensible market-based ideas they lobbied to destroy in 2003.

The key to addressing the many uncertainties about climate change will be in creating sensible property rights over carbon emissions and pricing these over a long time while keeping the costs as low as the expected benefits.

This will provide an incentive for innovation and encourage technological solutions to emerge. Handouts to industry and to bureaucrats who spend their

time picking the technologies of the future have no place in Australia.

The train is not off the tracks when it comes to addressing climate change at the national level; it is now hurtling backwards down the track.

Let's hope that the government, with industry's support, starts to appreciate the importance of creating markets to allow industry to better manage risk and, using clear long-term market signals, to stimulate technological solutions to a complex and uncertain problem.

There are sensible low-cost market based policies out there to be implemented at the national level. They should be put back on the table before the system of industry handouts gains any more steam.