

On different planets

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Addressing the Senate earlier this week, South Australian Liberal Senator Mary Jo Fisher did the hokey-pokey and the Rocky Horror Show's Time Warp in a bizarre dance parody of the Federal Government's proposed carbon tax.

"All this Government is doing is dancing a dance, dancing a very merry dance is our Prime Minister at the behest of the Greens," Fisher said. Getting into the theatrical spirit, she turned herself about ("you put the petrol in and you shake the tax about"), jumped to the left, stepped to the right and warned a carbon tax would be "the pelvic thrust that's really going to drive the Australian public insane".

Confused? You probably need to borrow a DVD of The Rocky Horror Show to refresh your memory of the '70s schlock-horror cabaret. Otherwise, you might be puzzled by Fisher's hands-on-hips stance and repeated exhortations to Senate colleagues to "bring your knees in tight".

On the same day in the House of Representatives, Federal Treasurer Wayne Swan quoted modelling figures from a report by green lobby group, The Climate Institute not Treasury modelling to support his argument that a carbon price "is all about jobs for the future".

Shadow treasurer Joe Hockey challenged the institute's figures arguing they were based on a carbon price of \$45 a tonne, not a Treasury assessment that priced carbon at \$26 a tonne. Why wasn't the Government quoting the Treasury figures? A reasonable question, but it wasn't answered.

Minutes later, Opposition Leader Tony Abbott who claims the tax will incite "a people's revolt" moved that the House of Representatives suspend proceedings so Prime Minister Julia Gillard could "honestly address the concerns of everyday Australians" about price impacts of the proposed carbon tax. "This carbon tax is designed to put up prices it is designed to make it too expensive for people to turn on their air-conditioners and too expensive for people to drive their cars," Abbott said.

Gillard responded by accusing the Opposition of running a fear campaign based on "a weather vane act" and demanded Abbott "explain his conversations in the fruit shop". Er, what fruit shop? Wasn't it a Queanbeyan supermarket? And do we need a special footnote in Hansard to explain such a localised, politically insular reference to news-cycle photo stunts?

Yes, the political carbon policy circus is back in town, with an all-star cast of time-warp dancing, name-calling, question-ducking characters. And barely six months after a federal election delivered a loudly reverberating wake-up call to both major parties over procrastination (and political obfuscation) on climate change.

The election result a hung Parliament and an increased vote for the Australian Greens as well as balance of power in the Senate seemed to suggest the country was tired of tribal politics. Meanwhile, the latest emissions data published by Federal Government's National Greenhouse Accounts shows Australia's greenhouse emissions rose 1.2per cent over the 12 months to September 2010, reaching 547million tonnes. Australia's farmers have cut their sector's emissions by almost 3 per cent, but industrial manufacturing emissions increased by 12.5per cent, transport emissions rose by almost 5per cent and fugitive emissions from oil, gas and mining operations increased by 4per cent. According to the report, emissions from electricity declined by 0.9per cent on the previous year, reflecting increases in generation from lower emission technologies "including hydro (16 per cent annual increase in generation) and natural gas (33per cent annual increase in generation), against a 5per cent decline in generation from black coal".

After consulting the Greens and NSW Independents Tony Windsor and Rob Oakeshott, the Gillard Government has published a three-page document outlining a carbon price mechanism "to enable consideration by the community and to demonstrate that progress has been made" by the Federal Multi-Party Climate Change Committee.

"The proposal focuses on the high-level architecture, start date, potential mechanisms to allow flexibility to move to emissions trading, sectoral coverage and international linking arrangements," the document says. But details are scant and commitment is cautiously worded, with plenty of wriggle room. The scheme could start as early as July 1 next year "subject to the ability to negotiate agreement with a majority in both houses of Parliament and pass legislation this year". The fixed price phase for carbon "could be" between three to five years, with the price increasing annually at a predetermined rate. That price "could begin" to drive investment in renewable energy technologies and the carbon price "could cover" all six greenhouse gases listed under the Kyoto Protocol. One of the few certainties is that agriculture emissions will be excluded from the carbon-pricing mechanism.

Deutsche Bank carbon analyst Tim Jordan says that while the announcement of a carbon price is a step in the right direction to boost investor confidence, detail will be critical. Bipartisan support is also crucial.

"This represents progress but there's disagreement in parliament about the level of ambition for the carbon price and that translates into uncertainty," Jordan says. "For any investor looking to take a long view on the carbon price, they need absolute clarity on the rules for the transition."

The chair of the United States Climate Task Force, economist Dr Robert Shapiro, has long-argued a carbon price "would be a powerful nudge to everyone to consume less energy, and a compelling incentive for companies to invest in developing more energy-efficient and

climate friendly fuels and technologies". But he says political leaders should not pretend that a carbon price will not affect gas and electricity prices. "In fact, Congress and the President should advertise that price increases are coming," he says. "Why? So that taxpayers have a good reason to make the changes in their offices and homes that will protect them from the higher gas and electricity prices. In the current economic climate, the urgency of global warming has receded sharply, but the threat only grows more serious with every passing year. To deal with climate change, we have to move our entire economy to low-carbon sources of energy. Tying a carbon fee to lower payroll taxes for workers on a permanent basis can not only take the sting out of what has to be done for the climate, it can also help create thousands of jobs and stimulate more innovation.

"The current approach for climate [policy], cap and trade, is dying in the Senate because its proponents can never guarantee it won't turn into one more playground for the Wall Street traders."

A senior policy adviser to former US vice-president Al Gore and under secretary of commerce in the Clinton administration, Shapiro argues that in contrast to cap-and-trade, a carbon tax is "relatively transparent, making it harder for greenhouse gas-producing interests to finagle sweetheart deals at the climate's expense".

He says a carbon tax addresses the public's resistance to bearing additional costs directly. "In most versions, the revenues are recycled as tax relief for example, through cuts in the payroll tax or lump-sum payments to households. In this way, the strategy can change the relative price of different forms of energy based on their effects on the climate, without making people poorer.

"This refundable feature protects families, especially lower- and middle-income households, as well as the overall economy."

After the shock resignation of Australia's chief scientist Professor Penny Sackett, amid revelations she was not asked to advise the Rudd or Gillard governments on national emissions-reduction targets, there's speculation about who does have the ear of Government. The Canberra Times contacted more than 20 prominent Australian academics and economists who have published peer-reviewed studies on climate science, policy and carbon pricing, to ask if they had been invited to brief federal ministers or departmental advisers. The answer was unanimously in the negative.

Australian National University carbon economist Professor Warwick McKibbin said he was "completely blocked out" from advising the Rudd and Gillard governments on carbon price mechanisms after criticising the Government's \$42billion stimulus package. Despite an international reputation as one of the world's top experts on carbon-pricing mechanisms, McKibbin has not briefed the Federal Government since 2007. But as a senior fellow with Washington, DC, global think-tank The Brookings Institute, he continues to brief White House senior policy staff on carbon pricing, renewable energy alternatives and climate policy. He tells the story of running into a Gillard Government senior minister and high-ranking departmental officials in Washington, who were on their way to a climate policy briefing at the Brookings Institute. They asked where he was going. "Same place," he replied. "What a coincidence, was something happening, a lecture perhaps?"

"I work there," McKibbin replied. The reason he offers that amusing anecdote is to illustrate that the Federal Government "appears to be unaware of the level of expertise available in their own backyard".

In a submission to a current Senate inquiry on carbon-pricing mechanisms, McKibbin says climate change policy should focus on managing risk and dealing with climate and economic uncertainty.

"My view is that a high initial carbon price is more likely going to hurt the economy in the short run," he says. "What matters for renewable energy sources is not the price of carbon today, but the price that people expect over the next 20, 30 or 50 years. What is needed is to set very clear long-term carbon prices for the global and national economy."

The advantage of a cap-and-trade approach is that once the cap is fixed "the environmental outcome will be known". But the disadvantage is "you do not know what the carbon will cost". McKibbin argues "a lot of volatility could result in the short-term carbon market because there is no flexibility in the supply of permits" under a cap-and-trade system.

"On the other hand, the advantage of a carbon tax, or a market with a fixed price is that you know exactly what the carbon price will be, but you do not know what the emissions outcome will be in any year. Volatility in short-term carbon markets is good for financial market participants that thrive on making money out of reducing volatility at a price, but it does little for the environment or the economy."

Climate policy is more like monetary policy than trade policy, he says. Australia needs a climate policy with clear long-term targets for reducing atmospheric carbon concentrations, but not necessarily annual targets for emission reductions. "The almost religious focus on targets and timetables no matter what it costs is the biggest hurdle to overcome in the climate change policy debate."

McKibbin and University of Syracuse economist Professor Peter Wilcoxon have developed a hybrid carbon-pricing mechanism that combines long-term carbon concentration goals, long-term carbon permits that can be traded by households and industry effectively carbon property rights that allow people to manage their own climate risk. He argues that if people and business own long-term rights to carbon, "any Government that tries to tinker with the future of carbon policy is more likely to face the wrath of voters".

Labor Party powerbroker and former Hawke Labor government environment minister Graham Richardson now hosts a weekly political news chat show on Sky television. Earlier this week, one of his guests was Federal Climate Change Minister Greg Combet.

"When you put away all the political bulldust that's going on at the moment, what we announced last week is an emissions trading

scheme," Combet said. "But we've proposed that it start as a period where the price of the permit for pollution is fixed, so that we've got a smooth transition in the economy. And what we have acknowledged is when you have a fixed price like that for a few years, it operates effectively like a carbon tax. But the actual policy is an emissions trading scheme."

In the chat-show banter between "Richo" and Combet, there was no mention of concerns raised by Shapiro and other carbon economists over the past two years about the potential for rorting under an emissions trading system. Emissions trading creates "a trillion dollars or so in new financial instruments the permits that would be traded on financial markets. This spells trouble", Shapiro says.

"Those permits would quickly become the focus of large-scale speculation, because speculators make their money from price changes, and cap-and-trade inherently and inevitably produces high price volatility."

Back on the chat show, Combet tells Richo "the next generation of electricity is going to come from burning of natural gas, we've got abundant resources, let's use it".

"We've got a stack, I mean I can't understand why we haven't been using it earlier," Richo says.

"Because there's no carbon price," Combet replies.

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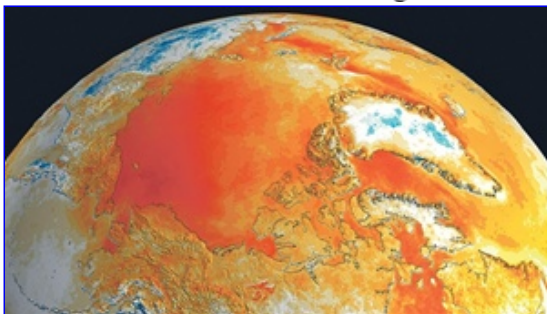


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