

Flawed carbon plan helps big polluters – and lifts the costs for education

Richard Denniss, 20 November 2009

The Carbon Pollution Reduction Scheme (CPRS) is perhaps the most poorly understood piece of legislation to dominate Australia's public debate in modern times.

While there has been a lot of media coverage about whether climate change exists or not, and more about how clever the Rudd Government has been in splitting the Coalition, there has been much less analysis of what the proposed emissions trading scheme actually does and does not do. In the era of the 24 hour news cycle the truth, like nature, seems to abhor a vacuum. In the absence of facts and analysis, nonsense will rapidly fill the void.

There are good reasons to vote against the CPRS.

First reason the CPRS in its current form should be voted down is that while the architects of the scheme rely on the latest science to press the need to tackle climate change, they completely ignore those same scientists when they set timid emission reduction targets of 5% – 25% by 2020. Unless developed countries reduce emissions by about 40% by 2020 then it is unlikely that we will be able to avoid dangerous climate change. Emission reduction targets of 5% will almost certainly lead to the destruction of the Great Barrier Reef.

Second, while the scheme imposes only minor emission reductions on big polluters it provides extraordinary levels of compensation. Big polluters who describe themselves as "emission intensive and trade exposed" will receive up to 95% of the pollution permits they require at no charge.

Amazingly, when the emissions of big polluters increase, as they are forecast to do, the numbers of free permits that taxpayers will give to the big polluters will rise as well.

Third, despite the enormous levels of compensation being offered to the big polluters, there is literally no compensation for the impact of the CPRS on State and Territory budgets. As the direct consequence of the scheme is to increase the price of electricity there is no avoiding the fact that the electricity bills of Australia's hospitals, schools and trains will rise significantly. The State premiers commissioned Access Economics to estimate the financial impact of the Commonwealth scheme on the State budgets; the answer was a figure of \$2.1 billion in 2013 rising to more than \$5 billion by 2020. Unless the States receive compensation, the premiers will simply have to sack teachers and nurses or increase state taxes.

CPRS does not provide state and local governments with the billions of dollars they will need to invest in climate change adaptation. Building sea walls, making train and tram lines resistant to heat waves and expanding our emergency services will impose enormous pressures on state and local governments.

One of the least understood flaws of the CPRS is that the less the Federal Government does to reduce emissions the more the state and local governments will have to spend to cope with it. Giving away tens of billions of dollars to polluters prevents the Federal Government from investing in the climate change adaptation strategies the science says we clearly need.

Finally, the CPRS is designed in such a way that, once passed, the efforts of individuals, communities and even State governments to reduce their "carbon footprint" will do nothing to reduce the overall level of emissions. On the contrary, the more that some

people do to reduce their electricity or petrol consumption the less big polluters will need to reduce their own emissions.

While Minister for Climate Change Penny Wong now admits this flaw exists, she has done nothing to substantially address it.

But what about the reasons to vote for the scheme? Surely we need to begin transforming our economy? Surely we need a price signal to drive investment in renewable energy? Surely it's better to get the scheme in and then try to fix it?

For those who care to look, the Government's own analysis makes clear that none of these reasons to support the scheme stand up to even cursory scrutiny.

The Treasury's own modelling makes it clear that the CPRS will not drive any real transformation of the Australian economy.

The big polluting industries are expected to grow and not a single black or brown coal-fired power station is expected to be closed down. Even the airline industry is expected to grow by 500% between now and 2050.

As for the carbon price driving investment in renewable – if only! Despite all the hype around the commitment to market forces that underpins the CPRS, it is the entirely non-market mechanism of the 20% renewable energy target that is expected to drive what little investment in renewable energy we will see. The carbon price associated with the CPRS will likely to be low, volatile, or both. Either one is sufficient to discourage the private sector from investing their money.

And as for the “step in the right direction” argument, it simply ignores Wong's favourite word: certainty. The polluters believe the CPRS gives them certainty for at least a decade and some of the environment groups seem to think that once the scheme is introduced the government can apply the thumbscrews to the polluters. One of those groups will soon be proved completely wrong!

The CPRS is a cobbled-together compromise. The fact that the Coalition is in disarray over the issue is hardly conclusive evidence that the scheme is well-designed, effective and in the national interest. We are on the brink of spending tens of billions of dollars to compensate some powerful industries for not actually doing much.

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