

On the eve of carbon tax the debate is far from over

Editorial, The Australian, June 30, 2012

AFTER six years of intense debate and political powerplays, Australia will awake tomorrow to a price on carbon.

As Julia Gillard would have it, we are on the brink of a major economic and environmental reform -- here comes the sun. Tony Abbott, on the other hand, says we are about to embark on a retrograde step that will extensively harm our economy for no benefit -- the eve of destruction. The reality is that both the threats and benefits of the carbon tax plan are exaggerated. And in the end, especially if, as many predict, the tax is repealed by an incoming Coalition government, its main contribution to political history might be the damage inflicted on the Prime Minister and her government.

This relates as much to Ms Gillard's specific promise during the 2010 election campaign not to impose a carbon tax as it does to economic impacts. The Prime Minister has struggled with the mandate and trust issues, and tomorrow will simply ensure there are constant reminders -- should voters ever require them. While we understand the policy imperatives Ms Gillard was responding to by pricing carbon, we think her major mistake was to adopt an agenda foisted upon her by the Greens rather than keep faith with the Labor mainstream.

The Weekend Australian has long supported a market-based mechanism to reduce carbon emissions in order to protect against human-induced climate change. After a three year period, under the government's current plan, the tax morphs into carbon trading with a floor price. To this extent it is a defensible policy because only through market mechanisms can we ensure carbon abatement is carried out in the cheapest and most efficient manner. That is why trading schemes are preferable to market interventions such as the Renewable Energy Targets, solar energy rebates and cash-for-clunkers. The critical factor is the cost per tonne of abatement, and some of these schemes can consume hundreds of dollars for each tonne abated, compared with the current cost in the European trading scheme of about \$10 a tonne or the \$23 starting price of Australia's carbon tax. It is on these grounds where the Opposition Leader's direct action plan is also vulnerable. It, too, will lead to higher costs per tonne as government attempts to pick carbon abatement winners.

Still, our overwhelming concern with the carbon tax is the timing. This newspaper has advocated that Australia must time its carbon-pricing initiatives with a sensitive eye to international developments. While there have been some advantages identified for "early movers", these are reliant upon a judgment that others will act. Since the setback of Copenhagen at the end of 2009, there has been negligible international

momentum for action. The low price of the European scheme is testament to its ineffectiveness. The global financial crisis and continued economic uncertainty are weakening the resolve for any widespread action on carbon emissions. (They also, as it happens, will serve to keep emissions growth in check by reducing economic growth.) No international emissions reduction initiative can have any meaningful impact without conscripting the largest emitters -- China and the US -- and the appetite to adopt broad pricing of carbon in those countries is waning. Given we produce less than 1.5 per cent of global emissions, Australia alone cannot have an impact on climate.

For these reasons, it is premature for Australia to act. By pricing carbon here, we will only disadvantage our industries against our trading partners and imported competitors. Unlike the tariff reforms of the 1980s that encouraged competitiveness, the tax will only hurt the domestic economy. We agree that Mr Abbott's barnstorming has overstated the impact -- it is not the eve of destruction -- but it is the imposition of an additional burden at a time when business could do without it.

While the compensation measures have worked to deliver a welcome taxation reform by tripling the tax-free threshold, there is much about the rest of the package that smacks of wealth redistribution. Low- and middle-income earners will be over-compensated but higher-income earners will receive no compensation. Labor should not use an environmental reform to redistribute money by stealth. The myriad agencies underpinning the measure also create concerns about the expansion of costly government bureaucracy and the addition of red tape and regulatory interference in businesses of all sizes. The government will maintain its costly market interventions such as the RET, and add to them with the \$10 billion Clean Energy Finance Corporation. This massive fund aims to pick investment winners but undoubtedly will also waste taxpayers money by picking at least some losers. A properly instituted emissions trading scheme should ensure this sort of market intervention is not required. On top of this, we are seeing assistance packages paid to industries such as steel, aluminium and automotive that are affected by the carbon tax. The government says the subsidies are unrelated but such assistance is always questionable and it begs the question of why the government would impose the additional carbon tax costs on these sectors in the current circumstances. On carbon tax eve, while useful policy work has been done, it is clear we are acting precipitously, and inevitably carbon will remain at the centre of political debate for years to come.