A Lost Opportunity for Leadership

By Iain MacGill and Regina Betz

Rudd's Green Paper on emissions trading doesn't demonstrate the political resolve that will be necessary to design and implement an effective scheme.

Given ever increasing concerns about climate change and this Federal Government's strongly stated commitment to act, the failure of its proposed Carbon Pollution Reduction Scheme (let's call it an emissions trading scheme, or ETS) to progress much beyond the highly flawed proposal of the former government is disappointing. More than just a failure of leadership, it suggests that our current political process is incapable of effectively responding to the challenge of climate change.

At this stage, of course, the Green Paper just presents the Government's stated preferences. Some key information — like initial emission trajectories — won't be provided until later in the year. The complexities of emissions trading mean that the outcomes of particular design choices depend on these other variables.

We have only limited international experience of emissions trading schemes to draw upon — primarily the EU Emissions Trading Scheme which has been operating since 2005. Limited as this experience is, however, it offers a clear lesson: emissions trading is easy to get wrong. In fact, it has not yet been shown that it can be done right. And the key reason? Poor governance.

Herein lies both the challenge and the opportunity for the Rudd Government. Getting a national scheme right should provide a sound basis for domestic action to reduce emissions. It could even provide an example to the international community of what can be achieved with an ETS. A bad scheme, on the other hand, takes us all backwards.

So what does the Green Paper reveal in this regard? The proposals suggest some progress on the flawed plans of the former federal government. On the upside, the Rudd Government is pushing a range of important complementary policies including an expanded renewable energy target, additional research, development and demonstration support, and new energy efficiency measures. It has also put equity concerns for those most vulnerable to the introduction of an ETS — low income households — firmly on the agenda.

However, the Green Paper clearly fails the key governance test for ETS design — it does not demonstrate the political resolve that will be required to design and implement an effective scheme.

The Government's only current stated emissions commitment is to a 60 per cent reduction of 2000 emissions levels by 2050. Unfortunately, this is inconsistent with what the climate science suggests will be required to avoid dangerous warming. We require larger and faster global reductions than this. The emissions target also fails any test of international equity: Australia logs the highest per capita emissions in the world.

Furthermore, the Green Paper emphasises a 'softly softly' approach to the scheme's introduction. This includes indicative calculations in the Green Paper based on $20 per tonne of CO2, — half the current EU permit price — a price cap and special exclusions. The message to industry: "don't worry — you don't have to change yet."

And then there is the issue of compensation. The Government appears to have accepted the general industry demand that they be compensated for the introduction of a national ETS.

Compensation, after all, is generally taken to mean righting a wrong or imposition placed upon some party. Another message: "We don't even have the right to require you to change".

In truth, of course, such claims for compensation generally have little merit. A price on emissions doesn't represent an additional imposition on emitters, rather, it entails the removal of a public subsidy that they have been knowingly receiving for well over a decade. As Garnaut and others have noted, such "compensation" represents a wealth transfer to certain privileged...
“stakeholders” from the rest of us. In practice, compensation risks even more than this. For one, it puts the focus of industry players on maximising compensation rather than finding new and cheaper ways to reduce their emissions — victim mentality writ corporate.

Furthermore, the argument that introducing an ETS without compensation will adversely impact investor confidence in good governance has things entirely the wrong way around. Many investors over the last decade have made the judgment that climate change is a problem, and have seen “polluter pays” policies coming. Presumably, some other investors have judged that there wasn’t a problem or, worse, that governments would inevitably yield to corporate pressure. Paying such compensation therefore rewards precisely the wrong group of investors — those taking a bet against good governance.

Unfortunately the Green Paper proposes significant and highly distorted compensation to so-called Emissions Intensive Trade-Exposed industries with free permits, and even direct compensation to electricity generators.

People will draw their own conclusions from this. When corporate players see others being rewarded for claiming victim status, they are pretty much obliged to attempt likewise. After all, when governance is weak, if you’re not at the table in Canberra, you’re probably on the menu. And the public? If governments can’t stand up to unreasonable demands for compensation then they have every reason to question its ability to effectively respond to the climate change challenge. In which case — why bother?

In the end, an ETS will succeed or fail depending on how it changes the decisions and behaviour of all of us — the public, industry and governments — towards reducing emissions. That will require wide social consensus and that, in turn, will critically depend on whether we believe our governments are ready, willing and able to take the challenging decisions required. The risk with emissions trading is that it allows weak governance to parade as serious progress...for a while anyway. However, there is no escaping the physics — our climate system responds to physical greenhouse emissions, not rhetoric or sham policies. And the climate science suggests that avoiding dangerous global warming requires immediate action. Perhaps the Government has an iron resolve hidden somewhere beneath the timid scheme design being proposed in the Green Paper. Perhaps it is the best that can be achieved at present given challenging economic times. We shall see in time. Unfortunately time is just what we don’t have. And, therefore, the Government’s failure to demonstrate leadership at this critical moment for the scheme’s development doesn’t just threaten progress on climate policy; it risks taking us backwards.

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Jonah Bones 21/07/08 3:12PM

the question a LABOR government has to ask itself is why a large corporate citizen is deemed to hold privileges and protections not afforded other citizens?

Dr Dog 21/07/08 4:37PM

I guess the governemnt’s answer is that corporate citizens employ a lot more Australians. I don’t buy that though given that the protection seems to be for maintenance of profit rather than survival of the companies. Plus who ever said that there could be entrepreneurial activity without risk. If companies can’t respond to the changing circumstances then surely even under their own capitalist rules they should not survive. As usual the workers will be asked to carry the major burden.

It is especially upsetting because the government has been given a mandate at the very recent election to deal with this matter in a firm and uncompromising way. If only they could govern the way they spoke before the election.

Jonah Bones 21/07/08 4:55PM

That tends to be the way I see, that rules are made to enforce a reasonable standard for my behaviour as a resident/citizen of this country. Legally a company is incorporated to be a resident/citizen of this country, so if a corporations profit seeking motivation does not result in behaviour that is acceptable to society, it should be forcibly modified.

We seem to be elevating corporations to the position once held by deities, pity they are not benevolent.

Workers create the wealth of a nation, never corporations.

Dr Dog you a kelpie or a labrador in persuasion?
Ian and Regina, thanks for your timely contribution to the debate. It's a depressing analysis, but one that nearly every other expert in Australia seems to share with you.

Meanwhile, the climate skeptics at The Australian seem determined to keep their head firmly implanted in the sand.

Ahhh Dog,

What are the "rules" of capitalism again? I must have missed that section when I read Capital. If only I had read more closely. I would have realized that there are "rules" that govern the capitalist mentality.

Hey wait a minute... if there are rules to capitalism, then maybe... just maybe... we could design a system of social institutions based on those rules. This would allow us to harness the transformative "power" of capitalism to get us out of this climate mess. And, you see, it would have to work because it would be based on the "rules".

Brilliant. Problem solved. Next...

It's all so simple when you have "rules".

Then again, we all have to grow up sometime.

douglas jones

I agree fully, now that must be worth something!

If we look at what has past we find that if in broad terms we split the producers of the problem into three, housing, industry and transport we find the following.

Housing from as early as 1973 the idea that we needed to use energy more efficiently was voiced and indeed following the oil shock of 1970's energy efficiency rose considerably, that is energy per unit of GDP fell. Naturally it rose again once the temporary shortage was eased, a story in itself indicating the power of the bully. In the eighties work indicated that housing could become energy efficient and not much later that housing could in fact contribute to energy needs without producing CO2-e.

This was used mainly by the states but as the recent comment on energy efficiency, the world and us, we appear as laggards. Even the frequent calls from Prof. Lowe to at least install solar hot water systems fell largely on deaf ears in fact much of this industry is now overseas.

That is roughly one third of the problem was ignored. Well done after all their was bigger profit in profligate energy use from polluting sources!

Industry the story is similar to housing though the technology and energy use pattern was not thought to be as effective as that for housing but it was there often with profit as often with a short pay back period and sometimes costly. Again the recent comment would indicate ignored!

At sport we shine at least in our own eyes for the rest parochialism prevails or profit at least, damn social input satisfied when the billions are made with an endowment, greatly spun.

Transport here calls for better urban design directed toward reducing energy needs have long been voiced. Major highways proliferate, suburbia sprays, the engineers solution. In the early eighties work started on new methods of powering transport and lowering the energy needs. Hydrogen was suggested and plans available to all produced in the 90's for hydrogen powered cars. Naturally the propaganda presumably originating from the same camp as that which for so long dismissed the science of climate change and its causes. Again propaganda prevailed. We do now have the possibility of such a car though using carbon fibre to make the body has for the present been ignored.

So in brief we must rate Rudd's performance as equal to that of the opposition who with great fanfare released the, elsewhere, long used superior light bulb.

Naturally the public happily living their own lives without the input needed for a democratic society to function efficiently read the misleading media who's need for profit ensured they trod the industry line, short term profit and forget tomorrow.

Dr Dog

Very arch Bob, but it seems to me there are a number of priciples or rules that characterise capitalism. One of the chief among these from my perspective is that of supply and demand. This both allows for profits where possible and for losses when
the demand is reduced for a given service or item. In their whinging about carbon costs companies are trying to avoid the down side of this basic principle.

In regard to the current pandering to commercial profits rather than scientific fact or global need I would contend that the government is complicit in socialising the costs and privatising the profit.

We have been trying to harness the ‘rules’ of capitalism to our detriment for some time in this country. Aren’t the inherent structures of capitalism the rationale for privatisation of government services. This supposition that capitalism is more efficient is shown to be a lie when we need to make great changes like those required by global warming. They simply cannot respond adequately because of their responsibilities to shareholders rather than the nation or planet as a whole.

Rules or if you like tenets of capitalism exist, Bob, but they are working against the sort of change we need. They hold little transformative power for this particular problem.

As an aside I don’t know where you get the gumption to pretend that you are more of a grown up because you support the failing status quo. If being grown up means becoming a snide apologist for bad decision making change then you can have it.

Jonah Bones I hope it is clear that I am proudly mongrel.

pmoneill 22/07/08 1:00PM

Rather than tell you my reservations about an emission trading scheme (ETS), let me suggest an alternative. A warning, though, it’s in early draft form. I wrote it on the back of an envelope while sitting in a traffic jam. I’ve called my plan the TRB scheme: Tax, Regulate, Build. The TRB has attractions, I think. One is that the TRB doesn’t have a blind faith in ‘the market’ like the ETS does. Second, it addresses the need for public infrastructure. An ETS doesn’t. Third, it can start straight away, be added to, be refined. It’s flexible. Fourth, it contains things that, to me, are desirable even without the need to address global warming.

My TRB scheme has eleven points. Some are easy, low hanging fruit, as they say.

1. Introduce a carbon tax instead of a permit scheme. Make the carbon polluter pay each time the product is made. Tax carbon imports. Use all the revenues to fund the public works program. Make the total annual carbon tax collection equal to the cost of the public works program. Show the public where the money’s going.
2. Build public transport, lots of it.
3. Concentrate all new employment in regional centres to make it easy for people to use public transport to get to work.
4. Regulate to make all new cars and trucks meet low emissions targets. Tax the old ones off the road.
5. Build efficient freight rail systems and demand the freight companies use them.
6. Regulate to make all buildings, residential and commercial, new and old, comply with 6-star energy ratings.
7. Regulate to make all products infinitely recyclable. Tax waste out of existence.
8. Build motorways and arterial roads that do their job.
9. Substantially reduce greenhouse gas emissions from our farms.
10. Shift rapidly out of coal-powered electricity generation.

My number 11 could well be the most important of all.

11. Export our excellent new technologies and best practices to third world nations to show how they too can achieve a high standard of living without cooking the planet.

Phillip O’Neill
poneill@uws.edu.au

denise 22/07/08 3:50PM

I agree with all of the points made by O’Neill above and one suggestion for No9. to help reduce emissions from farms, is to reduce the amount of meat we are eating. To stop all advertising of meat products might be a good start.

Raise the tax on 6 cylinder vehicles and reduce it on four cylinder vehicles, this would help keep petrol consumption down and hence reduce emissions. Most people and families don’t need anything bigger than a four cylinder vehicle. Build a government car that runs on natural gas.

Encourage far more solar hot water conversions (especially in Queensland) and any other forms of naturally generated domestic power system (like windpower) by offering generous rebates, with the excess ‘clean power’ going back into the grid.

And as for no.10 a rapid shift away from coal–powered electricity is unlikely unless we can build a lot more artificial hydro–electric plants that can recycle water flows
through a series of gravity fed drops to generate power.

**Bob Karmin 22/07/08 3:53PM**

I'm sorry Dog, but once again, you are not being clear. What is the "rule" of supply and demand exactly?

Is that supply equals demand? Or is it that supply and demand exist?

I'll let you get back to me on that one.

The premise of my position is firstly that it is capitalist logic underpins the emissions trading system. Secondly that this logic is deeply flawed, precisely because there is no "rule" that governs supply and demand. Companies simply do whatever they can to extract surplus profits, however they can. And thirdly, that because this logic is flawed, constructing a policy around it will do nothing to solve what, for all intents and purposes is the very real problem of anthropogenic global warming.

I fail to see how holding such a position I can be construed as a "snide apologist for bad decision making." Nor for that matter can I see how this puts me in the position of supporting "the failing status quo."

I must however confess to getting my kicks from pointing out the child-like grasp of basic logic that many advocates of emissions trading (such the esteemed Mr Eltham and yourself) seem to display every time you attempt to justify why the elites are allowed to put the boot into the working class, yet again.

**DrGideonPolya 22/07/08 4:36PM**

Excellent assessment of the failure of the Rudd Green Paper.

Australia is the World’s biggest coal exporter and the Developed World’s biggest per capita carbon dioxide (CO2) polluter (5 times worse than China or the World and 40 times worse than India).

The Australian Federal Government Carbon Pollution Reduction Scheme as set out in its 2008 Green Paper is fatally flawed and if adopted globally would be a death sentence for the planet’s biosphere. The Carbon Pollution Reduction Scheme:

(a) ignores world-leading scientific advice from NASA’s Goddard Institute for Space Studies (GISS) scientists on the urgent need to stop greenhouse gas pollution and indeed to reduce atmospheric CO2 from the currently dangerous 387 ppm (parts per million) to a safe level of no more than 350 ppm;

(b) ignores two thirds of Australia-responsible greenhouse gas emission sources, notably coal exports (43% of the total Domestic plus Exported emissions), agriculture (9%), forestry and land use (4%) and (effectively) transport (8%);

(c) ignores the reality that about 5,000 Australians die each year from the pollutants from coal burning–based power generation (5,000 persons x the EU-estimated $5 million value per person = $25 billion);

(d) adopts a "cap and trade" Emissions Trading Scheme with an atmospheric CO2 concentration "cap" above 450 ppm (450–500 ppm will kill the world’s coral reefs, including Australia’s Great Barrier Reef, that are dying already at 387 ppm and economically worth $375 billion annually; vital ocean algae and the Greenland ice sheet go above 500 ppm with catastrophic Australian and global consequences from temperature and sea level rises);

(e) hands nearly all of the collected pollution licence fees back to polluters, “dirty energy” users and the poor – rather than using it to urgently construct clean energy power stations using current technologies that can already provide power at a cost LOWER than the “true cost” of coal-based electricity (taking environmental and human costs into account) which is estimated to be 4–5 times the “market cost”;

(f) will actually INCREASE Australia’s total Domestic and Exported CO2 emissions by 67% by 2020 and by 96% by 2050 (according to US Energy Information Administration data and stated Australian Government policies).

In contrast, Nobel Laureate Al Gore has realistically called for 100% renewable energy for the US within 10 years.

For a very detailed, documented, scientific critique of the Australian Government Green Paper c/- Melbourne’s Yarra Valley Climate Action Group see: http://sites.google.com/site/yarravalleyclimateactiongroup/australian-ca… .

Peace is the only way but Silence kills and Silence is complicity.
Dr Dog 22/07/08 5:10PM

Much more interesting Bob. When I, admittedly some time ago, did economics it was referred to as the law of supply and demand. It speaks to the relationship between supply and demand. You seem well informed in this regard so let's move on.

In this case as I understand it the government is trying to reduce supply by making production more expensive, thus reducing emissions resulting from said production. I will acknowledge that reduced supply and demand in this case is being forced on both consumer and producer.

I am not the great supporter of emissions trading that you think I am. I don’t know if it will work, and must agree that trying to employ capitalism to reduce the effects of capitalism is deeply flawed. I myself would prefer that government take a far more regulatory role than that in reducing emissions.

An emissions trading scheme being the fact though, I see no reason why companies should have a free kick and continue to reap profits while consumers make sacrifices. I don’t understand how you can support the vast concessions made by the Federal Government in recent days to these companies. This is the bad decision making I am referring to. That is why I called you an apologist. I called you snide because that is the tone of your post.

If you don’t support the status quo, what is your position on carbon regulation? Do you support a carbon tax like P. Oneill and Denise?

Bob Karmin 22/07/08 10:18PM

Dog,

Please indulge me in a moment of zen

The flow of desire that is unleashed by capitalism must be taken seriously. If it is to be constrained this can only be a temporary measure. Even the sturdiest dam, if it is to remain intact, must be able to channel the overflow. Levying carbon taxes (because the act like an barrier to ceaseless flow capitalist activity) can only have short term impact.

But don’t think against the capitalist mentality – think with it. That is to say don’t think ‘constraint,’ think ‘flow’. Channel your inner Keynes. Don’t think ‘from savings to investment’, think ‘from investment to savings’. Think of exhausting the flow of the river.

A long term view would would ideally map out somewhere for flow to go. The exact opposite of what the ‘hands off’ (God forbid we should pick a winner) approach endorsed by Garnaut and his cronies. It would present a series of tangible incentives for investment in renewable energy, sustainable farming and transport. Such policy mechanisms already exist in the energy sector. The Feed in tariffs policy has been a remarkable success in creating a green energy revolution in Germany and Spain (even in spite of the misdirection of investment caused by the EU ETS). The policy has also created a powerful counter–veiling force to established global energy interests in the form of a series of cashed up renewable energy multinationals.

So to answer your question on regulation, it has my qualified support. If it is focused on guiding and exhausting capitalist desire through directed investment then great. If its focus is on constraint – taxes etc. – then only for the short term. However caps on phantom emissions, deserve to remain where they make the most sense – in the imagination.

denise 23/07/08 9:48AM

If the CO2 and other greenhouse gas emissions are already dangerously high and threatening the Great Barrier Reef and Australians are the highest per capita emitters, then government intervention through regulations seems the most natural and certainly the safest way to ensure that all greenhouse emissions are accounted for and taxed for the damage they are causing to the environment. Perhaps it’s an environment tax that we should be contemplating to clean up all industries and make them not just sustainable but environmentally friendly as well. A rating system grading each industry on its waste and pollutants produced would be a good start. The more recycled material, natural energy and less greenhouse emissions produced in the production process, the higher the rating and the less ‘pollutant tax’ the business would pay.

Jonah Bones 23/07/08 10:53AM
Denise – a few points
Some six cylinder engines use less fuel than 4 cylinder ones, need to be tax on
actual consumption not capacity. There are also excellent alternatives that are little
used like diesel gas conversions.
Need to promote the best solar hot water, evacuated glass tube and particular heat
pumps for colder climates, flat panels with electric boosters are old technology.
Conversion of existing power stations to solar thermal is practical if the political will
exists see:
http://www.shpegs.org
Solar photovoltaic grid connect is not good technology, a very small output from a
huge input of energy, similar story with hybrid cars.
This is an important area where the government could provide leadership in sorting
through the available technologies and avoiding the many dead ends.

GraemeF 23/07/08 4:26PM
Cutting back on rebates for solar and throwing millions at coal to develop 'clean'.
Not a good start. Big business has both sides of parliament in their pockets and
nothing will change.
I would suggest that any business that closes because of carbon trading so they can
go off shore should have their asset confiscated and nationalised. Capital shouldn't
have more escape (read blackmail) clauses than labour. If people can't flit around the
world as they please then the same should go for companies. Also a limit of 2
companies per person so we don't get all these 'complicated webs' that make it
impossible to track down the true owner of an asset. All funds transferred to tax
havens should be taxed at 45% and claimed back if legitimate.
I noticed that adjustments for lower income households were to be through 'tax or
family payments'. Looks like singles get screwed again.

Dr Dog 23/07/08 5:11PM
I like the idea Graeme, although I don't think Rudd Labor will go for it. I would be
most satisfied if global warming paces back global economy, as it gets less and less
possible to ship food etc. around the globe. If treated right it may even rebuild our
manufacturing capacity, which is sorely depleted. Think global act local, it still works
as a concept.

denise 24/07/08 11:47AM
I agree Graeme, big business is the obstacle to developing technologies that may in
fact end up being a large number of much smaller businesses providing the domestic
and industrial energy supplies required by the nation.
As far as I know it is the states who are required to provide guarantees for providing
the electricity (and other utilities) supply.
And the improved technologies of solar voltaic Jonah, mean that while it may take
some of the saved 'dirty energy' to produce the pv tiles, they soon (after less than
two years) they make up for it.
This is about people investing in the security of a power supply that is going to
become increasingly more expensive to buy from the mainline grid. A power supply
they can garner from a natural source (the sun) and use without emitting greenhouse
gases. Anyone looking for security and peace of mind would be looking into the
future and seeing the advantage of a reliable cheap source of energy, if only to help
with the hot water bills. Savings of up to 20% in power bills are the average for just
installing a solar hot water system.
Just as more people are installing water tanks to capture nature's gift, more people
will be installing solar hot water (and some more extensive solar power systems)
regardless of the rebate as the cost of 'dirty energy' is about to soar.

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