

Australia would lose most in emissions trade pact

July 04, 2008

AUSTRALIA would be the world's biggest loser if it signed up to international trading of carbon permits under a Kyoto-based system of targets and timetables, according to new economic modelling released yesterday.

Research by Australian National University economist Warwick McKibbin pre-empts draft advice to the Rudd Government expected to favour international trade in permits as a crucial tool to help manage the impact of reducing greenhouse emissions.

Ross Garnaut has been a strong advocate for Australia opening up its proposed emissions trading scheme to other countries so it can access cheaper permits from developing countries such as Indonesia and Papua New Guinea.

However, the new modelling by Professor McKibbin, a Reserve Bank board director, predicts Australia would suffer significantly greater economic losses than other countries under this approach because of the detrimental impact on carbon-intense exports.

The research claims the losses would come from actions taken by Australia's big trading partners, who would cut imports, irrespective of the domestic price of greenhouse permits.

Professor McKibbin said the European emissions trading model was still under review, had not taken off globally and linking to it meant Australia would just import the highest carbon prices in the world.

"We end up with much bigger losses from the effects of other people's policies on our exports than the losses from putting a carbon price on our domestic economy," Professor McKibbin told The Australian. "A global system of arbitrary caps could force some of these economies to contract significantly, and that will hurt our economy, for no gain.

"If the world went to cap and trade, I think Australia would be much worse off than if we had each country running a national system with a common price."

Professor McKibbin has proposed an alternative model based on the global system of currencies where economies established their own emissions trading scheme but were linked through a carbon tax.

He questioned the integrity of low-cost permits imported from developing countries with questionable monitoring and enforcement regimes.

Meanwhile, the Business Council of Australia has backed the inclusion of petrol in a national emissions trading scheme and called on state governments to remove retail price controls on power bills ahead of the start of trading by 2010.

Speaking to a business lunch in Sydney yesterday, BCA president Greg Gailey said the Rudd Government needed to be prepared to take politically unpopular decisions such as increasing petrol by up to 10c a litre to deliver an effective climate change strategy.

"Raising the price of energy, including petrol, is not going to be politically popular, as has been made clear in recent months," he said.

"But raising the price of energy and those goods and services which use a lot of it is what has to be done if we are going to achieve a lasting reduction in emissions."

Mr Gailey also flagged the importance of creating the right signals for business to invest to deliver sustained emissions reductions.

Source: Matthew Warren



HEALY CONSULTANTS