

Senator the Hon. Penny Wong
Minister for Climate Change and Water
Parliament House
Canberra

Wednesday, 12 August 2009

Dear Senator Wong,

The Emissions Trading Scheme

The Institute of Public Affairs has been researching the economic impact of climate change policies since the early 1990s. The Institute of Public Affairs has a research track record in the climate change field of two decades.

As you decide on Australia's climate change policies you should consider the following results of Institute of Public Affairs climate change research:

- The Commonwealth Government's proposed Carbon Pollution Reduction Scheme and its companion proposals that require 20 per cent of electricity to be derived from eligible renewable sources will have a direct impact cost of at least \$15 billion per year. This figure, which does not include the inevitably substantial indirect costs, will escalate considerably as the government attempts to achieve its carbon emissions reduction targets.
- Australia has more to lose from forced reduction in carbon dioxide emissions than any other developed country. Our CO₂ emissions are 16 tonnes per capita annually. (US per capita emissions are 20 tonnes, Europe's and Japan's are approximately 10 tonnes per capita annually.) Australia's relatively high per capita emission level is a result of our industry structure and the availability of cheap coal. Coal has a high rate of CO₂ emissions per unit of energy. In order to meet the proposed carbon reduction targets, all countries' carbon dioxide emissions will need to fall to 3 tonnes per capita annually by 2050.

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- A reduction of this size for Australia is inconceivable unless nuclear energy replaces coal as a power source and even then, according to Institute of Public Affairs calculations, the cost of electricity would at least double.
 - Gas cannot fulfil Australia's energy need while achieving the government's targets, because the CO₂ emissions of gas are also considerable.
 - 'Renewable energy' is expensive and unable to offer supply stability. For example, Spanish experience suggests for every subsidised renewable energy job created 2.2 jobs are displaced in other sectors.
- A reduction in emissions of the dimensions suggested by the Commonwealth Government (60% reduction by 2050 from 2000 levels) would mean the end of coal and eventually gas production in Australia. This would involve a sacrifice of Australian wealth of at least \$760 billion in black coal alone.
- In addition, the proposed Australian scheme would disadvantage Australian electricity generators compared to those in Europe and the United States because of the lesser compensation proposed to be provided to Australian electricity generators by the Commonwealth Government.
- Institute of Public Affairs analysis of the Department of Treasury's economic modelling indicates that to defer action until 2020 (but then accelerate abatement measures, should this be necessary) would involve negligible additional costs. Delaying in this manner would mean a cost to the Australian economy in 2050 of 5.3% of GDP per annum, compared to a cost in 2050 of 5.0% of GDP per annum for acting immediately. Should emissions trading be found to be unnecessary, or international agreement fail to be forthcoming, such a deferral would save the Australian economy billions of dollars in avoided disruption.

The Institute of Public Affairs believes climate change policies should be based on evidence and research. Institute of Public Affairs research is all public and available at www.ipa.org.au.

If you would like to discuss any Institute of Public Affairs research on climate change policies please don't hesitate to contact Dr Alan Moran of the IPA on 03 9600 4744 or 0411 511 145.



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