

We're already hurting from climate change policies

Alan Moran

Harnessing the UK Kyoto Treaty negotiating team, Sir Nicholas Stern has lent his name to a report that out-trumps all others in signposting the route to Armageddon. Unrestrained by the already slender threads of their fellow members of the international greenhouse negotiating fraternity, the Stern Report team managed to raise the ante on the costs of not restraining emissions at the same time as it understated the costs of acting.

The fundamental conclusion of the Stern report is an estimate that the damage from global warming, if left unchecked, would be 20 per cent of world GDP. These costs are far more severe than those in the IPCC report itself. And the outlays for the abatement action that Stern proposes amount to a mere one per cent of world GDP.

How did he come to this rosy scenario? He did so by taking all the 'worst case' detrimental effects and the 'best case' cost measures to arrive at his estimates. He assumed a great deal of emission reduction would be done by 'education'. Heroic and highly unlikely assumptions were made about the pace at which renewable forms of energy would improve their efficiency levels.

Another major determinant of the low costs in the Stern Report is the valuation of time that he uses. In contrast to any commercial discount rate—anywhere from 7 per cent to 15 per cent—

Stern used a rate of under 1.5 per cent. This means that future costs are far greater than in conventional analyses.

Even though it is over 700 pages long, the Stern Report itself was highly selective in its evidence. It did not mention the House of Lords' very distinguished Economic Affairs Committee report published in July 2005, a committee that included several senior businessmen and scientists and was headed by a well regarded secretariat. That committee arrived at far less alarmist conclusions. It expressed concern that 'UK energy and climate policy appears to be based on dubious assumptions about the roles of renewable energy and energy efficiency'. In fact, it is surely no coincidence that Stern was appointed by Chancellor Gordon Brown not long before that House of Lords Report was due to be handed down.

There was no sensitivity analysis in the report, in spite of its length, and there was no consideration of the nuclear option in the Executive Summary.

One matter of neglect in the Australian debate on climate change is that no government agency has undertaken—or at least published—the aggregate costs of the measures presently in place. The Department of the Environment has had a crack at amassing all the Commonwealth data, but this is not complete and, of course, does not include the separate state schemes and the regulatory taxes. And although we have pieces commissioned by governments from CSIRO and others into the outcomes of global warming for the

stone fruit industry, Alpine ski industry and other sectors, there is no estimate of the aggregate benefits of taking these measures and hence of the limits of such expenditures.

This might, in part, be due to the fact that the promoters of these policies have little interest in economics or in the costs that their favoured approaches impose on the community. But government central agencies are seriously remiss in failing to require such analysis. It would be inconceivable that they would overlook evaluating the price of a scheme that said 'No child shall live in poverty' or 'All children will receive education up to Year 12', or even 'We shall purchase four new frigates'.

Kevin Rudd assembled the National Climate Change Summit to 'bring together business leaders, scientific experts, and environmentalists with community and political leaders to share ideas about addressing the threat of climate change'. The summit told us about how we will save the world, spawn vast new productive industries and save money by using less electricity. All we need to do is follow the examples of such luminaries as Al Gore and Bob Brown—and stop air travel, move into small homes and wear woolly jumpers!

Before policy-makers jump aboard the next giant plan, they ought to examine their own budgets to count the cost of the last ones.

Such costs fall under three categories: obligations imposed on consumers to take a given amount of renewables or low carbon-emitting energy; subsidies

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Market 'mechanisms' offer a means by which politicians can place yet another level of taxes or regulations upon us and to garner more revenue.



by governments to the CSIRO, for carbon dioxide reductions and so on; and the regulatory impositions on consumers and businesses designed to direct purchases away from the avenues they would otherwise prefer.

Obligations imposed on consumers are found in four pieces of legislation:

- The Commonwealth's Mandatory Renewable Energy Target (MRET) requires an increasing amount of electricity sales to be purchased in the form of sources that are designated as eligible renewables. By 2010, 9,500 GWh (around 4.5 per cent of supply) must be so sourced, with a fall-back cost of \$380 million from the \$40 per MWh penalty.
- The Queensland 13 per cent gas requirement applies to a load of about 40 million GWh by 2010 (9 million is exempt and load losses are assumed at 8 per cent). The penalty for shortfall is \$15 per GWh (not tax deductible) indexed at the CPI. By 2010, the scheme is estimated to cost \$97 million.
- The Victorian scheme requires 10 per cent renewables or 3,672 GWh per annum when it hits maturity (around 2015). The penalty rate is \$43 indexed with the CPI. If it were assumed to be mature in 2010, the penalty rate at, say, \$47 per MWh, means a cost of \$184 million.
- The NSW scheme is actually targeted at greenhouse emission levels rather than using essentially wind power (as in the Commonwealth and Victorian schemes) or gas (in

the Queensland scheme). Based on published material, by 2011, NSW retailers are required to buy credits to offset 13,600 tonnes of CO₂ (over and above MRET obligations) with a penalty of \$13.36 per tonne. This is a cost of \$182 million (and will continue to rise indefinitely).

The cost of these four schemes comes to \$843 million. Currently, MRET emission credits are selling at a 25 per cent discount to the penalty rate. If other schemes are similar, this reduces the costs to \$600 million.

Direct government expenditures

and subsidies make up the second component of costs. These cover diverse issues such as staffing of the Environment Department (DEH), the Greenhouse Office and the CSIRO. Many programmes were started as part of the Club of Rome-inspired hysteria about us running out of all manner of resources, including energy. After a quarter of a century of remission, such notions are back with us in the form of fears about 'peak oil', but in the interim were converted, without missing a beat, into greenhouse mitigation measures.

And every time one blinks, another scheme is rolled out—to placate the concerns anticipated by the Stern visit, Mr Turnbull announced a \$200 million scheme in April to mitigate greenhouse gas emissions by saving Indonesia's forests. This formed part of new spending in this year's Budget, as did the \$8,000 subsidy for solar panels, costing \$150 million a year for a very expensive electricity supply. Commonwealth annual spending specifically earmarked for greenhouse mitigation is estimated at \$500 million, up from \$184 million last year.

Other expenditures include countless measures such as Green Buildings, Greenhouse Gas Accounting, and the Cooperative Research Centre, the opaque programme documentation of which did not prevent the commissioning of a puff piece to conjure up figures that purport to demonstrate a mighty contribution to the national income. In total, Commonwealth spending would certainly exceed \$650 million per annum.

In addition, most of the states are convinced that, with an active industry policy favouring renewables, we will capture a considerable share of the coming booming world market for such facilities as well as doing our bit to save the world. State governments prefer to spend real money on measures that get them elected rather than to subsidise businesses. But they also recognise a need to feed their green-tinged supporters with grants and consultancies—so there is money thrown that way too.

- NSW claims to be spending \$40 million a year in a five-year programme.
- Queensland has set aside \$300 million from the sale of its electricity retailers to be spent over an unspecified time frame.
- Victoria says that it is spending \$106 million over five years.
- The other states are probably spending less than a few million a year.

If none of the claimed state expenditure is money reallocated from the Commonwealth, it may add up to a further \$90 million a year.