

Monday, August 15, 2011.

Mr Shon Fletcher,
Committee Secretary
Senate Inquiry into Carbon Tax Pricing Mechanisms

Dear Mr Fletcher,

Thank you for your invitation to make a submission to the Senate Inquiry into Carbon Tax Pricing Mechanisms

Donald Martin

Submission to Senate Inquiry into Carbon Tax Pricing Mechanisms

In brief, this submission contains six points.

First, that no conceivable tax on the carbon dioxide emissions of current electricity generating and other carbon dioxide emission sources in this country could possibly pay for changing a fifth of the national electrical supply demand by what is generally called 'alternative energy', which is mainly solar and wind power.

The cost of replacing this capacity is very arguable due to widespread disagreement on basic facts but must be at least 53 billion dollars. This is if the least expensive benchmark is applied, which must, broadly, be accepted as the bottom cost line, even if the particular form of generation was universally agreed as wholly undesirable.

That is: the minimum current cost of coal fired electricity generation in Australia.

Few, it seems, are likely that argue that this is the least expensive source of electrical energy here. The cost of 'alternative' supplies is, obviously, contentious. On the one hand reputable authorities indicate that proposed, so called 'alternative' or 'sustainable' sources could be in the order of thirty times more, which is over one and a half trillion dollars above coal fired generation comparisons. On the other hand because of an almost complete lack of adequate supporting detail for the costs of 'alternatives' and 'sustainables' the actual price of these replacements is an unknown amount, possibly somewhere from nearly seven to 190 billion dollars yearly for the next eight years. This is approximately equivalent to between \$700 and \$19,000 a year, on average, in additional electricity bills to every home in the country during the conversion period. The point, nevertheless, is that whatever the cost of converting to alternatives, it seems that few are likely to dispute the fact that current coal fired generation is the cheapest source of large electricity loads no matter how undesirable coal generation may be seen to be. So, all alternatives must be more expensive than coal fuelled electricity generation, however more or less expensive and by whatever mechanism of taxation is applied to funding such supplies.

Second, that any such application of taxpayer funds cannot possibly achieve the purpose of carbon emission taxation, regardless of any order or mechanism of taxation.

This is because to provide one fifth of the current electricity requirements of Australia by what is commonly called alternative energy sources is impossible.

To provide this capacity by solar panel sources would require covering more than 90% of the entire Australian landscape with panel arrays. This obviously impossible proposal is, however, impossible even in theory that is merely for comparison, discussion, or elucidation. This is because much of the Australian continent is unsuitable for solar power generation, either because of lack of local sunlight, or great distances from useable solar radiation and points of use.

Similarly, mixtures of solar, wind, and wave electrical generation are equally impossible to construct, as well if included in other proposals like burying carbon dioxide emissions. As one prominent example of the extent of misconceptions about the entire subject, well established experience suggests that the apparently harm free burial of carbon dioxide appears to be a particularly dangerous proposal with nearly two thousand people killed in one very relevant incident.

Third, another assertion claimed to support taxation for investment in solar and wind power is that it would create a new, large and very viable industry in this country.

This assertion has never been supported by anything approaching appropriate detailed analysis for such enormous conclusions. It is clearly denied by extensive experience where such policies have been applied. Two simple points, however, can be made. One: in the case of solar power for example, is that most silicon based electronics industries, of which solar panels are one, have moved to South East Asia

because of the unchallengeable lower labour costs there. It is inconceivable that Australia could compete with this dominance. So, the only market for alternative energy industries of Australia to supply would be local and then only if it remains highly subsidised, as it already is. This is the characteristic feature of alternative energy industries everywhere. Generally, these are supported by subsidies funded by taxes that could be applied to far greater benefits in the public interest. There is an overwhelming abundance of examples of low risk and potentially far greater beneficial prospects for investing taxes in Australia. Also, most of these are self supporting, potentially export earning, and above all, extensively job creating throughout the nation. Subsidies upon which alternative energy investment must depend must also reduce net national wealth generation so any taxation mechanisms applied must, in turn, reduce, total revenue available and the potential for other taxation for other purposes, in this case on a very large scale.

Fourth, it is a criminal offence to seek or obtain a financial benefit throughout Australian jurisdictions by deceit. As products based on alternative energy are promoted and then sold, inherently, on the claim that such products purchases reduce carbon dioxide emissions, it would seem that such sales and any profits, or any other financial benefits, enjoyed are based on assertions that are essentially false and, therefore, by implication illegal. Taxation mechanisms should not promote fraud.

Fifth, that the proposed imposition of a carbon tax on actual emissions, so as to fund alternatives claimed to reduce emissions by a fifth of current levels, would require a levy of more than \$200 a tonne of carbon dioxide emissions. This is based on the lowest possible cost alternative detailed in the first point. In short, the actual carbon tax, however disguised, or allegedly offset by claims of reciprocal carbon credits, must be at least \$200 a tonne in real terms. This is the minimum cost per tonne of emission charged for replacing one fifth of current generation at no more than the cost of new coal fuelled plants. It should be noted carefully that nothing whatsoever has been advanced to explain why this cost will not be very much more for alternatives than \$200 a tonne of emission, as it seems it must be. It should be noted, too, that even this minimum cost is approximately ten times more than official estimates for emission cost settings that are currently circulating in the media.

Sixth, calculations of real cost reductions to the community by earning so called 'carbon credits' for carbon dioxide emission reductions require entirely arbitrary evaluations of the responses of the majority of industrialised nations to the expanding imposition of a very significant new cost at the a time of severe international recession. Again, what this figure might be is highly controversial at the moment and must remain so very controversial that there seems little point in trying to provide a range of possible estimates.

The real point is that, whatever calculations are advanced, the range currently announced by various interests that these artificial, unenforceable, uncontrollable

and entirely speculative instruments would cover is between 80% and 90% of the entire cost of conversion to alternative energy supplies. Again it must be pointed out that this entire cost is the absolute minimum cost set by the cheapest electricity supply, coal.

Obviously, the ultimate value of these carbon credit offsets would have to be agreed by countries like France, which supplies that country and much of Europe with electricity from nuclear generation and will continue to have no interest in so called 'alternatives', at the same time as Italy, Spain, Greece, Portugal and Ireland which all seem unlikely to be able to afford any new commitments to significant spending for the foreseeable future, however presented as cost free self cancelling book entries.

More basically, carbon credits mean that an overwhelming majority of developed nations will eventually impose upon themselves an extraordinary, universally accepted, and, above all, new tax.

If the tax, or tax for credits, is not identical it will continue to become more difficult to trade carbon credits, as it is becoming increasingly so already, because individual national credit values will depend more and more on unpredictable political or administrative decisions and not market valuations of a freely competitive asset like currencies. This is very much in evidence in Australia right now, where arguments about where the cost of carbon the credits should be set and the tax that pays for credits encompasses a very great range of penalties against the public.

In what can be expected to be very fluid economic circumstances for the foreseeable future, effective implementation of a carbon tax would require a degree of international cooperation that has never been seen in history and at a time when the whole world is being forced to cut costs and strenuously avoid new costs.

Practical application of funds derived from a carbon tax to install the immense engineering feats required to replace current conventional energy generation with so called 'alternatives' and 'sustainables' would require the immediate discovery of new and unknown forms of physics and engineering, of which there is not the slightest indication anywhere. The first of these would be an understanding of how a much more complex and extensive system supplying one fifth of the electricity supply of Australia could be constructed by 2020, in less than one third of the time that it has taken to establish the same proportion of the system to be replaced.

This summary of six points is based on the attached and possibly only comprehensive review of alternative energy sources and the implications for Australia written by Dr Robert Macdonald, Professor IIA.

Yours sincerely

Donald Martin