Mick Harewood, April 2009-04-07

Dear Senators,
The CPRS legislation has a number of regrettable features and I believe it should not receive support.

The urgency for action on anthropogenic global overheating is now undeniable. Price signals will stimulate creative initiatives to tackle the problems throughout the economy.

Garnaut has argued that an Emissions Trading Scheme (ETS) is potentially superior to a “Carbon Tax” (Greenhouse Gas emissions tax) because it enables authorities to set a cap or target for total emissions.

In setting a low target of a 5 to 15% reduction in emissions relative to 2000 levels, the Government has ignored scientific advice on the cap required to avoid dangerous climate change.
Therefore, Garnaut’s argument in favour of an ETS over a GHG tax evaporates.

I believe that the best way forward for Australia will be to introduce a GHG emissions tax at a modest level, but with a built-in annual rate of increase. This would guide investment decisions towards a low-emissions economy without causing catastrophic short-term impacts.

One extremely worrying feature of the proposed CPRS is that compensation would have to be payed to emitters if the cap is changed to a lower level without a 5-year lead time. This means that if scientific or international reasons compel a change in thinking, the taxpayer will have to compensate polluters. The argument given for this 5-year lead time is to provide certainty to business for investment. It is not in the interest of the Australian people to encourage any investment that may involve a continuation of a high level of GHG emissions. This country is already hot, dry and fire-prone.

Professor Brian Andrew has summarised the arguments in favour of a GHG emissions tax over an ETS, pasted below.

1. The impact and incidence of a tax are both more certain as it can be levied on volume of emissions at a publicly announced rate.
2. The impact can be gradual as it can be phased in with scheduled rate adjustments according to an announced timetable.
3. The economic effect will be more certain because the increased cost of emissions will be stable.
4. Revenue will be collected by the government and revenue recycling to low income families and greenhouse gas abatement projects will be feasible.
5. The tax revenue raised could be used to lower other taxes in a way that increased the equity and efficiency of the tax system.
6. A carbon tax would be stable, in contrast to the price fluctuations that would occur in an ETS market, and which has been observed in the EU ETS.
7. The instability of price in an ETS market would add uncertainty and it could adversely impact upon investment decisions and the level of economic activity. Speculators need market fluctuations and uncertainty for their profits.
8. There would be no need for a secondary market or a range of complex derivatives which could distort the flow of revenue and economic activity.
9. Management of a carbon tax would be simpler that an ETS.

10. The integrity of a carbon tax system would be far higher than an ETS because cap and trade systems are inherently more exposed to fraud and evasion with some sellers of permits which do not reduce emissions elsewhere and the buyer will not know about this fraud or mistake in such a time frame as to allow the transaction to be 'unwound'.
11. An ETS is an artificial market created by government for an intangible commodity and it requires the government to create an artificial scarcity for the commodity to have value, whereas a carbon tax does not require any such economic fiction.
12. An ETS will require a range of new institutions such as a registry and audit body, an enforcement body, a monitoring body and a new trading institution, whereas a tax can be administered by existing taxation authorities.

I urge Senators to reject the CPRS legislation in its current form.

Perhaps an amendment could be passed framing a GHG emissions tax to be introduced forthwith as a transitional arrangement until such time as international agreement is reached with all the largest GHG emitting countries on the allocation of caps or targets for GHG emissions reductions.

Such a tax might start a rate that makes wind power broadly competitive with coal-fired power and have an in-built annual rate of increase of, say, 5%.

Revenues raised could substantially support current and evolving GHG abatement programs.

The coal and coal-fired electricity lobby has argued that alternative energy sources are unable to provide base-load electricity at night or when the wind is not blowing. Various means of storing heat for a few hours are being developed here and overseas. Another way to store energy short-term is as compressed air. This is being investigated as a transport fuel for light cars, so why not for electricity generation? Liquefied air might have an advantage in that liquid CO_2 could be distilled-off and sent to sequestration. Bio-sequestration in algal ponds which produce hydrocarbon fuels could be enhanced by “fertilisation” with additional CO_2.

There is an urgent need to set clear and increasing price signals which penalise GHG emissions in order to stimulate creative investment in technical solutions. A stalemate in the Senate over the CPRS should not be allowed to frustrate the process of innovation and technological change to a low emissions economy.

Yours faithfully

Michael S Harewood