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Carbon tax a costly feel-good gesture that won't reduce emissions

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GLOBAL warming is real, man-made and important, but the present response has not worked for 20 years, won't work now and won't solve it in the future. This is especially true for Australia, which has introduced a carbon tax that will not work, while stifling debate on an alternative solution.

Let me elaborate. Simple physics tells us that, all else being equal, carbon dioxide emissions from burning fossil fuels will raise temperatures. Simple economics tells us temperature rises will eventually be negative for the world as a whole because infrastructure has been created based on temperatures of the past centuries.

Most economic models show that by the end of the century the adverse effect globally will run to 1 per cent to 5 per cent of gross domestic product (depending on how much we can adapt), with the negative cumulative impact across the century to the order of 0.5 per cent of GDP.

This means we should be wary of climate responses that cost much more than 0.5 per cent of GDP, yet this is what environmental advocates and policymakers have focused on.

Take the European Union's climate policy, which costs \$250 billion annually yet will have no measurable impact on temperature rises even in 100 years. For every dollar spent, it saves 3c of climate damage. Trying to keep temperature rises under 2C, as many environmentalists and statesmen propose, would cost \$40 trillion every year by the end of century.

In Australia, this approach has basically polarised the discussion without offering a solution.

Julia Gillard claims "the price of inaction is too high a price for our country to pay" and has introduced a carbon tax, which the opposition vigorously vows to repeal. Neither approach will fix the climate problem.

For many years I have argued that a carbon tax is academically correct. The externality of CO₂ should be reflected in prices through a tax. The best estimate, stemming from the biggest peer review of all damage impact estimates, is that such a tax should be set at about \$7/tonne CO₂, or less than 2c on a litre of petrol.

Although in many countries there are often so many taxes on fossil fuels that they are overtaxed from a global warming perspective, such a tax is academically defensible. What is not defensible is to claim that such a tax will do anything to fix climate change.

If every nation were to adopt such a tax, it would reduce overall emissions by just 10 per cent and have an immeasurable impact on temperatures even far into the future - and of course, no such policy is in any way likely.

Just remember the breakdown at the disastrous 2009 Copenhagen climate conference with neither the US, China or many others willing to take on even such a small burden.

With its carbon tax, Australia is buying the ability to feel good about itself. The tax is way too little to significantly change emissions in Australia simply because green alternatives such as solar are still three to five times more expensive than fossil fuels, not even counting the expensive need for energy storage and new transmission infrastructure.

To the extent that the carbon tax will have any impact it will mainly shift production to areas with fewer restrictions (say, China) and where production is less efficient, likely leading to larger emissions.

We have seen this happen in the EU, which has reduced its emissions slightly, but just the increase in implicit emissions in the imports from China since then has more than made up for this.

To live up to emission reduction targets, Australia is likely to need to buy emission offsets from the likes of China, with actual impacts close to zero. We have seen extensive evidence that many emissions offsets purchased by the EU were bogus.

The real problem with the carbon tax is not that can't be academically justified but that it is not a significant part of the solution to climate change. It creates a feeling of doing good while achieving very little, and has led to a political polarisation on the issue, obscuring the real problem, and solution.

The real problem is that green energy is way too expensive and not ready to replace fossil fuels. Any realistic carbon tax right now won't be sufficient to change that. To reach the much-vaunted 2C target would require a worldwide tax on carbon of about \$4000/tonne, or more than \$9/litre of petrol towards the end of the century, which is obviously not politically feasible in Australia, let alone in emerging nations such as China.

Moreover, such a tax would lead to costs many times more than the problem it was meant to fix. There is another way. The problem is that green energy is too expensive. Fixing that by making fossil fuels so expensive no one will want them is never going to work. Instead we should be focusing on making green energy so cheap everyone will want it.

As a group of Nobel laureate economists concluded when convened by the Copenhagen Consensus Centre to identify the smartest solutions to this challenge, we should devote just 0.2 per cent of global GDP, roughly \$100bn a year, to green energy research and development. This would have a much higher likelihood than our present approach of creating the framework for the kind of game-changing breakthroughs needed to fuel a carbon-free future.

If we could create alternatives such as solar panels that are cheaper than fossil fuels in the next two to four decades, everyone would switch and global warming would be fixed. Not only would such a solution be much less expensive than trying to cut carbon emissions, it would also reduce global warming far more quickly.

And, unlike carbon cuts, this is a solution developing countries would be likely to embrace. Australia is seen as a leader on climate change. It should aim to be a real leader in solving the problem. It could do so by focusing on spending a lot less than the burden of the present carbon tax, but spending it much more smartly on funding green research.

Spending less but spending it smarter could bridge the gap between the government and opposition, and Australians would save money with a cheaper climate policy that could actually work.

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<http://www.theaustralian.com.au/national-affairs/opinion/carbon-tax-a-costly-feel-good-gesture-that-wont-reduce-emissions/story-e6frgd0x-1226197203654>