Twelve billion holes in plan to cut carbon

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March 10, 2011

It's utter madness to try to curb emissions while subsidising fossil fuels.

THE orthodox view goes something like this: federal debt and taxes bad, budget savings good; government intervention and industry protection bad, level playing field good; climate change bad, emission cuts good. So why does Australia's government effectively promote fossil fuel use at a cost of about $12 billion a year? A carbon price, in effect, would already be operating if only government did not feel the political need to insulate energy and road users from demand-driven prices.

Tax incentives to use fossil fuels are so great that their value exceeds forecast revenue from the Rudd government's rejected emissions scheme for years to come. The Gillard government has yet to finalise its resurrected carbon price, but it is unlikely to outweigh the entrenched carbon bias. The $12.2 billion in fossil fuel incentives dwarfs the $1.1 billion for climate policy in 2010-11, and the gap has grown by $1 billion since 2007-08.

The Australian Conservation Foundation tried to publicise this huge disparity, yet guess what attracts all the attention? The cost of "green" subsidies. That may be because some programs are so obviously token and offer so little bang for the buck, but these are sideshows.

The opposition is making wild claims about future power bills based on carbon price guesstimates of $26 a tonne. If all emissions were priced equally - they won't be - the total cost impact would be about $14 billion a year. That's little more than existing tax incentives for fossil fuel use. The electricity sector produces about 36 per cent, or 200 million tonnes, of Australia's annual emissions. The industry must make capital investments of almost $100 billion over the next decade just to stop the lights going out, but years of policy uncertainty have delayed this. It is not carbon pricing but the strain of soaring demand on ageing power infrastructure that has driven up Victorians' electricity bills by almost 60 per cent in five years, even with government price controls and subsidies.

Policy should offer certainty, consistency, transparency and market efficiency to achieve its goals. The government's policy mix fails on all counts. The right hand promotes fossil fuel use, oblivious to the weaker left hand's climate programs.

Here's a thought: why not scrap all the political fixes? One of the worst was driven by political panic in 2001, when John Howard ended indexation of the petrol excise. The bowser price fell all of 2｢ to 89｢ a litre, but the hit to the budget was enormous. Revenue losses have mounted to at least $3 billion and, by some estimates, as much as $6 billion this financial year. In 2001, the oil price had "soared" to $US29 a barrel. It's now above $US100. The near-doubling in the Australian dollar's value from US50｢ to parity has softened the blow, but finite supplies are driving up prices. No political fix can reverse that.

Australia's ability to cope with huge swings in the oil price and exchange rate ought to temper the alarmism about a carbon price. Yet politicians are suckers for compensatory fixes. The biggest is almost $5 billion a year in fuel tax rebates to producers. Much of this goes to the same miners who resisted a fair return to taxpayers on the soaring value of publicly owned mineral resources. How do they justify keeping fuel rebates as well? BHP, for instance, reported a 74.4 per cent increase in earnings and $10.7 billion profit in the last half-year. Its effective tax rate fell from 30.2 to 24.4 per cent. Tax was up by only 29 per cent on the previous corresponding period, half the increase in pre-tax earnings.

In 2008, the Rudd government did partially end the excise exemption for oil condensate from natural gas. Dire warnings came to nothing. Condensate exemptions will still cost the budget $580 million this year, while $1 billion is lost to aviation fuel excise exemptions. Fringe benefits tax concessions for company cars, which create an incentive to drive more, cost $1.1 billion a year. (There's no tax incentive to use efficient, low-emissions public transport.)

The tax system effectively subsidises mature and profitable industries and big businesses. Where is the outrage at industry protection and price distortion? The principle of consumption taxes is the more you consume, the more you pay. Instead, the heaviest users feel less pressure to develop greater energy efficiency or more sustainable sources. The longer we put off this inevitable adjustment, the harder it becomes.

Eighteen months ago, the G20 agreed to scrap subsidies that promote fossil fuel use. The OECD and International Energy Association estimated that doing so by 2020 could cut greenhouse emissions by 10 per cent by 2050. However, Australia's submission to the G20 last June said it had "no inefficient fossil fuel subsidies" - never mind Commonwealth documents obtained under freedom of information that identify up to 17 programs, costing at least $8 billion a year, that the agreement might cover. Last week, a spokesman for Treasurer Wayne Swan insisted none met the G20 definition and said: "All credible analyses show the only way to meet our targets is by putting a price on carbon through a market mechanism."

The government is doing the opposite, distorting energy markets and shielding decisions on use from rising prices. Given the doubts about government's ability to manage an emissions scheme, here's a simpler, more transparent solution. Scrap all the de facto subsidies for fossil fuels, slash the budget deficit by $12 billion a year and watch the pressure to cut emissions take effect. If that sounds radical, it just shows how badly government policy has been compromised by vested interests.

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