

Australian Labor government unveils carbon trading scheme that shields corporate polluters

Patrick O'Connor
28 July 2008

Prime Minister Kevin Rudd and Climate Change Minister Penny Wong have released the Labor government's "Green Paper" on its proposed carbon emissions trading scheme that is scheduled to come into effect by mid-2010. The various measures outlined make clear that Rudd is determined to ensure that ordinary working people, rather than the major corporate polluters, bear the full cost of a scheme that will inevitably fail to reduce greenhouse gas emissions by the required levels.

Alongside the promise to ratify the Kyoto Protocol, the creation of an emissions trading scheme (ETS) by 2010 formed one of Labor's central promises ahead of last November's federal election. The government's "Green Paper" outlines some of the specific mechanisms it is proposing, ahead of further "public consultation" leading to the drafting of the final legislation by December.

The Green Paper's release has come a week after the publication of a 600-page draft report of Professor Ross Garnaut's Climate Change Review. Virtually every section of business, along with the media and all the parliamentary parties including Labor, Liberal, and Greens, have backed some form of carbon trading as the solution to the climate change crisis. Despite ongoing media coverage, immense confusion exists. One opinion poll showed that 60 percent of the population still has little or no understanding of how a carbon trading scheme would work.

The "free market" theory underlying emissions trading is itself relatively straightforward. Under the "cap and trade" model underlying the Australian scheme, the government determines a given limit of carbon emissions (the "cap") and then divides up the total level of emissions into discrete pollution permits, "carbon credits", which are each equivalent to one tonne of carbon dioxide pollution. These are distributed to those corporations most responsible for the emission of greenhouse gases. Firms included in the scheme are then free to either reduce their emissions below the level allowed by their allotted carbon credits, and subsequently sell the surplus credits on the open market, or—if it proves to be a cheaper option—increase their polluting activities and purchase additional carbon credits to cover the excess emissions. According to proponents of carbon trading, overall emissions are reduced as the government lowers the cap over time, while businesses are provided with an incentive to find the least costly and most efficient means of reducing their greenhouse gas output.

Complications immediately arise, however, with regard to the precise legislative mechanisms involved in the establishment of the emissions trading scheme. For example, how is the emissions "cap" to be determined? Are carbon credits to be sold to business or simply given away for free? Should businesses be fully compensated for the costs involved in complying with the scheme and should any restriction be placed on their ability to pass on these costs to the consumer? Are industries that consume enormous amounts of energy and are vulnerable to international competition—such as coal, aluminium, and cement—to be

included in the scheme? These questions are inextricably bound up with the profit interests of different, and sometimes competing, sections of big business.

Rudd's approach is to do everything he can to ensure that no corporate sector is adversely affected.

The Labor government's proposed emissions trading scheme—the so-called "Carbon Pollution Reduction Scheme"—will involve just 1,000 companies. Up to 30 percent of the total carbon credits will be given away for free, while for the most energy-intensive industries such as aluminium smelting and cement production, 90 percent of their polluting activities will be entirely compensated. The government's "Green Paper" also pledged direct cash compensation payments to the heavily polluting coal-fired electricity generators. Rudd has said he will consider the demands raised by other sections of business for additional compensation beyond that already announced.

Ordinary people will bear the full cost of the scheme's implementation. According to the government's own figures, with an initial carbon credit price of \$20, the official inflation rate would increase by an additional 0.9 percent, while electricity bills would rise by 16 percent and gas bills by 9 percent. The government has pledged to initially set a ceiling on the carbon credit price, but the Australian price will eventually have to converge with the world price which currently stands at \$40 per credit. (The world price is projected to rise to \$100 per credit by 2020.) This will see an even more severe escalation in costs of living.

Sensitive to a potential backlash, Rudd announced that rises in petrol prices due to carbon trading will be offset by reductions in fuel excise for at least three years. The Garnaut's draft report also proposed spending 50 percent of the revenue collected through the government's sale of carbon credits on compensatory welfare payments and tax cuts. While Rudd has backed this proposal, his "Green Paper" emphasised that compensation mechanisms "need to be consistent with the government's fiscal strategy and the focus on expanding the productive capacity while restraining inflation". Given that the government's fiscal and anti-inflationary strategy is to cut social spending and suppress wages, there is no doubt that low income and working people will be left substantially worse off irrespective of whatever token compensation is finally offered.

Rudd's "Green Paper" was generally welcomed by big business, though some sections have indicated they will press for even more concessions in the coming "consultation" period. The media similarly welcomed the government's proposals. The *Australian*'s July 17 editorial applauded Rudd for demonstrating he was not "captive to the extreme views put by some environmental groups". The Murdoch newspaper further noted that there was little difference between the government's carbon trading scheme and that proposed by the former Howard government before the last election, and approvingly concluded that "the government has stopped

well short of what was recommended by Labor's climate change expert, Ross Garnaut."

Garnaut's draft report warned that to maintain a viable carbon market, and to maintain public support, a hardline stance had to be taken against corporate "rent seekers" looking to profit from the implementation of the trading scheme. He advised that sections of business should bear some of the cost of enacting the emissions trading scheme and specifically argued against compensating electricity generators, against giving away too many free permits to companies, and against reducing fuel excise. Garnaut also insisted that no ceiling should be placed on the price of carbon credits.

Neither the government's "Green Paper" nor Garnaut's draft report included any conclusions regarding the final emissions targets to be settled on.

Thanks to a major loophole in the Kyoto Protocol, ratified last year by the Rudd government, by 2012 Australia is allowed to emit 30 percent more than its 1990 level, excluding land clearing. (Most other advanced countries had to *reduce* their emissions to about 95 percent of 1990 levels by 2012.) This target, which was on track to be met—without any carbon reduction efforts—will form the basis of the emissions "cap" for the trading scheme from 2010 to 2012. In other words, while ordinary people will be immediately hit with higher energy prices and other costs of living, the carbon trading scheme will do nothing to even marginally reduce emissions in its first two years of operation.

The post-2012 emissions caps will be determined in parallel with the international negotiations on a post-Kyoto treaty that are due to be conclude by the end of next year.

Liberal Party leader Brendan Nelson has argued that Australia should do nothing until 2012 and even then only implement an emissions trading scheme if the major emitters, including China and the US, take equivalent action. His grandstanding has only highlighted the opposition's disarray on climate change policy. Shadow treasurer Malcolm Turnbull and others initially indicated that they backed the government's proposals. For his part, Rudd has made clear that any medium- and long-term target will also be determined only after Treasury finalises its calculations and forecasts of the potential costs on corporate Australia.

Whatever the final targets, it is already clear that carbon trading is inherently incapable of resolving the climate change crisis. There is a mounting body of scientific evidence pointing to the gravity of the situation. According to NASA climate scientist James Hansen, the level of atmospheric carbon dioxide concentration beyond which dangerous and potentially irreversible global warming is likely has already been passed. With 385 parts per million (ppm) of atmosphere now comprising carbon dioxide, Hansen suggests that the latest scientific and historical data indicates that the target should be a maximum of between 300 to 350 ppm. The Rudd government's "Green Paper" noted that if emissions continue to increase at their present rate, carbon concentration will rise to 1,000 ppm by the second half of this century.

The impact of such an increase would be catastrophic. Garnaut's draft report described the potential impact in Australia. With unmitigated climate change, by 2100 agricultural production in the Murray-Darling basin (which currently produces 40 percent of total national output) would virtually collapse—by 92 percent. Australia's snowfields would decline by 85-96 percent by 2050 and disappear entirely by the end of the century. Numerous animal species would become extinct, including those dependent on the Great Barrier Reef, which would be entirely wiped out. Also by 2100, there would be an additional 11,000 "temperature related deaths", while many more people would be exposed to Dengue fever and other tropical diseases, as well as to the effects of severe flooding, storms, and sea-level rises.

Carbon trading schemes—no matter how they are established and irrespective of whether sectional business interests are favoured or not—cannot address the enormous divergence between the projected 1,000

ppm forecast and the lower-end estimates of the limits required. The schemes are specifically designed to gradually reduce emissions by encouraging big business to lower emissions by initially taking advantage of what the policy writers term "low hanging fruit"—that is, easily realisable energy savings such as installing more efficient lighting and appliances. This is why the Garnaut Review does not even examine a potential target of 350 or 400 ppm carbon concentration, and misleadingly refers to a 450 ppm target as "effective ambitious global mitigation" and a 550 ppm target as "effective firm global mitigation".

What carbon trading does not address is the fundamental question of how to refashion the power-generating basis of the world economy. To maintain an atmospheric carbon level of 300-350 ppm—or even 400-450—will likely require the vast restructuring of broad areas of social and economic life, such as urban planning, transport, land use and agriculture. But above all it requires the immediate phasing out of fossil fuel-based energy such as oil and coal, and the development of renewable power sources.

The well-known Columbia University economist Jeffrey Sachs pointed to some of these issues during his visit to Australia, which coincided with the release of the "Green Paper". He said he opposed carbon trading because: "It's hard to implement, it's hard to monitor, it's non-transparent, it's highly political, highly manipulative, which is why the banks love it, the banks all want to trade, this is an investment banking dream." He argued that the emphasis, particularly for developing economies such as China, ought to be on developing technological solutions, such as carbon capture and storage for existing coal-fired power plants, as well as nuclear, solar, wind, and biomass power.

Sachs's position immediately raises the question—why are these technologies not already in place? After all, the necessary technology is either readily available now or could be quickly developed with relatively modest increases in public investment. The Garnaut Review cited the International Energy Agency's estimate that to cut global emissions in half by 2050, research and development spending on energy would need to be increased by an additional \$US10-\$100 billion annually. By way of contrast, Washington now spends \$16 billion *per month* on the direct costs of occupying Iraq and Afghanistan.

The reality is that under the profit system the rational utilisation of the world's productive forces and technological capacities is impossible.

The private ownership of the means of production has seen entrenched profit interests repeatedly stymie the development of new, environmentally-beneficial technological innovations. Big business interests also dominate every stage of the political debate on climate change. The influence of the oil industry within the Bush administration is well known, but in Europe, as increasingly in Australia and other countries, the influence of private carbon trading interests is no less insidious. Europe's multi-billion dollar emissions trading scheme has seen the rise of a powerful carbon industry, with myriad "offsetting" companies and carbon speculators and investors.

Virtually every commentator on climate change has noted that there is no national solution to the problem and that only an internationally coordinated response is capable of achieving anything. But again, such coordination is immediately undermined by the division of the world into rival nation states. International conferences convened to reach agreement on emission reduction targets invariably revolve around squabbles between the various national governments who defend the "right" of their corporate polluters to special privileges. Disastrous developments such as the melting of the Arctic ice cap similarly results in the various bourgeois governments in North America, Russia, and Scandinavia scrambling for control over the new sea lanes and oil reserves.

Only a democratically planned socialist economy—having broken down the artificial national borders which pit working people against one another, and having made social need, not the accumulation of profit and

private wealth the guiding principle of social and economic life—is capable of engineering the required rapid transformation to carbon-free production while at the same time advancing living standards for all.

But such issues can never be broached in the official “debate” on the climate change crisis. The confusion felt by ordinary people is not simply due to ignorance or the complexity of the issue, but is the consequence of the deliberate obfuscation created by the media and political establishment. The Rudd government has, for the time being, been able to take advantage of the general lack of understanding. Opinion polls show that despite not knowing how emissions trading schemes work, most people support its creation in Australia. According to one survey, more than two-thirds say they are willing to pay higher prices for goods and services if this helps reduce carbon emissions.

These sentiments reflect the enormous concern, particularly among young people, over the world ecological crisis. The more advanced layers will soon understand that no solution to this crisis is possible within the existing social and political order, and that the preservation of a habitable world eco-system now stands objectively posed before humanity as a revolutionary question.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact