

## Carbon pricing remains the answer

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The time for outcome of the Doha climate negotiations of the last two weeks has been so insipid as to trigger calls for abandoning the process altogether. This catch-cry is accompanied by renewed calls for Australia to dump its domestic carbon pricing policy and turn back to technology. Just how technology solutions to climate change will be delivered without carbon pricing, is rarely explained.

To set technology and policy solutions against each other is to create a false dichotomy. However vital the former will be, the world needs a global political solution if the crisis of climate change is to be solved. Nevertheless, the apparent failure of international negotiations and the Kyoto Protocol warrants serious reflection.

Failure to secure a round of global, binding commitments to delivering cuts in emissions is not surprising but, even so, it's more than disappointing. The World Bank's November report, *Turn Down the Heat*, starkly describes the consequences if the world continues on its current trajectory towards 4 degrees warming within this century. The report steadfastly maintains that "early, co-operative, international action is the only way forward" to prevent such warming.

Yet on the basis of such reports, agreeing to have further meetings on how to reach agreement from 2015 on something that will take effect in 2020 is just a tad short of what the world might have hoped to see from the great minds gathered in Doha.

Fewer than 40 countries, including Australia, have made firm commitments to take the Kyoto Protocol into its second round, which begins on January 1 and runs to 2020. Russia, Canada and Japan have withdrawn from Kyoto and the US has never ratified it. The committed countries represent about 15 per cent of global emissions, hardly a basis for great hope.

The Australian government has made legally binding its commitment to reduce emissions to 5 per cent below 2000 levels by 2020. The Opposition supports this target. Yet emissions reductions of this scale in developed countries will not be enough to limit global warming to less than 2 degrees if we are to avoid the worst effects of climate change.

Inevitably, the Doha outcome has led to calls for Australia to abandon national targets and market mechanisms, and focus on a technological solution to climate change. Yet national targets and market mechanisms are linked. The first drives the second. Further, without market mechanisms such as emissions trading schemes, the technological solution is unlikely to be delivered, and certainly not at lowest cost. Putting a price on carbon is the cheapest and most effective way to drive innovative companies and individuals to develop and deploy the lowest cost, low-emissions technologies.

Yet even with a carbon price, more government intervention is required. The recent Grattan report, [\*Building the Bridge: a Practical Plan for a Low-Cost, Low-Emissions Energy Future\*](#), identifies the limitations of relying on the ETS alone.

The first task is to support carbon pricing with truly complementary mechanisms, such as those identified in the report, that help companies to produce low-emissions power at the lowest possible cost.

The second task is to link international carbon markets. Australia has announced that we will link to the European Union scheme from 2015, when our fixed price period ends. Linking with schemes in New Zealand and California are logical next steps. Countries such as China and South Korea are looking to adopt emissions trading schemes that over time we may also link to.

Finally, there will be ways to link with countries that adopt emissions reduction targets and programs, even though these programs do not resemble ours. Such an approach may not produce a seamless fabric but a patchwork quilt that can nevertheless achieve a strong outcome. Here, international negotiations and relationships can play a vital role.

But in the long run, such unilateral, voluntary commitments to linked national and regional targets are unlikely to add up to the level of emissions reduction that the world requires. In the 2011 update to his Climate Change Review, Ross Garnaut noted that a number of countries, including the US and China, remain unlikely to accept legally binding commitments. This is the reality in which climate change negotiations need to proceed. While voluntary commitments can be the building blocks for later success, ultimately a global agreement with binding commitments will have to be delivered.

The answer is not elegant but it is clear. We should keep alive the frustrating but critical work towards a global agreement. Meanwhile, we should build and strengthen our carbon pricing market mechanisms, and implement a set of multilateral and bilateral agreements that will provide the path to the longer-term goal. The consequences of failure are too great to do otherwise.

*Tony Wood is the Energy Program Director at Grattan Institute*

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