

Blueprint for a flexible, sensible climate policy

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The release of the final report by the Prime Ministerial Task Group on Emissions Trading marks a new stage in the debate on how to implement realistic climate change policy. The timing of this excellent report is particularly important because it has the potential to be a strategy for climate policy at the global level as well as in Australia.

The broad philosophy of the report is based on the McKibbin-Wilcoxon blueprint, devised by Peter Wilcoxon and me, which has been in the international policy debate since 1997, was published as a 2002 Brookings Institution book, *Climate Change Policy After Kyoto: A Blueprint for a Realistic Approach*, and more recently was developed for the Australian policy community in the 2005 Lowy Institute issues brief *Sensible Climate Policy*.

Although the DNA in the taskforce report is clear, the proposed implementation of the approach is different from the blueprint and, in my view, could be improved by moving away from the report's political compromises. It is up to the Government and the Opposition to take the key philosophical ideas from the taskforce report and mould it into their own climate policy platforms.

The approach in the blueprint is to move away from the philosophy of the Kyoto Protocol of specifying targets and timetables without worrying about costs to one of setting long-term goals for emissions, with the precise timing of cuts being based on smoothing the costs of emission reduction.

Without a mechanism for managing the costs of cutting emissions, the Kyoto approach is subject to problems of lack of commitment. Witness the lack of abatement in most Kyoto-ratifying countries.

A promise to cut emissions whatever the cost, as with voluntary actions, lacks credibility. This is also the key problem with the present Labor Party platform of deep cuts by specific dates without knowing the costs. The Labor deep cuts easily can be implemented in the blueprint if the timetables are replaced by sensible ways of managing cost without destroying the credibility of the long-term target.

Undertaking studies to pick targets to minimise costs is important but, in the end, the actual costs will be determined in the real world, not by computer models (including mine), so the policy must build in safety valves and flexibility through time. The key to enhancing credibility of long-term carbon goals is found in the need to create long-term carbon permits equal to the long-term target.

These long-term permits should be taken out of the hands of government and issued to key participants, then traded in a domestic carbon market to set a price of carbon into the long-term future.

In the blueprint this credibility is achieved by complete allocation of all long-term permits (reflecting the path of cuts through time; that is, a Labor-style target) to all households and industry. At set times in the future (five-year steps) a maximum annual carbon price is announced for the next five years as a safety valve against spikes in carbon prices in case there are not enough long-term permits around in any year (but there is no cap on long-term carbon prices).

Under the taskforce approach, some medium-term permits (or, in the taskforce's parlance, bundles of permits of different duration) are partly handed out, initially to industry, with the rest auctioned by the government. Every five years a review of emissions is conducted and new bundles of permits of different duration are auctioned.

This is seen to be more politically palatable because it gives government a chance to effectively change the target because the science has changed, the international debate has changed or industry has been effective in lobbying for the release of more permits.

The problem with this added flexibility relative to the blueprint is that it reduces the credibility of the long-term carbon constraints and therefore increases the long-term carbon price uncertainty.

This is not as robust as the blueprint because, to minimise costs through time, we need a rising carbon price signal to give strong incentives for investment in carbon-reducing technologies. It is much better to partly tie the hands of future governments by putting the long-term target reduction in the hands of the people, to build a constituency for real carbon abatement. A safety valve takes care of any excessive short-term economic costs and there is no need to have a continuous process of medium-term permits being issued.

The second aspect of the taskforce report (coinciding with the blueprint) that is important is the idea that climate policy should be built up at the national level and co-ordinated across countries rather than agreeing to a policy at the global level and forcing countries to adopt a global framework that may not be perceived to be in their national interest. Running policy at the national level but co-ordinating across countries on key features such as the short-term global carbon price is critical.

The taskforce report is a valuable document on which to build a better approach than Kyoto. In implementing the report, the Government should act in the national interest by making a stronger longer-term commitment to the goal of emissions reduction and thereby generate less long-term price uncertainty. Households should also receive a substantial allocation of longer-term permits. The Opposition should fold the taskforce ideas around its deep-cuts policy by implementing the deep cuts through a blueprint-style long-term permit allocation with a safety valve to manage the timing of cuts.

If both political parties followed this strategy, there would be convergence on an approach with credible deep carbon cuts but with more short-term flexibility than possible with precise timetables. We would then have bipartisan support for a sensible climate policy that would lead the world and drive the post-Kyoto debate.

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