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Climate pact a good beginning
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There is much to recommend the initiative on climate change embodied in the new Asia-Pacific Partnership on Clean Development and Climate. Australia is engaged with the right nations. The United States and Japan (and Australia) are responsible for any current climate change, and China and India are the key future emitters. Engagement starting with the main countries is critical, the rest of the world can join over time.

There are three parts that are needed in any comprehensive approach to climate policy. The first must be a realisation that if there is to be a widespread solution it will be based on technological innovations. This technological fix is likely to take a long time to emerge even with current ideas because the problem is so large it is unlikely that a major new technology can reduce carbon emissions within decades.

The world needs strong incentives in place to encourage the emergence of new technology. One set of incentives involves direct subsidies, but who gets these? Why are governments better at finding technology winners than companies facing profit incentives? Another approach involves raising the price of carbon so that searching for alternatives becomes more profitable for companies. The former approach involves taxpayers footing the bill. The latter involves a wider contribution from across the economy in terms of higher costs for carbon-emitting energy produced.

The second part that needs to be included is to change the ways households and industry use energy. Conservation and innovation in energy use by all is critical. This is particularly important during the period we are waiting for the technology miracle that might take many decades to emerge.

The best way to encourage this type of conservation is, like with everything else (including water), to charge for energy properly. This means we price into carbon-based energy the effects of emissions of carbon dioxide on the environment. If some technology such as geophysical sequestration is successfully implemented on a widespread basis then there would be a lower, or possibly zero, charge on the carbon-based energy when carbon dioxide is sequestered.

Effective demand and supply side approaches will probably involve higher energy prices, but consumers can be compensated more than their energy bills rise, if carbon dioxide is given value and property rights over carbon emissions are distributed widely throughout the economy. Owners of fossil-fuel companies can also be compensated with these property rights. Consumers can then decide whether to spend their new wealth on more expensive carbon-based energy or on other things.

Evidence suggests that they will reduce their use of carbon-based energy if the price rises.

The third part of a comprehensive approach is to develop long-term markets for carbon rights in which people can get a clear picture of the expected future price of carbon and in which risk can be managed by long-term energy investors and others affected by climate change and climate policy.

These three issues overlap in the McKibbin-Wilcoxon Blueprint, which is based on a combination of government regulation and markets. Compensation is built into the system so that no one is worse off and the environment is better off.

The Asia-Pacific Partnership on Clean Development and Climate appears to focus only on the first issue of technology. It would be a pity if it didn't go further and address a comprehensive approach based on pricing and markets.

A technological solution will be more likely to emerge with a comprehensive set of incentives and especially if companies are seeking it for a profit motive rather than because they can lobby governments effectively. In the meantime we need to deal with demand management and risk management.

The new forum should be an ideal starting point to move ideas such as the blueprint forward, but there need to be real policies as well as serious engagement.

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