

Emissions trading – what business opportunities?

In a pragmatic view, leading trade analyst Alan Oxley argues that, whilst emissions must be controlled, the real potential costs to Australia of emissions trading must be considered.

IT IS CLAIMED repeatedly that business is losing opportunities because Canberra has not ratified the Kyoto Protocol. Expect the same claim if we do not establish emissions trading of credits to emit carbon dioxide.

Recent research shows these ideas do not create commercial opportunities for business. All they create are two opportunities for governments to do things that are bad for business.

The first is to subsidise businesses which are not commercially viable, and the second is to increase the price of electricity.

What opportunities?

Two basic opportunities are touted for Australian business:

- ground floor entry in new technology and alternative energy business; and
- business projects which depend for viability on credits to emit carbon dioxide.

Subsidising business

The new renewable energy technologies (solar power in particular) are not commercially viable. Wind power has to be subsidised and cannot supply core, baseload power. Even the Greens know this. Eileen Clausen, head of the US Pew Institute and leading Kyoto booster in the Clinton Administration has stated that energy businesses and technologies capable of meeting demand for power from renewable sources will only develop if governments subsidise them heavily.

Is this the opportunity Australia is missing? To heavily subsidise industry? We subsidised industry heavily for decades. The result was slower growth, unemployment and slippage down the world prosperity tables.

We don't need to subsidise new technologies to benefit from them. When they are commercially viable, we can buy them. Consider Information Technology. Others developed it, we bought and applied it.

What emissions trading?

A national emissions trading scheme has to raise electricity prices if it is to be effective.

Some will argue we need a national system to participate in the international system of trading as proposed in the Kyoto Protocol. What if that never develops? Do we ignore the problem that the Kyoto Protocol or its global emissions trading scheme cannot be 'global' or reduce greenhouse gases, when the US, the world's biggest economy will not participate, and developing countries flatly refuse to reduce emissions of carbon dioxide?

The idea of global trading is that profits from credits in one country can be traded to offset losses from commercially unviable projects in another. Kyoto also establishes 'Mechanisms' in developing countries to create credits.

Trading permits is a sound economic concept. But implementation depends on public policy instruments which do not exist. This is not like trading timber or rubber futures. A permit, a right to do something, not a product, is being traded.

What international system?

There is no international system capable of guaranteeing an investor that that right will be honoured when the permit is transferred across national jurisdictions. This will take decades to develop, if it ever can be done.

Leading international greenhouse watchers, like Professor Warwick McKibbin at ANU, do not believe such a system can be created.

The Geneva-based and pro-Kyoto World Business Council for Sustainable Development does not believe business will invest in mechanisms in developing countries to create credits. There is too much government control.

An international emissions trading system does not exist today and the likelihood of one ever being setting up is low.

Global emissions trading under Kyoto is another unviable proposition, this time in public policy. The wisest course would be to wait and see.

New research

The analysis above is drawn from recent research commissioned by the Minerals Council of Australia and the Business Council of Australia. It comprehensively examines the impact of non-ratification of the Kyoto Protocol on opportunities for Australian business, and can be read at <http://www.worldgrowth.org/pages/materials/AO-SM-Kyoto.doc>.

Australian business interests

Who in Australian business would benefit from establishing a national system of emissions trading?

Set aside the middlemen and Green consultants after profits from arbitrage and fees for advice, discount the rent seekers seeking government subsidy and wonder about the financial institutions who seek corporate kudos from triple bottom line policies and ignore the interests of their major customers. Note that Australia is a relative global pipsqueak in the renewable energy business, but a global heavy lifter in mainstream non-renewable energy. What is left? Most of Australian business which creates most of Australia's GDP. All of them will be adversely affected if electricity prices are raised.

The role for government

Government should keep a weather eye on global developments in greenhouse politics, to ensure Australia does not lose global competitiveness, foster greenhouse emission abatement projects that promote efficiency and be involved in joint low emission technology initiatives with US and other governments as a way of leveraging research done elsewhere.

Why introduce systems which needlessly raise power costs or anticipate global systems which exist only on the drawing board?

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