

First cut the deepest on emissions trading

The Hunter economy will easily survive a carbon scheme, say **Philip Adams** and **Peter Dixon**.

RECENTLY, a petition was circulated among senior academic economists seeking endorsement for a statement on climate change. Key points were:

- That warming of the world's climate through human activity is undeniable.
- That preventive policies, such as carbon taxes, are urgently needed.
- That developed countries such as Australia should demonstrate leadership by being involved in international efforts to cut emissions.

We signed the petition for two connected reasons: (1) compelling advice from the scientific community, including CSIRO, suggests that a sharp cut in world greenhouse gas emissions would substantially reduce the risk of catastrophic climate change over the next century; and (2) as part of a worldwide effort, Australia could achieve deep cuts in its own greenhouse emissions at only a moderate cost in terms of reduced economic welfare.

It is on the second point that economists have particular expertise, justifying the presentation of an "economists" petition.

Cutting greenhouse emissions is like buying an insurance policy: we incur a cost (a loss in GDP) to reduce a risk (catastrophic climate change). In any insurance decision, the cost matters.

Our modelling, and that of other quantitative economists around the world on the costs of greenhouse reduction, supports the claim in the petition that: "Credible estimates suggest that a 50 per cent emissions reduction is achievable for less than one year's economic growth."

Exactly what this means can be explained in terms of the report by the Allen Consulting Group to the Business Roundtable on Climate Change (March 2006).

Modelling we contributed to that report shows Australia's real GDP growing between now and 2050 at an annual rate of 2.2 per cent under the



WEIGH IT UP: Cutting greenhouse emissions is like buying an insurance policy against climate change.

assumption of no new greenhouse policies. In this scenario, Australia's greenhouse emissions by 2050 are 80 per cent more than their 2000 level.

In an alternative scenario, Australia introduces an emissions trading scheme to reduce its greenhouse emissions by 2050 to 60 per cent below their level in 2000. Even with this very deep cut in emissions, Australia's GDP grows between now and 2050 at an annual rate of 2.1 per cent.

The implication is that a massive 60 per cent cut in greenhouse emissions (relative to the 2000 level) costs about 20 months' growth – the level of GDP that we would have reached on January 1, 2051. A lesser cut would incur a lower cost.

Taking account of non-linearities (the first 1 per cent cut is much easier than the last 1 per cent), a reasonable estimate for the cost of the 50 per cent cut mentioned in the petition is 12 months' growth.

This suggests that the national

macro-economic impacts of a trading scheme are moderate. But does this carry through at a regional level for areas such as the Hunter in which CO₂-intensive industries are concentrated?

The study cited above showed that potentially some industries and regions will be adversely affected, but that those adverse affects could be mitigated by targeted allocation of permit revenue.

This targeted-allocation scheme has the potential to significantly mitigate the cost of a carbon trading scheme to the Hunter Region.

Our modelling for the Business Roundtable showed real gross regional product for the Hunter with the carbon trading scheme in place growing (not falling!) between now and 2050 at an annual rate of 1.9 per cent.

The main greenhouse-emitting activities are fossil fuel-based provision of electricity and motor fuels. In Australia, these account for about 5.4 per cent of GDP. Advice

from scientists and engineers indicates that the adoption of current alternatives to fossil fuel-based technologies would no more than double the costs of electricity and motor fuels.

As a back-of-the-envelope calculation, this suggests that Australia could make a 50 per cent switch to alternative technologies at a cost of 2.7 per cent of GDP, a little over an average year's growth.

But this is a pessimistic view of the costs of climate insurance.

If the world embraced the need for deep cuts in greenhouse emissions, we would expect rapid technical progress in greenhouse-benign technologies, which would reduce the costs of their adoption.

Professor Philip Adams and Professor Peter Dixon are respectively the director and former director of the Centre of Policy Studies at Monash University. This is an edited version of an article for Monash Business Review.

Testing time when it comes to commitment

There's more heartache ahead for refugees, says **Violetta Walsh**.

PEOPLE might recall the fairly lively discussion that took place last November about what constitutes Australian values, and how we might best ensure that all newcomers to this country understand and adopt them.

The idea floated by the Federal Government was to use a test that would check out the knowledge of all new migrants about Australia's values, traditions, institutions and history before they were granted citizenship. It was argued that a test would ensure that migrants were fully committed to Australia.

The idea was commendable but some of us had a problem with its logic. A formal citizenship test

would not serve to assess an individual's commitment to values or ability to participate effectively; rather, their capacity to study. And the purpose of testing – whatever the accompanying rhetoric – would always be seen as seeking to exclude. There would always be the disincentive of a fail mark.

Australia's current citizenship pledge with its oath of allegiance to this country, its democratic beliefs and rights, liberties and laws seems a more than adequate statement of commitment to Australia.

But the "yays" won, and in the May budget, some very serious money (\$123.6 million over five years) was allocated for the purpose of delivering the new citizenship test to be introduced some time this year, subject to legislative amendment.

The dust has cleared about the details as well. Every aspiring citizen of sound mind between the

ages of 18 and 60 will have to sit the test, which will be computer-based, in English, take about 45 minutes to complete and consist of about 20-30 multiple choice questions drawn randomly from a pool of 200.

In effect, people sitting for the test will need to be computer literate, able to read English very well, and know a great deal more about the place than many in the existing population do. (Sample question: who was the first prime minister of Australia?)

But rest assured, the pass mark is likely to be only 60 per cent and you can have another go, if you produce the fee – which incidentally will double to \$240 for most people. And a companion resource booklet – *The Australian Way of Life* – will be produced to help you learn the answers.

None of this will generate unbounded enthusiasm for the taking

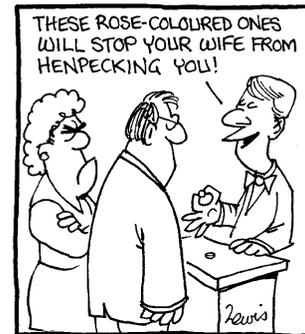
up of citizenship by eligible residents, even those with the skills and knowledge required, like those long-term settlers from the United Kingdom, who are notoriously slow in becoming Australian citizens. They certainly don't feel they need to pass a test to demonstrate commitment and contribution to Australia.

The sad thing about it all is that refugees, the people who literally count down from the day of their arrival to the day they can become citizens of this country, will be particularly affected, because of poor English skills. For them, the longer waiting time for citizenship, and the test itself, will create further needless uncertainty and heartache.

The old saying "if it ain't broke, don't fix it!" comes to mind.

Violetta Walsh is director of the Migrant Resource Centre in Hamilton.

Topics today



Today's fact

Red contact lenses were once used to stop chickens from attacking each other.

Today's word

Contravene (kon-truh-VEEN): To act or be counter to; to violate.

It happened today

From our files – 1965: Dr Doreen Birch, who has been a full-time ear, nose and throat surgeon at Royal Newcastle Hospital for three years, has accepted a post as consultant ear, nose and throat surgeon in the British National Health Service.

Today in history

1487: The Battle of Stoke, the last great battle fought on English soil, brings an end to the War of the Roses between the houses of York and Lancaster.

1904: James Joyce's famous novel *Ulysses* is set on this day.

1917: First All-Russian Congress of the Soviets is convened.

1948: The first aeroplane hijacking takes place when Chinese bandits attempt to take over a flight from Macao to Hong Kong, causing the plane to crash; the bandit's leader is the sole survivor.

1961: Russian ballet dancer Rudolf Nureyev requests asylum in France while in Paris with the Kirov ballet.

2005: Masked gunmen seize dozens of children at an international school in north-western Cambodia, killing a three-year-old Canadian boy and threatening to shoot others before police rescue the hostages.

Born today

Geronimo, Apache leader (1829-1909); **Stan Laurel**, British comedian (1890-1965);

Charles Perkins, Aboriginal activist and bureaucrat (1936-2000); **Erich Segal**, US author (1937-); **Joyce Carol Oates**, US

author (1938-); **Lamont Dozier**, US songwriter (1941-); **Roberto Duran**, pictured, Panamanian boxing champion (1951-).



Odd spot

THIS year, like the past 39 years, Shivcharan Jatav tried to pass his 10th grade high school exams – and failed again. The 73-year-old from India was undeterred, vowing to try again next year, in the hope that an exam pass would improve his job and marriage prospects.

Today's text

Not everyone who calls me their Lord will get into the kingdom of heaven. Only those who obey my Father in heaven will get in. **Matthew 7:21**