Climate change and the market

This website has been silent for some time as politicians and others have played out the theatre of adopting or not adopting either an emissions trading market or a carbon tax. The logic behind the decision was that what we would witness would be theatre in the most theatrical terms, as it has been and will, for a time, continue to be and consequently no place for the kind of discussion we would like to have. Such is politics. We are however, nearing the end of the political phase and it therefore seems appropriate to once again return to the realities of what an emissions trading market is all about.

As clearly as I can put it, an emissions trading market is based on there being a legal imposition placed upon substantial greenhouse gas emitters, such as electricity suppliers, to purchase either permits which permit the emission of specific quantities of greenhouse gas, or offsets from someone who has recovered (captured) other greenhouse gas and will retain it for a specified time. Either way, there is a cost to, say, the electricity supplier which it will pass on to its customers in the form of higher prices for the electricity it sells to them. The result of all this is that the cost of goods (and services) which result directly or indirectly from the use of greenhouse gas produced energy will increase and the greater that use is, the greater will be the resultant price increase.

Yet it is said, and with considerable conviction, that this will not cause great financial hardship to all of us who have to buy goods which could be more expensive because of the market's operation. The reasons for this confidence are numerous but the key reason lies in the nature of the market itself. All the businesses which are substantial greenhouse gas emitters, either in producing or using energy which creates greenhouse gas, have their in-house bean counters whose job it is to notice the slightest actual or potential change in costs, to ascertain what is causing the change and what its likely effect on business will be. The slightest actual or potential movement in price will instantly capture the attention of bean counters - such is their nature. In the case of either the implementation of an emissions trading market or a carbon tax the warning will be not only of an imminent cost increase but of subsequent and continuing cost increases because the supply of permits will be progressively reduced and their cost consequently increased or, in the case of a tax that it will be regularly increased.

The advice flowing to industries from their bean counters must therefore be that there is a need to change by whatever means, what is currently being done so as to reduce greenhouse gas emissions. Industry is not managed by fools, particularly when it comes to production costs and the certainty is that the changes will occur as fast as it is possible.

There are many ways in which an industry may approach the problem (Plan B). Using a form of energy that requires less greenhouse gas emissions or no greenhouse gas emissions at all is the most obvious. Changing the manufacturing process so that less energy is used per item is another way. Switching to the production of some other item or items altogether or the use of different components which result in lower energy use would be others.

What will shortly become apparent is that there are already goods and processes available which do not cause the same quantity of greenhouse gas emissions as comparable goods (and processes) currently on the market. They have not been used previously because existing comparable goods were cheaper to produce but that situation will now be reversed.

As a result the likelihood of cost increases is likely to occur only in the very early stages of the imposition of either a carbon tax or an emissions trading market. The moment either is imposed, it becomes beyond doubt (to a bean counter) that costs will continue to rise and that consequently Plan B (outlined above) must be put into effect.

Finally let me turn briefly to the question of whether an emissions trading market is preferable to a carbon tax or the other way around. The market, as it has proved to be, is difficult to start because its operation depends on the establishment of an initial price without the benefit of evidence one way or the other as to what that price should be. As we have seen, the attempt to establish the opening price led to considerable disagreement and eventually, the government abandoned the attempt. Instead, it proposes a carbon tax. Establishing the opening rate for the tax is easier although it also has been the subject of considerable debate.

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The problem with the carbon tax is that for it to operate as it should, the tax needs to be regularly increased so the bean counters are made aware that cost problems are only going to get worse. We have seen how difficult it is to establish the rate of tax and that problem will recur every time there is a need to make an increase.

It follows therefore that the carbon tax is only a temporary, albeit effective, solution.

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