

## Beware, Rudd's ETS elephant will trash your house

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Imagine if John Howard and Peter Costello had proposed a GST with an indeterminate variable rate, with the "variation" left hostage to the manipulation of clever investment bankers and other main-chancers, and you might begin to understand "Kevin Rudd's GST" -- his Emissions Trading Scheme, or ETS.

"His GST?" If we get the ETS, it is going to add to the price of everything -- not just power and not just carbon-based power in particular. On that point, it's worth noting that it is specifically designed to increase the price of all power -- quite deliberately, to make wind and solar power "competitive". That's to say we pay more for them, but they become "cheaper" than coal-based power.

Indeed, the ETS is intended to be, and will be, even more punitively pervasive than the GST. Because once we get past the early, politically driven, subsidies to hide its real impact and real cost, there will be no carve-outs, as is the case with the GST and fresh food and medical services.

They will all become more expensive.

The pervasiveness and very significant impact on your everyday costs make Rudd's ETS the elephant in every living room. What will turn it into a dangerous, unpredictable rogue is the way it becomes hostage to market manipulation.

To return to the -- real -- GST, imagine if Howard and Costello had said we are going to have this tax on (almost) everything. Right, at what rate, would probably be the immediate response?

Sorry, we can't tell you that -- the rate will be left to the market. But we can guarantee it will be 10 per cent for the first year -- after that you're on your own. Sorry, what we meant to say, was that after that the market will determine it in its usual utterly fair and efficient way.

Oh yeah. Do you think they and their GST might have been laughed out of office just a little bit more than they almost were, back in 1998? Remember the frenzy of concern to ensure that no one, no way could lift the rate from 10 per cent?

That applies even today, with Treasury secretary Ken Henry's tax review, that is one of the two things ruled absolutely out of bounds. For the very simple reason, that it's political dynamite.

Yet that is exactly what's proposed with Rudd's ETS. That it comes with a "variable rate". Worse, not simply "variable" by politicians -- who, sure, I don't trust but are at least accountable and punishable. But "variable" by "the market". And not just the market in some broad, not too threatening, way, but clever speculators and manipulators.

You can just see them panting out there, in anticipation of a whole new genre of bits of paper to be plucked for multi-million-dollar bonuses. Come in, sucker, and the sucker is every Australian.

Don't believe me? I quote from the last budget papers: "The government will commence the scheme on 1 July 2011, with a fixed carbon price of \$10 during 2011-12, and the carbon price determined by the market from 1 July, 2012."

Now, in the first year, the budget estimates that the ETS -- officially called, as Rudd's "Big Lie", the Carbon Pollution Reduction Scheme -- will raise \$1.9 billion cash at that \$10. Again, as everything to do with this is a cacophony of lies, small as well as big, the ETS/CPRS is not a price on carbon but on carbon dioxide.

Isn't that just shorthand? Yes, the deliberately dishonest "shorthand" of making people think subconsciously and indeed even consciously of black soot, not clean, life-creating carbon dioxide.

Year two is where it gets interesting. The budget estimates that when "the market" takes over, the ETS take will leap to \$11.5bn on a cash basis and just shy of \$13bn on an accrual basis.

In that 2012-13 year -- the last "outest" year of budget estimates -- the GST itself is estimated to raise just under \$50bn on a cash basis and just under \$52bn on an accrual basis.

Any accounting way you carve the numbers, the ETS is equivalent to a 25 per cent increase in the GST, from 10 to 12.5 per cent. In the first fully operational year -- and who knows what after that.

Indeed, who knows what in that first year! Treasury certainly doesn't. As the price of permits to emit CO<sub>2</sub>, and so the revenue the government raises from selling them, is entirely hostage to those market forces. And not just a market hostage to manipulation, but an utterly corrupted one that is full of holes.

There won't be a credible global ETS market, but local emitters -- and traders -- could buy permits from overseas. Which is why the whole thing has enraged the dark greens. We can buy indulgences from foreigners, and keep emitting: they demand we really do put on our energy hairshirts to atone for our sins again Gaia.

Take an extreme example from history to demonstrate what's possible. Whether a cynical stamp collector who got his hands on the only two unfranked Penny Blacks would burn one of them, so that the last would be worth much more than two combined.

Consider the opportunity for speculators not to buy permits and -- figuratively -- burn them. But to buy them and, say, hoard them. Or to flood the market.

CEDA's Michael Porter has been warning of exactly this potential -- likelihood? -- in arguing for a carbon tax instead of the ETS. But then, the emperor would really have no clothes -- it'd be a tad hard to deny that a carbon tax was, well, a tax. As some gullible commentators deny that the ETS is.

Exaggerated? In a way, it's happening right now with electricity, in a similar context. The expansion in wind power is supposedly causing all sorts of problems for the generating companies in maintaining reliable supply.

It is also "generating", apparently, the opportunity for huge windfall profits -- for the generators and traders. Because when the wind don't blow ... you should know the rest. What you don't know, is that it is causing huge price spikes. No doubt the main-chancers are honing their techniques for the ETS main game to come.

The Business Council in its combined stupidity and main-chancing self-interest called yesterday for the Opposition to get inside the ETS tent. So business would get "certainty".

There is no "certainty" in the ETS. Except the certainty that many of the BCA members can play the game to pluck you. Right alongside the government.

Another big Rudd lie is that all the money raised will be "returned". So, if it is a tax, it is a revenue neutral one.

Read the budget fine print carefully. Yes the government thundered: it will "use every cent ..." to "help" households and businesses "adjust".

It is an elephant in your living room. It will be a rogue. If released it will trash your house.

See: <http://www.theaustralian.news.com.au/business/story/0,28124,26220052-14743,00.html>