

[Warwick McKibbin](#)

## Palmer move shows that creditable climate policy is possible

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Clive Palmer's political party wants no carbon tax and a zero price on carbon for now, but a carbon trading system (of some type) when the world starts implementing something similar. This aim is achievable using the McKibbin-Wilcoxon Hybrid, according to Warren McKibbin. **Photo: Rob Homer**

### Warwick McKibbin

The climate policy debate in Australia has hit the Palmer pivot.

If it is possible for Clive Palmer with mining interests and Al Gore with investments in green companies to reach an agreement on climate policy, then almost anything must be possible.

The lesson from this curious event is that starting with a notion of what policy is needed, and then finding a way to balance the vested interests of key players against their preferred policy position, it is possible to get closer to a compromise that may be better than the no-policy alternative.

Is it possible for the Palmer United Party (PUP), the Greens, Labor and the Coalition government to converge on an actual policy framework that meets their core concerns and which could be implemented in this parliamentary sitting?

This would be a very good outcome because encouraging the technological and behavioural innovations that are required to address climate change at low economic cost requires a credible climate policy.

To be credible this policy needs to be well-designed and it will need to have substantial multi-party support. It would have significant economic payoffs in terms of reduced uncertainty, if it was started sooner rather than later.

On the assumption that the currently stated position of each political party is their true position, there is a way forward on climate policy in Australia.

### Support if it looked like Howard's design

The core of the government's position is that it does not want to tax carbon and it certainly does not want a high price on carbon that damages Australia competitiveness. It does not want to damage the balance sheets of Australia's corporate sector.

Some within the government would support a carbon trading system if it looked something like the design that the Howard government took to the 2007 election.

This policy controlled the short-term costs of carbon while creating a medium-term carbon price that would encourage innovation.

The Greens presumably would like a policy that actually reduces carbon over time even if it meant payments to emitters.

Labor wants a carbon market-based system of some type, but appears to be open-minded on the actual design.

The PUP wants no carbon tax and a zero price on carbon in the short run, but a carbon trading system (of some type) that starts when the world starts to implement similar.

There is a policy that can deliver each of these core outcomes but which will require some give on secondary issues. For example, emissions may not actually fall as quickly as the Greens want (unless deep cuts can be made at low cost) or there may not be as much income distribution as Labor and the Greens would prefer.

The McKibbin-Wilcoxon Hybrid should be an attractive alternative to each party. This approach is a market-based mechanism with particular characteristics. First it requires a commitment to an aspirational target for emissions over a long period. The emission target by year is converted into a pool of emission permits that can only be used in that year. The number of permits would fall over time corresponding with the target.

These permits would be traded in a market. Each year would have a different market price. There would be no trading with other countries.

The second element is the creation of a central bank of carbon (CBC) with the role of holding the price of carbon constant for a fixed period (much like the Reserve Bank sets the interest rate within the framework of a long-term bond markets). The CBC would issue additional permits for the current year to ensure the pre-announced price for this year.

### **May exceed the aspirational target**

Thus emissions this year may exceed the aspirational target given the fixed price of carbon. However, they would also be affected by the future price of carbon in the long-term market.

Third, the permits for future emissions would be allocated today to companies and households so that any revenues from trading these long-term permits over time stay within the economy. The revenue from CBC intervention would stay with the CBC.

The allocation of future permits to companies would raise the value of assets on the balance sheets of these companies, even if the low but rising carbon price reduces the value of carbon assets.

Companies with fossil fuel interests and renewal energy companies could be given more permits that they need to offset any revenue losses and so be financially much better off.

The allocation of future permits to households today would give them an income stream to compensate for higher prices in the economy in the future.

This initial price announced by the CBC could be zero (consistent with PUP). To achieve this, the CBC would put into the carbon market enough current permits in excess to those already allocated to drive the price to zero.

A policy framework already exists that could solve the climate policy stand-off in the national interest.

Senators – over to you.

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The Australian Financial Review



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