**Synopsis of GCA policy notes #1**

**A CONSUMPTION-BASED EMISSIONS POLICY ALLOWS COUNTRIES TO DO MORE AT LESS COST**

Globally, greenhouse gas emissions *production* equals emissions *consumption*, and emissions *exports* equal emissions *imports*. Nationally, emissions *production* covers local production including exports, but not imports. *Consumption* covers local production excluding exports, plus imports.

*If* all nations adopt the same policy at the same time, targeting production or consumption is the same thing. *But* an emissions production model *only* works if all nations sign on at the same time. History tells us they won’t. The EU has tried to get acceptance of this model for a long time and has failed.

*Why?* When nations act at different times or to different degrees, production models undermine trade competitiveness of early movers compared with others. This causes concern about ‘carbon leakage’, job losses, and little or no net reduction in global emissions. Nations won’t sign, or want ‘carve outs’.

A consumption model is trade competitiveness-neutral. Imports are priced the same as domestically produced substitutes. Exports are affected when received as imports. National concerns about ‘carbon leakage’ and job losses are eliminated. National efforts in reducing emissions count as net contributions to lower global emissions. Emissions are not ‘exported’. Nations can act unilaterally.

Because it is trade-competitiveness neutral, the consumption model is an international ‘confidence-building’ approach. This is important when the current international financial crisis threatens more trade protectionism while attempts are being made to revive the Doha Round.

A national consumption model gets us to the same global end-point over time as a production model, but is much more likely actually to get the world to that end point.

*Why?* Ross Garnaut says the ‘prisoners’ dilemma’ is the main impediment to a global deal on climate change policy. This ‘dilemma’ is largely due to concerns about ‘carbon leakage’ and job losses. These concerns stem from the trade-distorting production model chosen.

By choosing an emissions production model, governments (including our own) have *maximised* this ‘dilemma’. By switching to a consumption-based model, they would *minimise* this ‘dilemma’, and enhance prospects for a truly global policy deal. With such a model, Australia and developed economies *could* take the lead, by ‘cleaning up our own emissions consumption act’ first.

A consumption model (i) is better in principle; (ii) is practical; (iii) is WTO-compliant; (iv) is more likely to secure a global deal; (v) has lower welfare losses than a production model; and (vi) while delivery via a carbon tax is better than an ETS (especially for investment certainty), either could do the job.

*Why continue to pursue a production-based model in the light of its long history of failure under the Kyoto Protocol to curb emissions?* The only answer that has been offered is that: ‘It’s too late.’

In 2008, is it ‘too late’ to tweak the policy model to take effect from 2010 or later, to maximise chances of a truly global policy deal? We’re trying to set up a policy to operate out to 2050, and beyond. We need to maximise chances of getting a global deal. Given the history of failure, is it really ‘too late’?

Australia’s own efforts *per se* make little net difference to global emission abatement outcomes. They’ll be less under a production model. But our example – especially on the policy model we choose – can influence the efforts of others, and these are accepted as crucial to global outcomes.

*Is such a model complex?* In Australia, it can use existing systems, including the existing Tax Invoice system, and the emissions data proposed by the Government in the Green/White papers.

As a bonus, all of the proposed messy, arbitrary, contentious, shifting, industry ‘carve outs’ disappear. The model can be delivered to consumers on a real income-neutral basis. Only relative prices need change, with emissions-intensive product prices rising relative to others. That’s the signal required.

*How much more complex is a production model?* Just look at the detailed ‘carve outs’ proposed in Australia. Check out the latest detailed ‘compromise’ agreement of the EU on climate change policy.

It’s no contest. A production model is more inefficient and more ineffective. Globally, it won’t work.