

Emissions trading: why a social focus is critical to sound economic and environmental outcomes

Josh Floyd

This is an updated version of an article published in The Age, 2 July 2007, 'Business Day' section, Back Page (p. 8), 'New Economics' segment, under the title 'Think globally, manufacture locally'. The original version can be viewed here: <http://www.theage.com.au/news/business/think-globally-manufacture-locally/2007/07/01/1183228957827.html>.

Now that the Commonwealth Government has resolved the question of tax versus cap-and-trade for Australia's carbon cost internalisation strategy in favour of the trading option, focus is shifting to the appropriate details for our emissions trading model. A great deal of attention is being given to the impacts that a cap-and-trade scheme might have on industry (The Age 25/06/2007: 'Manufacturers count cost of carbon'), consumers and businesses (The Age 25/06/2007: 'Householders to bear the brunt of trading scheme') and the poor (The Age 16/06/2007: 'Carbon footprint of rich twice that of poor'). This is a critical time for ensuring that any national carbon pricing scheme is integrated with the wider social frameworks upon which it will depend if it is to be effective in meeting both the immediate aim of reducing carbon emissions and the ultimate aim of contributing to the long term wellbeing of present and future generations of Australians.

To start with, we should consider that our total energy use emissions include not just those associated with domestic stationary, transport and embodied energy: our emissions extend to energy use associated with imported goods, services and commodities before they reach the political boundary that differentiates 'local' from 'imported'. A national carbon trading scheme directly addresses only the domestic emissions, but our growing trade imbalance points to the direction in which our 'off-shored' emissions are heading. As our thirst for cheap imports grows, not only does our debt burden increase, but we simultaneously obscure the environmental burden of our consumption by placing it beyond the reach of domestic emission indicators and reduction instruments. Policy approaches that simultaneously aimed to increase local production of goods and services would be a good fit for addressing multiple challenges simultaneously, but as Ernest Rodeck points out (The Age 27/06/2007: High price of the free trade fantasy), we may have an ideological blind spot here that would prevent such relocalisation on either social, economic or environmental grounds.

Perhaps somewhat ironically, while our domestic carbon pricing system will not reduce our off-shore emissions, it may in fact contribute to an increase in these. By further decreasing the competitiveness of local manufacturing, increased energy costs may bring some businesses, and even industries, to the brink of non-viability. By then increasing imports to address the needs and wants that are presently met locally, the national carbon ledger would move further into the red. Moreover, idled plant represents, in effect, annihilation of energy investments as well as of capital. While it seems highly unlikely that industrial relocalisation will be driven directly by

Commonwealth Government policy, there is a strong case on four fronts for Australia doing all that it can to address wealth disparity between more and less developed nations. Firstly, there is the potential for domestic socio-economic benefit in the form of a diversified, localised economy more resilient to the emerging challenges of peak oil; secondly, there is potential for reducing the growth in national debt; thirdly, there is potential for significantly reducing our contribution to global carbon emissions; and fourthly (hardly the least important), there is potential for humanitarian benefits for workers in poor countries. This 'quadruple win' could be achieved by, for example, introducing fair trade standards for imports and supporting existing fair trade initiatives.

Relocalisation need not entail some kind of eco-romantic 'return to nature'. There is an important distinction between 'localisation' and 'isolationism'. Local production versus global trade doesn't need to be based on absolutes, and it need not disadvantage developing countries trying to grow their own economies. This is really a call for a more rational approach to meeting our material and energetic needs, whether those needs arise in Australia or in Kenya, and involves, as a minimum, three broad principles:

- Meeting our essential needs as locally as possible, where assessment of 'as locally as possible' takes into account bio-regional strengths and weaknesses and acknowledges bio-physical limits.
- Minimising transport of higher volume, lower cost goods and commodities.
- Focusing global trade on low volume, high value specialist technology that facilitates local production of essential high volume, low cost goods and commodities.¹

Considering how a carbon trading policy can be better integrated with social frameworks primarily involves asking questions about how people associate with one another, in this case in the 'economic realm'. We have heard recently that wealthy Australians have a carbon footprint twice that of Australians with average incomes and that the poor, with lower carbon footprints again, are likely to carry a disproportionate share of the cost of emissions (The Age 16/06/2007: 'Carbon footprint of rich twice that of poor'). According to conventional economic theory, based on the ideal of the rational economic decision maker, if the cost of goods and services goes up, their consumption will go down and hence if the carbon emission-related component of their cost (primarily energy cost) goes up, consumption will go down. The hidden perversity in this thinking is twofold.

Firstly, while as a business manager I may make rational economic decisions, as an individual consumer the situation is far more complex. Overlooking the (significant!) structural influences on my decision making, once my most basic needs for food, clothing, shelter and social inclusion are met, purchasing decisions tend to be based on a host of rationalities, many of which will be contradictory. Consumption becomes about emotional satiation. Given that brand marketing trumps supply cost for so many goods and services now, is it realistic to expect that internalisation of carbon costs will significantly affect this for cashed up consumers? The real emission reduction

¹ This principle is not intended to preclude other trade, but this other trade would then be peripheral to the central focus. The overall aim would be to shift trade towards high value goods, services and commodities, where what is *valueable* is itself subject to ongoing reflection, on the basis of overall contribution to quality of life.

impacts are more likely to stem from producers, distributors and retailers making rational business decisions to minimise supply costs.

The second perversity relates to energy cost as a proportion of total cost, and this is where the ramifications of carbon pricing really start to hit home for the poor. The problem is that energy cost as a proportion of total cost is typically lower in luxury and status-related products compared with generic products with similar utility. At the same time, the absolute embodied energy in the luxury items is still typically higher than for cheaper items. While this is obviously a broad generalisation, it can be demonstrated with the simple example of clothing sold in exclusive boutiques versus clothing sold at a factory outlet. The greater floor space per item of clothing in the boutique has a higher energy overhead associated with it per item sold, while this energy cost is still a tiny fraction of the overall cost of designer clothes. This means that per unit of household expenditure, energy costs are proportionally higher for poorer families, while absolute embodied energy is lower (although one might hope that the life of quality goods may be longer than that of cheap goods even if the original owner disposes of them quickly). This results in a disproportionate share of the cost burden (rather than a disproportionate share of the actual energy burden) being borne by the poor.

In terms of general policy principles, there is one rather clear area to target in addressing this: we should act to reduce Australia's growing wealth disparity. When carbon pricing comes into the picture, this is no longer just an equity issue, it is a fundamental moral issue relating to the extent of care and consideration that we extend to each other. But then, might this not be an appropriate basis on which to commence the design process for any carbon costing policy?