

Should Australia Ratify the Kyoto Protocol?

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Based on work with Peter Wilcoxon

- “The Role of Economics in Climate Change Policy” *Journal of Economic Perspectives*, June 2002
- “*Climate Change Policy After Kyoto: A Blueprint for a Realistic Approach*” The Brookings Institution July 2002.

Should Australia Ratify?

- No
- Neither should any other country!

What is the Climate Change Issue?

Climate Change is fundamentally about designing a sustainable global policy in the face of a great deal of **uncertainty**

- What is needed is an insurance policy

What is Uncertain?

- The science on global warming
- The impacts of global warming
- The “optimal” amount of abatement
- The cost of abatement

Is Climate Change a problem?

- I believe there is enough evidence to
- - Put in place decentralized but coordinated institutional structures that can respond when we get more information on climate issues
 - Raise the price of carbon to give an incentive to begin to reduce carbon use where it is cheap to do so.

Why Isn't the Kyoto Protocol a Sensible Insurance Policy?

The Kyoto Protocol targets carbon emissions at an unknown cost either for individual countries or for the world –

Why should countries take out an insurance policy without knowing the cost?

What is needed

- A policy that is *coordinated* across a wide range of countries
- A higher (and known) price for carbon in the near term
- Clear property rights over emissions and a market to trade rights in the medium term
- A market based solution founded on *domestic* institutions that can be *flexible* enough to adapt to
 - new information about the seriousness of climate change as an issue
 - information about the costs of cutting emissions

What is wrong with the Kyoto Protocol?

- So far doesn't commit developing countries
 - We want a commitment by developing countries to take action without incurring costs until they reach some point where they have an ability to pay

What is wrong with the Kyoto Protocol?

- So far doesn't commit the largest emitter of greenhouse gases – the United States

What is wrong with the Kyoto Protocol?

- Has too much flexibility in the targets to be credible
 - Sinks have grown substantially between Kyoto 1997 and Marrakesh 2001 for purely political reasons

What is wrong with the Kyoto Protocol?

- Countries want to maintain a degree of national autonomy in how they reduce emissions

What is wrong with the Kyoto Protocol?

- Environmentalists do not want abatement by Annex I countries to be done through international permit trading
- Substantial abatement that has already occurred is being used to offset further abatement
 - Soviet Union
 - East Germany
 - United Kingdom

What is wrong with the Kyoto Protocol?

- Enforcement
 - The value of permits in an international trading system depends on the ability of individual countries with very different institutional structures to apply international standards of measurement and monitoring
 - This requires a very strong monitoring and enforcement mechanism in all participating countries.
 - Requires new international laws and institutions

What is wrong with the Kyoto Protocol?

- If the costs are too high then the protocol will be either abandoned or diluted by making up sinks and other offsets.
 - How can this be a credible system?
- If the costs are too low then the protocol will be useless

Goals of Sensible Policy

- Should have clear medium term goals for emissions
- Should guarantee the short run costs (the insurance premium to be paid)
- Should have developing country commitment without short run costs
- Should enable industry and households to self insure against uncertainty about climate change and future policy changes
- Should avoid decisions in some countries destroying the commitment of all countries

Goals of Sensible Policy

- Should acknowledge that institutional differences between countries are real
- Should acknowledge that success will require a system that is “incentive compatible” – one that gets the incentives of all decision makers in all major countries to line up

An Alternative Approach does exist that meets these requirements

- The McKibbin-Wilcoxon Blueprint
- A Hybrid policy that takes the best features of a tax (price certainty) and a permit trading approach (most of the revenue stays out of the hands of governments and abatement is driven by a market)

McKibbin-Wilcoxon Blueprint

- An internationally coordinated system of domestic actions
- Creates property rights over carbon emissions in all countries using domestic institutions and laws in each country – no international markets nor international trading – only domestic markets
- Guarantees the short run costs through government intervention and puts in place long run goals and a market to price these
- No short run costs for developing countries but a binding commitment to act depending on ability to pay
- Use domestic markets to achieve a globally efficient outcome.

What Should Australia Do?

- Not Ratify the Kyoto Protocol
- Engage in the international debate to get a better alternative because even if we do nothing and parts of Annex B do ratify the Kyoto protocol, both Australia and the climate will likely suffer the consequences.

Background papers are available from:

www.NOTWRONG.com

www.SENSIBLEPOLICY.com

www.NOTKYOTO.com