

Why splitting the energy and climate portfolios makes sense

Written by Mike Young, Reseach Chair, Water and Environmental Policy, University of Adelaide

Scott Morrison has an [honours degree in economic geography](#) , and it shows. On Thursday the prime minister split apart the ministerial responsibilities for energy and climate, which were previously part of a united portfolio under Josh Frydenberg.

The new federal environment minister Melissa Price is now responsible for climate policy, whereas the incoming energy minister Angus Taylor has been [described by Morrison](#) as the “minister for getting energy prices down.”

Read more: [***Better than the alternative. What the market thought of ScoMo***](#)

Splitting the energy and environment portfolios may seem like a step backwards, given the significant greenhouse emissions produced by the electricity sector and other energy industries. But by separating two significant areas, Morrison is following good economic practice: creating a “dynamically efficient” economy.

You’ve got to be dynamic

The first Nobel Prize in Economics was awarded to [Jan Tinbergen and Ragnar Frisch](#) for their contributions to the development of dynamically efficient economies.

Tinbergen’s Nobel Prize-winning advice was simple: if you want your nation to prosper, use separate policy instruments to achieve separate policy objectives.

Better still, put responsibility for climate and electricity in separate departments and charge each with responsibility for the delivery of each outcome as cheaply and efficiently as possible.

Read more: [*The too hard basket: a short history of Australia's aborted climate policies*](#)

Price's new challenge is to come up with the best greenhouse gas reduction program she can. Rather than putting lots of money into subsidies, fiddling with renewable energy targets and embracing expensive schemes such as Snowy Hydro 2.0, she is relatively free to design a dynamic, economy-wide scheme that can be described confidently as being robust enough to serve Australia well in the centuries to come.

Sharing it around

One of the best options available to Price is to set up a nationwide "climate-sharing" system. We already have this system for water – for example, the water-trading system that operates through much of the Murray Darling Basin.

To set up a sharing system, essentially the government would have to issue shares to each significant greenhouse gas emitting company, in proportion to its recent emissions. A large power station, for example, might be given ten million shares.

Every year emissions permits can be issued in proportion to the number of shares held, and the company would then need to decide whether or not it had enough permits – just like a standard emissions trading system. There are, however, two differences between an emissions trading system and a climate sharing system.

Bottom-up investment and a community return

First, shares tend to be very valuable and, as has been shown repeatedly with water, can be used to fund investments in emissions-reduction technologies. Once these have been made, shares can be sold to pay for the change.

Second – and overcoming the common objection to rewarding polluters by giving them valuable shares – a community return can be introduced. This would require all shareholders to surrender a percentage of their shares every year.

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Companies can decide either to let these shares go or to buy them back. In practice, this would operate much like a carbon tax – but it is determined on the industry's rather than the government's assessment of the long-term cost of dealing with climate change in the most innovative way possible.

The question then is what to do with the resulting annual return. One option (arguably the best available) is to share this equally between federal, state and local governments in proportion to recent emissions. Those communities most affected by the need to reduce emissions would then be given the resources necessary to plan for and build an alternative future. The annual reduction of each shareholding by 1-2% would be sufficient to do this.

Real stability

Sharing systems already increase wealth, drive innovation and stimulate investment in our [fisheries and rivers](#)

. We may still fight over the details of the water markets, but the foundations of these systems as a way to manage uncertainty are rock solid. Why not do the same with climate?

Well-designed sharing systems give local communities and local businesses a stake in a game that otherwise is played out largely in political arenas.

Whenever such a system is put in place, two markets quickly emerge. The market for shares is used to protect investments, fund innovation and empower local communities. The market for permits enables each power station to search for the most efficient way to meet ever-changing demand and supply conditions.

As is the case for water, the number of permits to be issued per share could be flexibly managed by a board of stakeholders.

How fast we move towards the Paris emissions target (and whatever targets follow) can be worked out adaptively as we go. If the cost of compliance goes up, more permits per share can be issued. If the development of non-polluting sources of energy continue [apace](#), the cost of meeting our Paris commitments may not be as great as many think.

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Read more: [***New coal doesn't stack up – just look at Queensland's renewable energy numbers***](#)

Implementation

Pragmatically, Price could start by issuing shares to the electricity sector. But once feasibility has been proven, this could quickly expand to iron ore, cement and other stationary industries. Having done this, the logical next step would be to include transport and other sectors.

Early on in the roll-out of a climate sharing scheme, farmers could be offered the opportunity to sell carbon-sequestration permits into the scheme. Once they see the value of climate shares, however, I would not be surprised if many farmers start arguing for full inclusion in the scheme.

(Farmers, by the way, would be likely to recommend setting up a central register and making it possible to mortgage climate shares.)

Then, and as has happened with water, the banks can be get involved in helping to fund a transition to a low-carbon economy while creating jobs and driving innovation.

Mike Young receives funding from the Faculty of Professions, in the University of Adelaide. His work on the development of water trading systems in Australia was funded by Land and Water Australia, by CSIRO and by several state departments responsible for water management.

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