

Green Tariffs: Unrealistic and Unachievable

By Graham Young

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Commentary

So Chris Bowen, Australia's climate change and energy minister, wants a "green tariff," raising the price of imports that emit too much CO2 and pocketing the proceeds in government coffers?

Well great.

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That means he must now admit that "renewable" energy is more expensive than "legacy" energy. Otherwise, why would he need to penalise imports from countries using mostly fossil fuels?

Unless it is really just a trade barrier, in which case it is going to fall foul of

international trade rules.

To prove it is actually an environmental measure, he would need to turn it into a border CO2 tax that would relate to the amount of CO2 emitted in the production of each item. But that would be difficult.

While you might be able to measure the CO2 emissions for individual countries, how do you measure it for products?

Every product these days is made from components that are manufactured across the whole globe. A car might be assembled in China, but some of its components will be manufactured in peripheral countries, like even Australia.

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Assessing the carbon emissions, and the carbon emissions compliance, of all the countries in the chain would appear to be nigh near impossible.

But if you can't, and don't, do that, then it's probable that your tariffs won't be legal.

And then, what does legality count for in the international context? If we apply

green tariffs against China, for example, they will retaliate, even if the tariffs are legal.

They didn't need any genuine rationale to apply tariffs against Australian goods when spoke out against Chinese negligence in the case of COVID-19, they just applied them. They will do it again.

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A woman wears a mask for protection against the air pollution on Tiananmen Square in Beijing as the city is blanketed by heavy smog on Jan. 4, 2017. AP Photo/Andy Wong

Not that we would have any basis for applying tariffs to them for non-compliance with Rio commitments—they didn't make any. Or at least they committed to lower emissions at some time in the future, so we can't hold them responsible in the present.

So who would we be levying tariffs against? It is hard to say. Maybe the European Union? Or perhaps the United States? Those are entities that we don't

import a lot of goods from but are failing to meet their greenhouse commitments.

Economic Handbrakes on a Small Economy

What is not hard to say is that green tariffs will be another nail in the coffin of Australian prosperity. Like any tariff, they lower productivity in the economy that applies them.

It works like this, particularly for small economies like Australia.

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Your standard of living is dependent on having a command of a large number of outputs. That in turn depends on the inputs being inexpensive.

It turns out—surprise, surprise—that entities that specialise in producing certain goods produce them more cheaply, and for better value, than entities that don't.

Pedestrians move along George Street in Sydney CBD, Australia on Oct. 22, 2022.

Lisa Maree Williams/Getty Images

In a small economy, it is only possible to sustain a small number of companies that are at the top of the world's efficiency distribution.

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Specialisation is one thing, but there are also economies of scale where fixed costs are spread over larger outputs resulting in higher profits, and profits are a proxy for productivity.

Small countries are only large enough to provide those economies to a small number of companies.

There must be a market sweet spot in terms of population size because most processes don't scale infinitely, but no one has been able to come up with a predictive formula.

What is certain is that a market that includes the whole world will be as efficient as possible. And it is possible that a market that is less than that, say 25 percent (which is the United States), can actually produce all its requirements domestically as efficiently as possible.

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Australia is a long way short of this, so trying to confine manufacturing to its shores is likely to be expensive, which means impoverishing, to the average Aussie.

Is Labor Ready for the Political Consequences?

Mr. Bowen may not realise this at the moment but there is a growing number of Australians prepared to talk truth to power.

The latest is Gary Banks, the inaugural chairman of the Productivity Commission and currently a professorial fellow at the Melbourne University Institute for Applied Economic and Social Research.

He [warns](#) there may be an electoral backlash against these types of federal government policies.

This may not be enough to force Mr. Bowen to change course—he's quite sanguine about the idea people won't vote for him, famously [saying before the 2019 election](#), "If you don't like our policies, don't vote for us."

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But surely his colleagues don't want to repeat that performance.

Not that I am barracking for Labor to win the next election, I just don't want me and my fellow citizens to be subjected to such disastrous policies.

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