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For Earth, a carbon price is priceless

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There has been a frenzy of populist political arguments over petrol and whether a carbon price should be imposed on the hurting Australian motorist.

Some politicians seem to think the high global oil price is already doing the job on greenhouse gas emissions by encouraging more efficient use of fuel.

Oil prices have indeed doubled in a year, and unleaded fuel in Sydney has jumped 31 cents - so why impose an extra carbon price? Although you might think high petrol prices would automatically reduce greenhouse gas emissions in Australia, it may do the opposite.

The point of introducing a carbon price across all sectors of the economy is not only to increase energy efficiency but also to drive investment and production of low-carbon alternative fuels. Cars, trucks and aircraft can only get so much efficiency gain over a certain time. A lot of oil will still be needed in the coming decade as we move to a low-carbon economy. So where will the oil come from? With oil at \$US135 a barrel, new investments in unconventional sources of oil become attractive. But without a carbon price on fuel there is no incentive for directing these new investments toward fuels that emit less carbon. So high oil prices without a separate carbon price on fuel could result in oil production moving to worse alternatives.

Before World War II Adolf Hitler knew he was short on supplies of the most important commodity for any army: oil. Without domestic oil production, how was Hitler going to fuel his trucks, aircraft, submarines and tanks? However, Germany did have tremendous amounts of coal reserves - so the Nazis hastened the unconventional technology of making oil from coal. The technology was perfected, and virtually all of the aviation fuel used by German aircraft and half its total oil use during the war came from coal-to-oil technology. Coal is the most carbon-intensive fuel, and Australia has one of the largest reserves. The Intergovernmental Panel on Climate Change says coal-to-oil production is seven to eight times the carbon emissions of conventional oil - and that is before you burn it in your car. The World Coal Institute estimates this sort of unconventional oil production is economic at \$US25 to \$US45 a barrel - well below the global oil price. Higher oil prices will result in more investment into coal-to-oil production.

We are already seeing investment into this area in Australia. Monash Energy plans to build a \$5 billion plant converting brown coal into diesel in Victoria. Without a carbon price on fuel there would be no economic reason for a company like Monash Energy to reduce greenhouse gas emissions from its coal-to-diesel plant.

Canada is experiencing the dilemma Australia will face if a carbon price is not included on fuel. Oil sands are a mixture of sand, water and sticky oil that need enormous amounts of heat to extract usable quantities of conventional oil.

Reserves of oil sands in Canada are equivalent to 174 billion barrels of oil, making it the second largest reserve after that of Saudi Arabia. Canadian oil sand production becomes economically viable once oil reaches \$US30 a barrel. Considering the price of oil, there has been huge investment in oil-sand production over the past decade. Production is more than 1 million barrels a day, with some forecasting fourfold expansion by 2030. Oil sands in Canada are three to four times more greenhouse gas intensive than conventional oil, and that is why Canada's greenhouse emissions have surged over the past decade. Canada is yet to impose a carbon price within its economy - and without including it in transport it can expect emissions to grow more rapidly in the future.

High oil prices in the absence of imposing a carbon price on fuel will drive Australian coal-to-oil production, like oil sands in Canada, so as to fill the void of dwindling conventional oil supplies. A carbon price in transport is critical to avoid this and to create new investment in Australia's low carbon economic future - whether it is next-generation cellulosic biofuels, battery technology, fuel cells or plug-in electric cars.

If you think that the global oil market and the high petrol price has solved greenhouse emissions in transport, think again. It could result in a far worse greenhouse gas nightmare in Australia.

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