

“Do Thy Patient no Harm”
A Submission from The Carbon Sense Coalition
to
The Garnaut Review – “Financial Services for Managing Risk –
Climate Change and Carbon Trading”.

21 February 2008

1. Introduction

The questions of carbon trading and insurance for extreme weather events cannot be looked at in isolation – they must rest on a firm basis that justifies any additional action under the banner of “Global Warming”.

Firstly, there must be a clear scientific basis or credible evidence suggesting that:

- Human emissions have caused unusual global warming.
- This global warming will cause more extreme weather events.
- Governments can do things to significantly alter the future course of global warming.

Secondly, it must be clear that the benefits of government action clearly outweigh the costs.

There is no evidence to support either proposition, in fact considerable evidence to the contrary.

Therefore our first suggestion to the Garnaut Review is that there is no justification for the government to force carbon trading onto the population.

Secondly, the global warming hysteria does not provide any justification for the government to interfere in the insurance industry.

The stated purpose of the Garnaut Review is to recommend policies that will “improve prospects for sustainable prosperity”. In fact, the huge expenditure to date on “Global Warming” and the government sallies into providing “free insurance for fools” has reduced the ability and willingness for private people and businesses to invest in the savings, tools and insurance needed for long term sustainability within a natural system of continually changing climate.

2. Perverse Consequences in Insurance – some history.

For decades, every government has reduced the ability or willingness of taxpayers and insurance companies to make provisions to cope with weather damage. For example:

- The essence of good agricultural practice is to ensure that every operation can cope with unexpected drought. (It is, after all, a fairly regular occurrence in Australia.) Before “Handout Economics” became a compulsory subject at government universities, every farmer told his son: “Don’t overstock, minimise debt and keep the hayshed full.”

Sensible sons followed this advice.

Then a bad drought came, and the fool next door was caught with excess livestock, no savings, heavy debt and nothing in the hay shed. The bank sold him up. The sensible farmer bought the fool’s land. Prudent management was rewarded and it expanded.

But, vote-seeking politicians discovered that promises of help at someone else’s expense would buy rural votes. So, “Drought Relief” started. It provided cushy jobs for rural councillors and advisers, expansion in the size and cost of the “Drought Assistance Authority”, publicity for the local member, and, at times, a little money actually trickled down to some lucky and persistent farmer (those with a school-teacher wife who could fill out the forms.)

It appears that the drought rules were written to say:

“The bigger the fool, the bigger the handout”.

Only people who had exhausted their fodder, their savings and their credit rating got helped. Prudent neighbours fumed and said “Next drought we will not prudently reduce stock numbers – we will let the government bail us out too if things go wrong.”

In this insidious way, Australian farmers became less able to cope with drought.

Everyone in a droughted shire suffers from drought, but only some imprudent farmers get handouts. To reduce rates on all ratepayers in drought declared shires would be far fairer, simpler, quicker, with no forms to fill out, no increase in bureaucracy and no perverse market signals.

- The story is the same with floods. Al Grassby put it perfectly one time when he said to people pleading for handouts because their houses had been flooded:

“Flood Plains are for Floods”.

People may choose to live in flood prone areas, because the land is cheaper, the soil is better, the grass is greener or the view is better. But they made a conscious choice to live or base their business in a high flood-risk area. People with more respect for the risk of floods will choose to put their houses above the flood plains.

Naturally, insurance companies do not provide insurance for floods on the flood plain. So the flat-landers end up in flood prone areas with no insurance. Normally the market would punish these people every flood. But government Santa Claus’s will hop to and give handouts as long as you are located in flood reach, have no savings, and no insurance.

This destroys the value of insuring and reduces the attractions of prudent management – another blow to climate sustainability.

- Similarly, there are people who choose to build their beach house on sandy soil just above the high water mark. Governments should be quite deaf to pleas for help from people such people when a big storm undermines their foundations. They chose the sea breeze and the view, and have to accept the risks that come with them. No need for building prohibitions or storm subsidies - let nature teach them.
- Put aside for a moment the fact that there is no evidence (only models or opinions) for many of the claims that more extreme weather will be triggered by man emitting more CO₂ into the atmosphere. There is still no sensible role for governments to distort and destroy the habits of prudence and the benefits of having insurance by rushing to every new weather event with carpet bags full of money looted by taxation from prudent and profitable producers.

The conclusion is obvious. Governments should vacate all weather insurance roles, and leave preparation for drought, flood, storm or tempest to private insurers. If the government vacated this field, local groups and volunteers would do more to help unfortunate neighbours with far lower administrative cost and far less fraud.

3. But “What about Market Failures?”- Perverse Consequences in Insurance

The fact that flood insurance is unavailable (or very expensive) to people with houses built on the flood plain is not evidence of “market failure” – it is evidence that the market is working.

Similarly the fact that drought insurance is very expensive for graziers on the edge of the Simpson Desert is also evidence of a market working well.

And you would expect that insurance for storm and tempest would be costly in “cyclone alley”. This reflects reality, and shows that the market is rational and sustainable.

The gross market failures are caused:

- When governments destroy markets and private businesses by offering free or subsidised services.
- When governments reward foolishness, or mis-judgements.

4. Building Effective Carbon Markets

The Carbon Sense Coalition believes that any money spent trying to de-carbonise the Australian economy is totally wasted.

Thus we do not support any form of Emission Trading. We believe it is speculative in the extreme for governments to be forcing such huge community investment without independent experts supporting the science behind it. Imagine a prospectus based on the sort of in-house incestuous recommendations we see so strongly in the whole IPCC Global warming industry. Governments appoint carefully chosen experts to produce reports that justify big subsidies and new taxes in the energy market. Directors who raised equity capital like that would be hounded by ASIC, lashed in the media, shunned by underwriters, and qualified by the auditors. Where are the independent scientific watchdogs reviewing the prospectuses that recommended investment in the Department of Climate Change, the Australian Greenhouse Office and the state schemes for mandating, subsidising or taxing particular energy sources on little more than opinions of vested interests or people with political agendas?

However, as the government seems to have decided it must be seen to be doing something for Global Warming, the Carbon Sense Coalition strongly recommends that the only (repeat **only**) policy should be to introduce a carbon tax on direct net emissions of carbon dioxide and methane. The advantages of this course over cap-and-trade are numerous and include:

- This carbon tax penalty is immediately known by all market participants. This greatly reduces the risk and uncertainty involved in trying to predict the value of carbon credits in a make-believe market trading in virtual hot air.
- This carbon tax does not encourage the growth of a huge parasitic industry in trading, financing, forecasting, underwriting, auditing and approving all sorts of dodgy schemes for creating carbon credits and offsets. The coming Kyoto Carbon Trading Bubble will make the South Sea Bubble look puny and unadventurous.
- This carbon tax is not retrospective. The amount of the tax, and the start date can be announced clearly and immediately.
- Evasion of this Carbon Tax becomes a virtue. Someone who closes his coal fired power station and opens a nuclear facility will evade the Carbon Tax, but if Mr Gore, Mr Stern and his ilk are correct, this is a huge contribution to the public good in that carbon dioxide emissions will be reduced.
- It will be easy to abolish this carbon tax. Immediately the science (or the obvious lack of global warming) shows that the whole thing is but another media scare story, it is easy to abolish a direct carbon tax, because EVERYONE will be in favour of abolition except the tax gathering and consuming industry which is supported by the carbon tax.

Contrast that with the screams and claims for compensation should anyone wants to abolish the laws creating the make-believe assets and fake industries of an Emissions Trading System.

- This carbon tax directly encourages emitters to reduce emissions. Emissions trading schemes have probably not discouraged one tonne of emissions – they have cost a lot of money and red tape and will transfer much wealth from stupid western countries to Russia and Asia. They represent a massive, uncertain, un-voted for and un-justified increase in foreign aid from Western consumers and tax payers to canny Asians and Russians. Japan and New Zealand are already facing bills in the billions. Have Australian people and taxpayers voted for such a massive transfer of their wealth to foreigners?
- A simple direct carbon emission tax allows the government to abolish all special alternate energy subsidies and mandated market sharing rules. The tax is an effective subsidy for all non carbon energy sources – there is no need for political entrepreneurs to pick winners in the marginal electorates.

5. Conclusions

These then are the conclusions and recommendations for the Garnaut Review:

- Stop causing market failures by interfering in the insurance markets for droughts, floods and tempests with subsidies or handouts that reward recklessness and poor judgement.
- Do nothing to encourage “innovative insurance products”. Government is the last place to look for innovation. Innovation should be left to private innovators risking their own capital or reputation.
- Do nothing to mandate or subsidise insurance for any private risks, weather or otherwise. This would indeed be a source of market failure. Let those who want insurance and those prepared to supply it work out their own rules, prices and contracts. Governments should only interfere if there is fraud, misrepresentation or breach of contract.
- The only sustainable policy for sharing risks is to let every person assess and insure his own risks in his own way and let the market reward and punish as appropriate.
- Do nothing to encourage or force the creation of a Carbon Emissions Trading market.
- The government should do NOTHING to promote Australia as a hub in the carbon trading market. Let private people decide that for themselves. When the carbon trading scam collapses, it will NOT be good for Australia to be seen as the instigator of the scam (like Holland in the Tulip Mania.) (It seems to Carbon Sense that Monaco, Las Vegas or even Sicily seem a much more appropriate locations for the new age Emissions Trading gamblers.)

In this matter of insurance and trade, government intervention can do no good so they should endeavour to:

“Do Thy Patient no Harm”.

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