

FINANCIAL REVIEW

Latham leads
on wrong foot

When you're losing an argument, wheel out a substitute and change the subject. Thus did Labor leader Mark Latham prod his stunned foreign affairs spokesman Kevin Rudd back into the firing line on Monday evening to defend the party's misconceived policy of bringing home all of Australia's 850 troops serving in and near Iraq by Christmas. Thus, too, did he yesterday announce the sensible policy of abolishing the Aboriginal and Torres Strait Islander Commission.

None of this could divert attention from the fact that Labor's Iraqi troops policy, as well as being confused and irresponsible, also threatens electoral damage. The ACNelsen poll published in *The Sydney Morning Herald* and *The Age* showed 61 per cent agreed with the Howard government's policy of leaving troops in place "until the job is done", while little more than half that number – 35 per cent – thought they should come home immediately.

That leaves a precious few per cent in favour of an arbitrary Christmas deadline, though the question didn't seem to have been put. It also means a significant minority support a continuing troop commitment in Iraq despite having opposed the invasion. Even so, Mr Latham hardened Labor's commitment again yesterday, slapping down a backbencher who suggested the troops might stay as part of a United Nations peacekeeping force. No wonder Mr Rudd seemed bewildered on TV on Monday at having to defend a policy mess that is neither his own doing nor that of the shadow cabinet.

True leadership requires respect for serious issues – few are more serious than military commitments overseas – and an ability to consult, admit mistakes and change course when necessary. Mr Latham, whose leadership is a work in progress, has shown none of these qualities in the debate over troops in Iraq. That will be troubling to Labor members who have embraced him as their saviour. There are risks, too, in Iraq for Prime Minister John Howard particularly if things deteriorate closer to the election.

But the folly of Labor's approach is confirmed by two authoritative assessments of Iraq a year after the war, from the Washington-based Centre for Strategic and International Studies and the Council on Foreign Relations. They both paint a grim picture of security in Iraq and urge the United States to maintain its military and political commitment to stabilising and rebuilding Iraq so that the real gains to date – in schools, oil and power production, and Iraqi confidence and political engagement – are not squandered.

Given the precariousness of Iraq's situation and recent events in Spain, the US-led coalition needs to stay the course in Iraq.

The CSIS says Iraqis are surprisingly confident about the present and future, and most believe they are better off than before the war. Rival ethnic groups have even shown a willingness to compromise in pursuit of political settlements. Power and oil production are recovering and economic activity is taking off in the cities. But the cost in casualties has been heavy, with nearly 4000 coalition military and civilian personnel and perhaps twice as many Iraqis killed or wounded. The task of rebuilding after Saddam Hussein's reign of terror is vast. Oil revenues will fund only a third of the Iraqi budget this year, thousands of new schools and millions of new homes are needed, and the timetable for political institution building is "tentative and highly unstable".

The Council on Foreign Relations is blunt on "apparent" plans for US troop reductions. It says these should be reviewed, and any withdrawals linked to clear improvements in crime rates and Iraqi perceptions of security.

"Troop reductions should not be linked to arbitrary dates or deadlines," it warns.

The council urges US President George Bush, Democrat challenger John Kerry and other leaders to put disagreements aside, reaffirm their commitment to a successful transfer of sovereignty back to the Iraqis, and back it up with billions of dollars of aid and enough allied forces to secure the Iraqis until they can secure themselves.

It also favours a larger role for the United Nations, both in recruiting international security forces, including from Nato and the European Union, and in overseeing the political settlement, helping define the role of the interim government after July 1 and building institutions.

Given the precariousness of Iraq's situation and recent events in Spain, members of the US-led coalition need to stay the course in Iraq. The UN and the international community – including nations that opposed the war – must take a larger role in securing Iraq's future, for the sake of its people and in the interests of the region. To be seen as an alternative prime minister Mr Latham needs to take these lessons to heart, listen to those better qualified in delicate questions of international relations and eschew grandstanding over Australian troops.

THE SUCKHOLE...



GALLERY DAVID ROWE

Fashionable impracticalities

Alan Mitchell
Economics editor

So, greenhouse gas emissions are growing at an alarming rate and Industry Minister Ian Macfarlane says Australia needs practical solutions that reduce the cost of meeting future greenhouse constraints.

The Howard government already has grasped at an impractical solution: the mandatory renewable energy target, or MRET, a target of 2 per cent renewable generation by 2010. Economist Warwick McKibbin has put his finger on the MRET policy's fatal flaw: the government is targeting the technology rather than the emissions.

Renewable technologies such as wind and solar power may be fashionable, but they are not economically viable. Wind power, the cheapest renewable generation is three to four times as expensive as coal-fired generation.

Expansion of MRET, as proposed by Labor under Simon Crean (he proposed to increase the 2010 target to 5 per cent), would start to put Australian industry at a competitive disadvantage.

To McKibbin and most other economists the practical solution to the problem of greenhouse emissions is a national system of emissions trading.

McKibbin has even proposed a soft version of emissions trading. Instead of determining the level of emissions and letting the market set the price, Canberra would effectively set the maximum price of emission licences and let the market determine the level of emissions.

The Parer committee on energy market reform offered a softer version still. It recommended that energy-intensive exporters and import-competing industries should be exempt

until their Third World competitors were subject to a similar regime.

A market-based approach would not preclude the renewable energy technologies but it would allow industry to find the least-cost means of meeting the government's greenhouse targets.

These least-cost solutions are likely to include strategies to reduce or offset the greenhouse emissions coal-fired generation (including old-fashioned technologies such as insulation and wearing a jumper instead of turning up the heater) as well as the most economical of the new, renewable energy technologies.

Least-cost means the same reduction in emissions but with the least burden on consumers and taxpayers and the least loss of jobs. It is the option that politicians should jump at. And yet so far there have been no political takers.

Why not? Perhaps it is easier to subsidise wind farms than curb greenhouse gas emissions.

It has to be admitted that emissions trading presents a political challenge. The Parer version, with its temporary exemptions, is the only one that would stand a chance.

The Howard government already has concluded that Australia's big energy-intensive export industries must be exempt while their competitors in the developing economies are free of greenhouse constraints.

That's why it refuses to ratify the Kyoto treaty. The government is committed to Australia meeting the first-round Kyoto target, which it hopes to achieve with the help of a reduction in land clearing. But it does not want to be dragged into the subsequent rounds while the US and the developing economies stay out.

However, exemptions for companies, such as Alcoa, would be difficult to sell.

You can imagine the headlines: Howard protects multinationals but slugs battlers. The question of whether to include petrol also would have to be confronted.

You can see why Prime Minister John Howard and Macfarlane prefer to cut ribbons at wind farms and hope that something – like economically viable carbon sequestration – will turn up.

You also can see why energy-intensive industries may have been willing to go along with MRET as a poor substitute for a proper market-based solution. Their fear would be of ending up with emissions trading but with their exemptions still stuck in the Senate.

A government that preaches the need for price signals in health care and education cannot ignore the obvious role for the market in the efficient reduction of greenhouse emissions. Moreover, the wind farms are likely to become a political embarrassment. The environmentalists regard renewable energy as an infant industry that, with sufficient time and government support, can become economically viable.

But wind farm technology is not exactly new born. It has been widely used overseas. And Australian wind farmers are in the process of exploiting the best locations. As wind farming expands to more marginal locations, it is likely to become less rather than more economically viable.

Unfortunately, politicians are often remembered more for their worst policies than for their best.

If the Howard government keeps pressing non viable technologies on the energy industry, it risks being remembered for the damage it did to the competitiveness of Australia's crucial energy-intensive exporters.

NOTEBOOK

Financial responsibility for defence chiefs

Mark Thompson in "Strategy", Australian Strategic Policy Institute, March 24.

Defence has an internal command economy not unlike the old Soviet Union.

While the service chiefs are responsible for delivering their respective military capabilities, they can hardly be held fully to account for efficiency when much of their logistics, administrative

support and facilities are managed by others over whom they have little control.

It's a matrix management on a \$15 billion a year scale with all the dispersed accountability that implies.

With this in mind, there are two things that can be done to improve the prospects of Defence delivering real and enduring productivity gains.

First, the efficiency with which military capability is delivered needs to

be measured and goals set for its improvement. This should include benchmarking against foreign militaries, and where practical, comparable commercial entities.

Second, the service chiefs should be given full control over the resources they need to deliver their respective military capabilities.

And they need to be made fully accountable for delivering productivity through incentive and sanctions.