

# Climate Change Update

## Australian Government announces intention to introduce Carbon Tax

On 24<sup>th</sup> February, Prime Minister Julia Gillard announced the intention of her government to introduce a Carbon Price from 1 July 2012. Under the current proposal, the tax would be introduced as an interim measure until a full 'cap and trade' emissions trading scheme can be introduced three to five years later. According to the Prime Minister this would provide an opportunity to better consider the design and implementation of the future emissions trading scheme and assess policy developments of other nations. She said that one year before the end of the fixed price period, a review would consider if there were any reasons to delay moving to a cap and trade scheme.

Ms Gillard indicated that a carbon price would apply to the energy sector, transport, industrial emissions and waste. Agricultural emissions would not be included under current plans on the basis that "the measures and mechanisms for counting agricultural emissions are simply too complex" (however these are intended to be captured under the proposed Carbon Farming Initiative). The tax would also be levied on ALL SIX major greenhouse gases covered under the Kyoto Protocol – including carbon, methane and nitrous oxide.

There is also no decision on what the set price will be, but the carbon price will increase annually at a pre-set rate. However Professor Ross Garnaut, the chief advisor to the Federal Government on climate change, has recommended the carbon tax be set at between \$20 and \$30 a tonne with an annual price rise of 4 per cent per annum.

On the matter of compensation, there is also no current decision. However since the original announcement the government has moved to reassure interest groups that there will be adequate compensation for households and businesses, with a particular emphasis on pensioners and low-income households. However this remains a matter of contention with the greens opposing the original CPRS proposed by the previous Rudd Government on the basis that too much compensation was afforded to business and industry.

### How does it differ from Rudd's CPRS?

Well the short answer is that it doesn't. While key details are yet to be decided, in effect there is very little difference between the two policies proposed by the previous Prime Minister Kevin Rudd and the current Prime Minister Julia Gillard.

Both the CPRS and Gillard's Carbon Tax aimed to place a price on carbon in order to curb the consumption of carbon intensive goods and services. Under both schemes the price would be imposed at the point of production – or the source of emissions.

Under the Carbon Tax the price would have a set rate, however under the CPRS, the market was to set the price based on the supply and demand (or the buying and selling) of carbon credits.

However, when designed the CPRS was also to have a set price (or price cap) imposed for the initial 3 years following introduction before moving to a full market 'floating' price mechanism. Similarly, while Julia Gillard proposes a set price carbon tax from 1 July 2012, this is only an "interim measure" before moving to a floating price emissions trading scheme after 3-5 years.

On the matter of compensation, the then Prime Minister Kevin Rudd negotiated an extensive household and industry package of compensation measures that mitigated the impacts on "emissions intensive trade exposed" industries and provided rebates on energy costs through the tax system to low- and middle- income households. Julia Gillard has promised similar compensation, suggesting that the original compensation package proposed under the CPRS would be "starting point for negotiations".

A further key point to note on the issue of compensation is the fact that under the CPRS proposal, compensation was intended only to mitigate the "initial adjustment shocks" on individuals, households, businesses and the economy and was to be phased out over the initial 3 years (Phase 1) of the scheme. If Australia is to achieve its targets and reduce emissions than the use of high-carbon goods and services – coal-produced electricity and oil-powered transport – must be reduced. After all, what is the point of a carbon tax if it doesn't make it harder for people to turn on their air conditioners or to drive their cars? Accordingly we must be realistic in expecting that any compensation measures proposed by the Gillard Government will need to be "interim" in nature and would likely be progressively phased out.

### Opposing views and alternative options

The Federal Opposition opposes the governments plan to introduce a Carbon Tax, preferring an alternative Direct Action approach to carbon reduction and abatement.

On the Australian Liberal Party's website it states that "The Coalition holds that climate change is real and that mankind is contributing to it." In its 'Direct Action Plan' policy document the coalition propose to "reduce emissions through more tree planting, better soil and smarter technology."

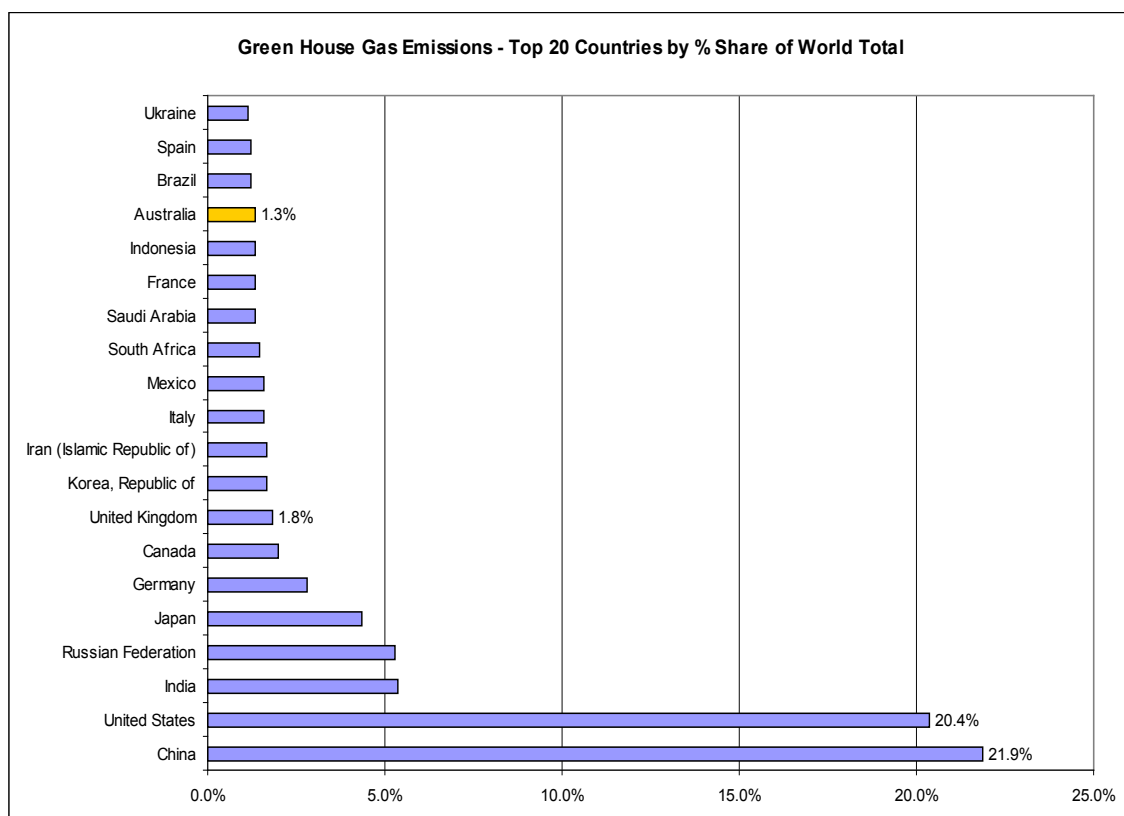
Direct action on soil carbons is the major plank of this strategy, supported by other direct action measures including roll-out of subsidised small- and mid- scale solar projects for households, schools and communities, support for research and delivery of large-scale renewable energy generation, support for businesses to trend toward lower emissions-intensive activity, and large-scale tree planting.

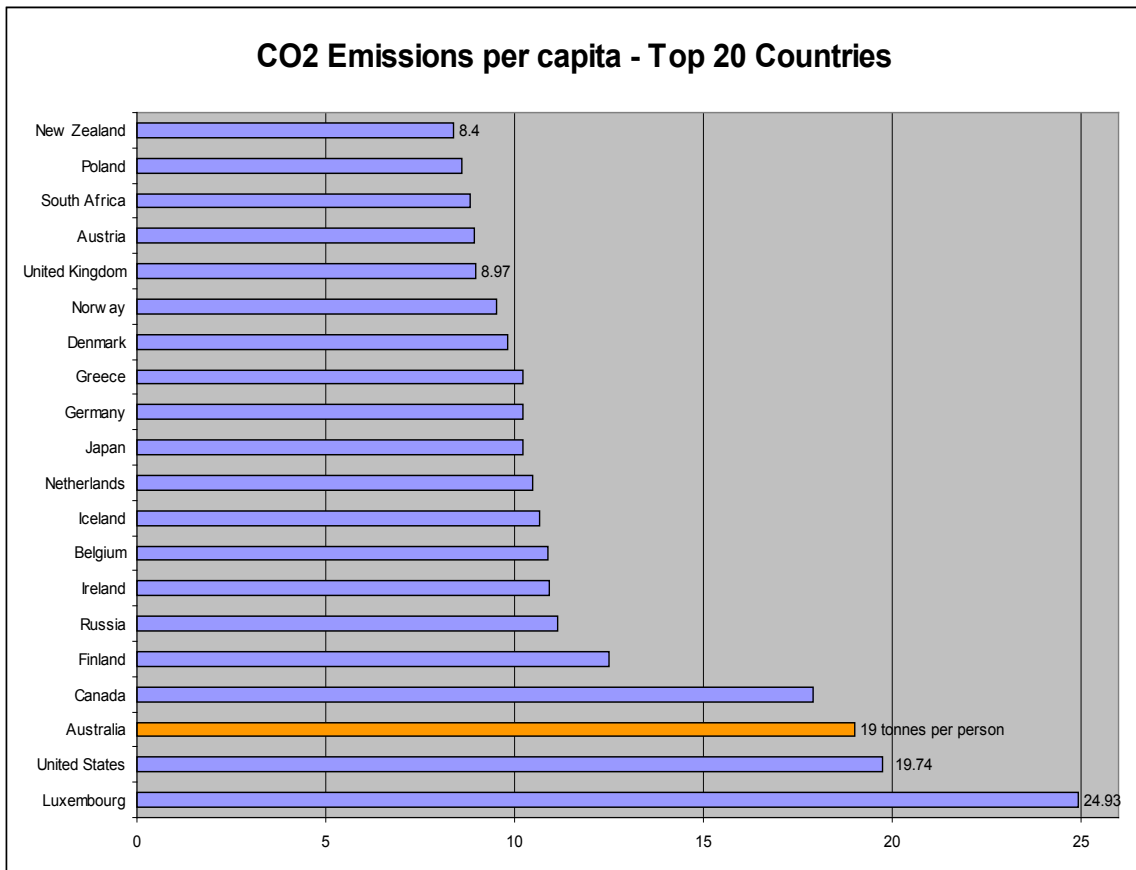
To facilitate direct action, a Coalition Government propose the establishment of an Emissions Reduction Fund to support CO2 emissions reduction activity by business and industry. It was estimated that the Coalitions plan would cost \$3.2bn over the forward estimates period.

### Where does Australia stand on Carbon emissions... what are the facts

Australian Greenhouse gas emissions represent about 3 per cent of total world emissions and ranks 17<sup>th</sup> out of the top 20 greenhouse gas emitters in the world. Carbon dioxide accounts for 75.2 per cent of Australian emissions, methane 19.7 per cent and nitrous oxide 4.1 per cent.

However on a per capita basis, Australia is the third highest emitter of greenhouse gases across the developed world, mainly due to the high use of coal for electricity.





Energy (including associated fugitive emissions), transport and agriculture account for 88 per cent of Australia's total emissions.

