

## UPDATE: Carbon certainty at last for Australians

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**Almost one year on from being elected as Australia's first female prime minister, Julia Gillard has announced her government's long-awaited package for climate change action. The plans include assistance for industries such as coal and steel.**

The July 2012 starting price for 500 of Australia's biggest polluters will be A\$23 (\$24) per tonne of carbon dioxide emitted, rising 2.5% each year until the emissions trading scheme (ETS) comes into play on July 1 2015.

Now the details have been publicised, companies can begin to assess how they will be affected by the price and what changes they need to undertake.

Other specific details are largely in line with expectations, with no carbon price for agricultural emissions and no price for fuels used for transport, with the exceptions of domestic aviation, domestic shipping, and rail transport. Diesel fuel will be subject to the tax from 2014.

"In terms of design, I don't believe it is that controversial. The big issue for debate is whether a carbon tax should be introduced into Australia in the first place," said Greg Reinhardt, a tax partner with Henry Davis York.

**The climate change plan** comes with assistance for both businesses and households. Indeed, for the initial four years of the scheme, government spending on compensation is projected to be A\$4.3 billion more than it will raise.

"In terms of business, it depends on the sector that one is in," said Grant Wardell-Johnson, tax partner at KPMG Australia. "This will only affect the 500 largest carbon emitters. There are different impacts in relation to those businesses depending on which sector they are in. In some sectors, there is compensation from the government in terms of free permits."

Emissions intensive trade-exposed industries, such as steel manufacturing, will be eligible for support under the Jobs and Competitiveness Programme, with the government setting aside A\$9.2 billion of assistance for the first three years of the carbon tax.

"In effect the system has divided industrial Australia into different parts," said Viva Hammer, principal at KPMG Washington. "The ones that are considered emissions intensive are given a 94.5% benefit, and the next level get 66%."

A specific A\$300 million compensation package for the steel sector was also included in yesterday's announcement.

Furthermore, there will be transitional assistance for the coal industry in the form of a coal sector jobs package.

Once the scheme switches to the ETS in 2015, carbon permits will be traded, but it is proposed that these permits will be exempt from goods and services tax.

As part of the government's action on climate change, it is investing in clean technology through the A\$10 billion which has been allocated to the Clean Energy Finance Corporation to target renewable energy sources, particularly wind and solar.

The carbon action plan is reportedly set to cut carbon pollution by 120 million tonnes by 2020 – equivalent to taking 45 million cars off the road, Gillard said. But even with the tax and ETS leading to net reductions in emissions from

projected pollution, annual emissions in 2020 will still be higher than now. Many have questioned the environmental impact that pricing carbon in Australia will actually have.

“Australia emits just over 1% of the world’s greenhouse gases so it seems unlikely that a massive reduction in emissions would make a difference on the global scale.” said Reinhardt. “Therefore, an appropriate context would be to view Australia’s contribution alongside other countries’ strategies.”

Despite such claims, there have been positive international reactions to Australia’s announced action.

German climate scientist and adviser, Malte Meinshausen, has said Australia ‘had the snooze button on’ until now and that Sunday’s package will send a message to other polluting nations that global action is a necessity.

Within Australia, the carbon price plan was heralded by commentators last week as Labour’s last chance to win over a public that was promised by Gillard that a carbon tax would not be implemented under her leadership.

That broken promise has turned thousands of voters against the government, which must now convince the electorate that the action outlined by yesterday’s plan is in the long-term best interests of Australia.

This will certainly prove a tough challenge for Labour. The public may want to take a stand and show the politicians that broken election promises will not be tolerated. They might also overlook national circumstances and view a starting price twice the size of neighbouring New Zealand’s carbon price as too imposing. Some stakeholders have already raised this concern.

“The right policy for Australia should be a slow and steady start, with a low initial carbon price during the fixed-price period,” said Jennifer Westacott, Business Council of Australia chief executive. “Such a high price in the fixed-price period and no opportunity to access cheaper ways of reducing emissions internationally will not ensure a least-cost approach to emissions reduction.”

The initial price could have been much higher if the Greens had had their way.

“The Greens, who are the minority partners in the ruling coalition at the moment, they were proposing a price in the order of \$45 a tonne,” said one tax partner.

Political manipulation of the carbon tax issue will undoubtedly continue for some time to come, with Tony Abbott, the leader of the opposition, saying he will reverse the policy if he becomes prime minister and that the next election will be a referendum on a carbon tax.

“Tony Abbott has said he will repeal the tax. This has added to the uncertainty among Australians and may reduce the effectiveness of a carbon tax as a whole,” said Reinhardt. “The big environmental change will come from industry. When power plants come up for refurbishment, there will be an increased economic incentive to invest in new green technology. The problem is that the opposition has said it will repeal the carbon tax, so industry may be hesitant to invest and will most likely wait until the next election.”

But there has been enough to-ing and fro-ing up to this point already. One thing is for sure: taxpayers can at long last take heart from the fact that if nothing else, they now have at least a degree of certainty to plan their tax affairs and attempt to mitigate the impact of the carbon tax on their business.

One adviser points out the bravery of Gillard’s government for prioritising the climate change issue in Australia, ahead of other jurisdictions.

“The rest of the world was astonished and impressed that Australia had the gumption and wherewithal to come up with a plan on climate stability,” said Hammer. “When you are the first to act, it requires considerable courage, and Australia did that.”