



29 October 2010

Committee Secretary
Select Committee on the Scrutiny of New Taxes
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Committee Secretary

Thank you for the opportunity to make a submission to the *Senate Select Committee on the Scrutiny of New Taxes* Inquiry into Carbon Tax Pricing Mechanisms.

In summary, the submission argues that there is no benefit in Australia implementing a carbon price taxing mechanism at the current time.

Australia only contributes 1.5 percent of the world's CO₂ emissions. The lack of an international agreement means that a carbon price would simply damage Australia's economy without overcoming the negative effects of climate change.

If any carbon abatement is to be pursued, such as the current Government's unconditional target of a five percent reduction in Australia's carbon emissions by 2020, then it should be pursued through means which have the lowest possible costs. Given the high costs of carbon price mechanisms, and the comparatively low costs of alternatives, the Labor Government should not proceed with any carbon pricing mechanism.

I hope this submission will be of some assistance to the committee.

Yours sincerely

<signed>

RICHARD WILSON
FEDERAL PRESIDENT



INQUIRY INTO CARBON TAX PRICING MECHANISMS

Submission To The Senate Select
Committee On The Scrutiny Of New
Taxes.

October 2010

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About the Young Liberal Movement

The Young Liberal Movement is the youth wing of the Liberal Party of Australia. It is the peak conservative movement for Australians aged between 16 and 30, and shares the Liberal Party's beliefs in smaller government, individual responsibility and the preservation of society's important traditions and institutions.

About Richard Wilson

Richard Wilson is the Federal President of the Young Liberal Movement. Richard has over seven years experience as a senior policy analyst in both Commonwealth and State Government across a range of economic and social portfolios. He holds a Bachelor of Arts (Hons) from the University of Western Australia and a Master of Public Policy from the Australian National University.

Introduction

Individuals, families and businesses - not government - are the best judges of determining what is right for their particular circumstances. Every dollar of tax collected is a dollar taken from a wage earner and their family, or a business. Tax inhibits the ability of households to support themselves through their own efforts.

Tax collection ought to be easy to administer, efficient, and cost effective. The costs of administering the current system are large – at the federal level the Australian Tax Office alone employs around 22,000 people and has an annual operating budget in excess of \$3bn. New taxes add to this complexity and expense.

Taxes should be used to facilitate beneficial economic and social outcomes. A tax system is fairer when the burden of taxation is shared across the community, and spending can be shown to lead to quantifiably better outcomes. An absence of any such correlation should lead to questions of whether the spending, and therefore the levying of the tax, is necessary.

These simple truths mean the Young Liberal Movement shares a belief in the basic economic theory which suggests taxes must be as low, as fair, and as simple as possible. In turn, government has a duty to ensure government services are provided as efficiently as possible, so as to minimise taxation.

The election of a Labor Government in 2007 has seen many new and increased taxes levied upon the Australian people. These include:

- The 70 percent increase in pre-mixed drinks excise (“Alcopops levy”), costing taxpayers over \$3 billion¹
- Increasing the luxury car tax from 25 percent to 33 percent, costing tax payers \$555 million²
- Removal of the 30 percent private health insurance rebate for large segments of the population, costing those taxpayers \$1.9 billion over four years³
- The 25 percent increase in tobacco excise, which will cost smokers an additional \$5.6 billion over four years⁴
- Lowering concessions for qualifying rights under employee share schemes, costing taxpayers \$77 million over four years⁵;
- Removing FBT exemptions for laptop computers, mobile phones, computer software and other work tools⁶, costing tax payers \$1.2 billion over four years.

¹ Senate Standing Committee on Community Affairs (2008), *Ready-to-drink alcohol beverages*, released June 2008, Commonwealth of Australia, Canberra, ACT,

http://www.aph.gov.au/senate/committee/clac_ctte/alcohol_beverages/report/report.pdf

² Swan W (2008), *Media Release: Increasing the Luxury Car Tax*, Commonwealth Treasury, <http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2008/042.htm&pageID=&min=wms&Year=&DocType=0>

³ Biggs A (2009), *Budget Review 2009-10: Health and Ageing*, Parliamentary Library, Canberra, ACT http://www.aph.gov.au/library/pubs/RP/BudgetReview2009-10/HealthAndAgeing_Insurance.htm

⁴ Parliamentary Library (2010), *Excise Tariff Amendment (Tobacco) Bill 2010*, Bills Digest No. 154, Canberra, ACT, <http://www.aph.gov.au/library/pubs/bd/2009-10/10bd154.htm>.

⁵ Swan W (2008), *Media Release: Employee Share Schemes*, Commonwealth Treasury, <http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2008/044.htm&pageID=&min=wms&Year=&DocType=0>

⁶ Swan W (2008), *Media Release: Fringe Benefits Tax – Integrity Measures*, Commonwealth Treasury, <http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2008/048.htm&pageID=&min=wms&Year=&DocType=0>

- Tightening the exemption for foreign employment income, costing those taxpayers \$675 million⁷.

The Labor Government often admits that many of the above tax increases occurred for no reason other than they wanted more money to fund their increased spending proposals (see references). They make no effort to demonstrate a correlation between the taxes levied and the benefit to society. They are quintessential tax grabs.

On a few occasions, the Labor Government has attempted to demonstrate these new taxes would provide some public benefit, either through internalising negative externalities or raising revenue which could be spent ameliorating social ills. In reality, these have been poorly targeted, with little correlation between the tax collected and any resulting public benefit. For example:

- The increase in tobacco excise is meant to contribute to the establishment of the National Health and Hospitals Network. However, even those that support the idea in-principle suggest that the Government's plan does not contain enough detail to be sure the plan would work⁸. Nevertheless, the Government is proceeding and will spend \$15.6 billion. If the Government were serious about delivering good outcomes for the Australian people, proposals would be accompanied by a plan detailing the full benefits of the proposal prior to beginning implementation.
- Despite assertions the 70% Alcopops tax increase would markedly reduce binge drinking amongst teenagers through reduced demand and investment in preventative health programmes, empirical evidence suggests that per capita alcohol consumption amongst 15 year olds has fallen less than 3% since the tax was levied⁹. This is a small return for a \$3 billion cost to the taxpayer.

To prevent problems like this from occurring again, future taxing proposals should be subject to a rigorous policy analysis prior to implementation to ensure proposed taxes achieve their stated aims.

⁷ Sanyil K (2009), *Budget Review 2009-10: Taxation*, Parliamentary Library, Canberra, ACT http://www.aph.gov.au/library/pubs/RP/BudgetReview2009-10/Taxation_Reform.htm

⁸ Australian Medical Association (2010), *COAG National Health and Hospitals Network Agreement - Senate Committee Inquiry Submission*, Barton, ACT, <http://ama.com.au/node/5654>, p. 1.

⁹ Australian Bureau of Statistics (2010), *4307.0.55.001 - Apparent Consumption of Alcohol, Australia, 2008-09*, Commonwealth of Australia, Canberra, ACT (released 27 May 2010) <http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/48BD96605A358A0ACA256F16007D736D?OpenDocument#About>

Carbon price taxing mechanisms – a policy analysis

The problem

Government spends time at the beginning of any policy analysis to accurately formulate the policy problem it seeking to address through intervention. Spending time at this stage allows government to ensure it is properly targeting any proposed solution¹⁰.

Several reviews of climate change, including the Garnaut Climate Change Review, the Stern Review on the Economics of Climate Change and the International Panel on Climate Change's (IPCC) 2007 Assessment Report, conclude that the world is warming at a rate that would permanently change ecosystems, food production, coastlines and the operation of certain industries¹¹. This warming would cause hunger, water shortages, coastal flooding and reductions in standards of living, on a large scale, all across the world¹².

As such, the problem definition may be formulated as:

The emission of greenhouse gases are causing the warming of the Earth's atmosphere which, if continued, will result in large, negative effects upon the standard of living of the entire world's human population.

For the sake of brevity, this analysis will not outline countervailing evidence which disputes the existence of climate change or the effect that humans have on climate change. It will proceed on the basis of mainstream evidence that the problem of climate change does exist and it is caused by human induced carbon emissions.

Objectives and goals of this analysis

Defining the goal of any policy change allows government to check the solution/s it is formulating will successfully alleviate the problem it is trying to solve¹³.

The goal of this analysis is to outline the options the Australian Government can take to mitigate climate change and the trade-offs inherent in adopting such approaches. It should then recommend the option that would best mitigate climate change with the fewest tradeoffs.

Most evidence suggests warming will slow if the atmosphere stabilises at a level between 450 and 550 parts per million (ppm) of carbon dioxide or equivalent (CO₂e). Exceeding this threshold will see the worst effects of climate change become a reality.

To stabilise at these levels, Stern estimates that global CO₂ emissions need to be reduced by a minimum of 25 percent by 2050, and 80% in total¹⁴. Importantly,

¹⁰ Stokey E and Zeckhauser R (1978), *A primer for policy analysis*, W.W. Norton, p. 5.

¹¹ IPCC (2007), *Climate Change 2007: Synthesis Report*, United Nations, NY, p. 72.

¹² Stern N (2007), *The Economics of Climate Change*, HM Treasury, London, UK, p. vi.

¹³ Bridgman P and Davis G (2004), *The Australian Policy Handbook*, 3rd ed, Allen and Unwin, Sydney, p. 49.

¹⁴ Stern, *ibid*, p. vii.

Garnaut estimates that Australia presently only contributes approximately 1.5 percent of global emissions¹⁵.

Possible solutions

For any policy problem, there are often a range of solutions available to government, all of which must be considered. During an iterative process, these solutions are either ruled out or refined, until the most desirable solution emerges and government can consider its implementation options¹⁶.

There are a range of options which Australia can implement to address the effects of climate change. The main ones include:

1. Creating disincentives to emit CO₂ through the implementation of a carbon tax, an emissions trading scheme, or similar carbon pricing mechanisms
2. Incentivising or coercing behaviour which reduces use of carbon intensive technology, such as subsidies for renewable energy use
3. Investment in research and development for solutions which combat climate change, such as nuclear energy or carbon capture and storage
4. A combination of the above options
5. A combination of the above options in tandem with a global agreement which ties all countries to climate change mitigation strategies.

The choice is essentially whether Australia, as an emitter of only 1.5 percent of global CO₂ emissions, should implement policies to combat climate change before other countries are willing to do the same, and if so, what policies should be implemented.

Policy learning

Policy learning is simply a term which addresses the question: Under what circumstances and to what extent can a programme that is effective in one place transfer to another?¹⁷

The implementation of an emissions trading scheme amongst members of the European Union has been criticised for not achieving the environmental objectives it set out to achieve, despite higher costs on individuals and businesses paying for electricity¹⁸. This was due to both design flaws in the scheme's governance and the fact that it was not connected to a broader international agreement designed to mitigate the effects of climate change.

The European Union's experience is instructive - it is a jurisdiction that decided to implement carbon trading unilaterally, invested much time and money into getting the governance right, and found the solution did not work despite lowering the standards of living of the people it was taxing. This is the choice which now confronts Australia, and the Government should learn from Europe's mistakes.

¹⁵ Garnaut R (2008), *Garnaut Climate Change Review*, Chapter 3, Table 3.2, Commonwealth of Australia, Canberra, ACT.

¹⁶ Munger MC (2000), *Analysing policy: choices conflicts and practices*, W.W. Norton, p. 21.

¹⁷ Rose R (1991), "What is lesson drawing?" in *Journal of Public Policy*, Vol 11, No.1, p. 3.

¹⁸ Gilbertson T & Reyes O (2009), *Carbon Trading: how it works and why it fails*, Dag Hammarskjöld Foundation Occasional Paper, No. 7, <http://www.carbontradedewatch.org/publications/carbon-trading-how-it-works-and-why-it-fails.html>, p. 43

Projecting the outcomes

Projecting the outcomes of any proposed policy solution is a key mechanism for government to ensure the policy intent of the solution is delivered¹⁹.

In short, none of options 1-4 will result in a large enough reduction of carbon emissions to effectively mitigate climate change and its negative effects. Australia only produces a very small proportion of the world's CO₂ emissions (1.5%) - so small that even if Australia went totally "dark" and reduced its carbon emissions to zero overnight, it would not prevent the negative effects of climate change. The only effective way to prevent the negative effects of climate change from occurring is through a global agreement which sees every nation reducing their emissions, resulting in a stabilisation of CO₂ to the target range of 450 to 550 ppm of the earth's atmosphere.

The tradeoffs from putting a price on carbon prior to any international agreement are large. They would result in an increase in unemployment due to carbon intensive projects becoming commercially unviable²⁰, higher household prices for a range of every day consumer goods and services whose supply chain results in the emission of carbon²¹, and damage to the Australia's economy as the costs of the carbon tax limits production which contributes to growth²². These tradeoffs are a large price to pay for an outcome which will not achieve the desired solution of reducing the negative effects of climate change.

An international agreement which ties all countries to carbon abatement strategies and targets (Option 5) has already been attempted, with negotiations failing most recently at the 2009 Copenhagen Climate Conference. It will be attempted again at the 16th United Nations Climate Change Conference in Cancun, Mexico, in December 2010. The success of the international agreement depends on the willingness of China, the United States and other big emitters of carbon to agree to constrain their economic growth and undertake structural reform within their economies which reduces their reliance on carbon emitting industries.

Australia should not adopt measures which will damage its own economic growth until it is sure these large CO₂ emitters are willing to make the sacrifices necessary to reduce the negative effects of climate change. To move unilaterally before there is a consensus damages Australia's standard of living with no chance of preventing the negative effects of climate change.

Some argue that Australia must demonstrate it is willing to lower its own emissions before it is taken seriously in calling for global reform²³. The Government has specified an unconditional reduction target of 5 percent of Australia's emissions by

¹⁹ Bardach E (2008), *A practical guide to policy analysis: the eightfold path to more effective problem solving*, 3rd ed, CQ Press.

²⁰ Fisher B (2008), *A peer review of the Treasury modelling of the economic impacts of reducing emissions*, Concept Economics, Barton, ACT
http://www.aph.gov.au/senate/Committee/fuelenergy_cte/senate_ets_report_020209_final.pdf, p. 34

²¹ ACCI (2009), *ACCI Submission to Senate Select Committee on Climate Policy*, April 2009,
<http://www.acci.asn.au/SubmissionsMain.htm>, p. 6.

²² Ridout H (2009), *Australian Industry Group submission to the Senate Select Committee on Climate Policy*, <http://www.aigroup.com.au/portal/site/aig/policy/submissions/environment/>, p. 5

²³ Garnaut R (2008), *op cit*, Chapter 12.

2020 to achieve this goal. In doing so, the Government should re-examine the options above, confront the tradeoffs, and pick the option which will achieve the goal at the lowest cost.

The European Union has already shown that carbon trading, despite meticulous planning and the imposition of onerous reporting standards, can fail to deliver desired environmental outcomes whilst still imposing costs on households and businesses²⁴.

Conversely, a reduction in emissions of five percent can be achieved without putting a price on carbon. Strategies include investment in clean and renewable energy, rewards for businesses that reduce emissions, replenishment of soil carbons, and altered regulatory regimes. The costs of such changes would be much smaller, and the changes would be much easier to implement²⁵.

Conclusion

In the absence of any international agreement on climate change, the Australian Government should choose the option which shows Australia's commitment to carbon abatement, but has the lowest costs. Using the Labor Government's own figure of an unconditional five percent reduction in emissions by 2020 as a target, the policy which delivers this outcome with the lowest costs is not an emissions trading scheme or a carbon tax, but a suite of other measures.

A carbon pricing mechanism may become a viable option if the international community agrees to limit carbon emissions. In the absence of such an agreement, however, it would be foolish for Australia to move unilaterally in imposing a carbon price because it would result in negative outcomes without achieving the desired positive outcomes.

Similar experiences in the European Union have shown the shortcomings of moving unilaterally to place a price on carbon. Australia should not replicate the EU's mistakes, particularly given Australia's carbon emissions make up a much smaller proportion of world emissions compared to the EU.

Finally, the Labor Government has not mounted an effective case for the levying of a carbon tax.

Even on the basis of its own reviews and analysis, the costs of a carbon taxing mechanism will outweigh the benefits. It is likely to be incredibly complex. It will take money away from families.

The only conclusion, in light of these concerns, is that a carbon price mechanism should not be pursued.

²⁴ Böhringer C et al (2009), "EU Climate Policy up to 2020: An economic impact assessment" in *Energy Economics*, Volume 31, December 2009, p. S301.

²⁵ Diessendorf M (2010) "Sustainable Energy Policy for Australia", *Briefing Paper #5*, EnergyScience Coalition, <http://www.energyscience.org.au/>.