

8 November 2010

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

ATTENTION: Australian Senate Select Committee on the Scrutiny of New Taxes

RE: Senate Inquiry into Carbon Tax Pricing Mechanisms

Thank you for the opportunity to make a submission to this Inquiry. The Grattan Institute is a think tank making independent, rigorous and practical contributions to Australian domestic policy issues.

There are four key points from our research that would be of potential interest to this Inquiry:

- 1) A carbon pricing mechanism, such as an emissions trading scheme or a carbon tax/levy, is a moderate and readily manageable economic reform that will not materially impact Australia's economic prosperity (Please see **Attachment A and B** for further information. These are the two documents that made up our report, *Restructuring the Australian Economy to Emit Less Carbon*).
- 2) A carbon pricing mechanism represents a moderate cost to Australian households, and it is possible to return any monies raised from the mechanism back to households in a way that does not undermine emission reduction objectives (please see chapter 10 of **Attachment B** and **Attachment C** for further information).
- 3) Blanket exemptions or large-scale provision of free permits to trade-exposed industry have the potential to undermine the effectiveness of the carbon pricing mechanism to drive necessary restructuring of the Australian economy and achieve emission reduction targets at least cost. The exemptions are not necessary to maintain the profitability and viability of most of Australia's emissions intensive trade exposed industries. (Please see **attachments A and B** for further information.)
- 4) There are good arguments for adopting a hybrid of a carbon tax and a carbon trading scheme. This could provide a ceiling and a floor to carbon prices while still providing the dynamism of a trading instrument. Australia's carbon emission reduction targets are set with at least informal reference to the expected cost (and benefit) to the Australian community. However these forecasts are highly uncertain. If there is a price ceiling, Australia would reduce pollution less if abatement costs turned out to be substantially higher than expected. Equally if there is a price floor, Australia would reduce pollution more if abatement costs turned out to be lower than expected (Please see **Attachments D and E** for more detail on the rationale for a price floor on carbon emissions).

We would welcome the opportunity to appear before the Committee to provide further detail on these points above and answer any questions that the Committee may have.

If you have any questions in the meantime please do not hesitate to contact Tristan Edis, a Research Fellow in our Energy Program. He can be reached on (03) 9035 8186 or tristan.edis@grattan.edu.au .

Yours sincerely,

John Daley

Chief Executive Officer