



9 December 2010

Mr John Hawkins  
The Secretary  
Senate Select Committee on the Scrutiny of New Taxes  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

By email: [newtaxes@aph.gov.au](mailto:newtaxes@aph.gov.au)

Dear John

### **Senate inquiry into 'carbon tax pricing mechanisms'**

The Institute of Chartered Accountants in Australia (the Institute) welcomes the opportunity to make a submission to the Senate Select Committee on the Scrutiny of New Taxes (the Committee) in relation to its inquiry into "a carbon tax, or any other mechanism to put a price on carbon".

The Institute will be conducting some further research and surveys in early 2011 to obtain input from our members from a broad range of industries, locations, specialty functions and business perspectives. With the benefit of this feedback, we propose to provide our more detailed comments in a submission to this Senate Committee in March 2011.

We wish to take this opportunity, however, to register some of our preliminary high-level views for the Committee's initial consideration.

#### ***Background – rationale for a price on carbon***

- Both the Government and the Opposition have made unconditional commitments to reduce Australia's emissions by at least five per cent below 2000 levels by 2020. Australia's stated emission reduction target by 2050 is 60 per cent below 2000 levels<sup>1</sup>. Allowing for growth in demand from factors such as population growth, the 'real cuts' in emissions that are required are significantly greater.
- The magnitude of the required emission reductions foreshadows the need for an extensive economic transformation in the future. With global emissions on track to reach record levels in 2010 and showing no sign of abating<sup>2</sup>, 'business as usual' will not deliver such significant reductions.
- Delay in reducing emissions will steepen the abatement trajectory as there will be less time to reduce emissions to meet our target emission levels. On this basis, the OECD has recommended that a carbon price be set sooner rather than later<sup>3</sup>.

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<sup>1</sup> Department of Climate Change (2008), *The Carbon Pollution Reduction Scheme: Green Paper*

<sup>2</sup> CSIRO Media Release, 22 November 2010 (Ref 10/135), based on the annual report card of the Global Carbon Project (GCP), supported by CSIRO's Marine and Atmospheric Research Division.

<sup>3</sup> OECD Economic Surveys Australia, Volume 2010 – November 2010, Supplement 3, at 110

- Given the scale of economic transformation required, particularly in the area of large-scale infrastructure assets such as energy and transport, private investment will need to be leveraged for Australia to continue to prosper in a carbon-constrained future, in addition to an increased public spend<sup>4</sup>.
- Certainty regarding the price of carbon has the potential to spark rapid economic transformation and unlock the estimated trillion dollar institutional investor market for large-scale investment in low-carbon assets and infrastructure.

### **Key comments**

- The Institute supports the proposal to introduce a price on carbon. We believe that an explicit carbon price signal is a necessary part of the policy response to climate change so as to create certainty for the market to act as a catalyst for the transition to a low-carbon economy.
- We believe that a market mechanism to set a price on carbon is the most economically efficient way of reducing emissions. The OECD noted in their report that “the costs of regulatory approaches to reduce emissions can be more than twice as high as the costs of market-based approaches.”<sup>5</sup>
- The Institute encourages the establishment of a price on carbon with as little delay as possible, given the objectives we have set for achieving our emissions reduction targets.

### **Carbon tax or some other mechanism**

- The advantage of a carbon tax is that the carbon price is fixed, predictable, and offers certainty, however the disadvantage is that there is no certainty about the environmental objective to reduce emissions to a target level, although reduction in emissions would be the anticipated outcome of imposing a carbon tax disincentive. By contrast, the advantage an Emissions Trading Scheme (ETS) is that it provides a cap on emissions so may provide more certainty regarding the environmental outcomes, however the disadvantage is that the carbon price is variable and subject to volatility, and therefore provides a less certain and predictable price signal for the market.
- An ETS would offer the advantage of allowing linkage with other ETSS being implemented internationally (such as in the EU, Japan and New Zealand) so that Australian businesses can access lowest cost abatement through global carbon markets over the longer-term, while a carbon tax may have the benefit of being a simpler mechanism that can be implemented in Australia with more immediacy so as to achieve an abatement impact sooner.

### **Design and implementation**

- Any market mechanism adopted should have the hallmarks of simplicity, certainty and equity. It should be as simple as practicable in its design, implementation, and compliance requirements. It should be as certain as possible with respect to its imposition (imposed by law), its duration (the period for which it is imposed), its scope and its boundaries (clarity). It should be equitable in its application to entities within markets, and should apply in a way that does not duplicate carbon cost imposts in the supply chain.
- Any carbon price mechanism selected should have the flexibility to respond to future demands over time. It must be able to adjust in terms of prices and targets to move with the science and Australia’s international commitments.

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<sup>4</sup> OECD survey, at 16-17

<sup>5</sup> OECD survey, at 111

### Proceeds of carbon price

- We believe that the revenue collected from the carbon price mechanism should be quarantined from consolidated revenue, and reinvested in programs relating to climate change action, including renewable energy, low emissions transportation, energy efficiency incentives, and climate change subsidies to offset cost increases for low income earners.

### Complementary measures

In addition to a carbon price, the Institute urges the Government to consider further complementary measures, including:

- Introducing energy efficiency incentives in the property, manufacturing and transport industries, such as the 'Green buildings' tax offset announced by the Government earlier this year.
- Utilising the R&D tax concession to deliver enhanced tax benefits for innovations in the key area of low-carbon infrastructure / assets, such as renewable energy and zero-emissions technologies.
- Removing tax concessions that encourage ecologically undesirable behaviours, such as the Fringe Benefits Tax statutory rate concession for motor vehicles, and subsidies/tax rebates on other carbon-intensive products, services or activities.

### Reporting of Emissions

We believe any market mechanism adopted should have the hallmarks of simplicity, certainty and equity. In order to meet these objectives and to assist business in reporting emissions which will ultimately be subjected to a carbon price, it is essential the default emission factors issued by the Department of Climate Change are updated to reflect Australian conditions.

Yours sincerely

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**The Institute of Chartered Accountants in Australia**