



NIEIR

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

15th August 2011

Dear Secretary,

Inquiry into the Carbon Tax Pricing Mechanisms

The National Institute of Economic and Industry research welcomes the opportunity to provide a further submission to the inquiry into the carbon tax pricing mechanism, following the release of the Government's Clean Energy Plan.

We would like to highlight our previous comments in the area of carbon price/taxing policy. The latest submission presented to the senate committee is attached to this letter for reference.

The main points to note are:

1. Treasury modelling did not analyse the equipment replacement process and failed to examine the financing requirement associated with it. This leads to inflated elasticities than otherwise would have been determined. The effectiveness of the carbon tax depends on price elasticity and needs more attention in the modelling.
2. There is high importance of additional complementary policies to raise the price response, including adequate finance for the required investments and policies to get over recognition and implementation lags, especially for investments in energy efficiency.
3. There is a need for sectoral strategies, obviously in electricity but also in transport (where there is scope for major carbon savings through complementary investments, e.g. in land use/public transport, logistics/rail). These investments cannot be made without co-ordination.
4. There are additional benefits, particularly the improved energy efficiency of a new generation of capital stock and (depending particularly on transport policies pursued) reduced imports of petroleum.
5. For a country in Australia's balance of payments position to rely on imports of permits is not a good idea. Current depression in the international carbon price merely indicates that the price is volatile and likely to become stratospheric when the world economy revives.

Please see the attachment for a more detailed discussion.

Sincerely,

Peter Brain

Director, National Institute of Economic and Industry Research.