

# **Proposed Carbon Price Legislation: Key points**

**John Quiggin**

**Australian Research Council Federation Fellow  
School of Economics and School of Political Science and  
International Studies  
University of Queensland**

**EMAIL [j.quiggin@uq.edu.au](mailto:j.quiggin@uq.edu.au)**

**PHONE + 61 7 3346 9646**

**FAX +61 7 3365 7299**

**<http://www.uq.edu.au/economics/johnquiggin>**

## **Proposed Carbon Price Legislation: Key points**

1. This is a summary of the main points I propose to present in evidence to the Senate Select Committee on Scrutiny of New Taxes regarding the proposed Clean Energy Future legislation.
2. Both major parties state support for a target of 5 per cent reductions in Australia's emissions, relative to 2000 levels, by 2020.
3. While a range of policy measures may be used to reduce emissions, all serious economic analyses of the topic show that a carbon price must be a central element of any cost-effective emissions reduction policy
4. The distinction between a fixed carbon price (for example, through a carbon tax) and a price determined by trade in a permit market with a fixed quantity of emissions (an emissions trading scheme) is of secondary importance. Broadly speaking, a fixed price is simpler and therefore preferable in the case of a national policy, especially if the issue is surrounded by confusion and controversy. An emissions trading scheme is easier to integrate with similar policies in other countries.
5. Treasury modelling shows that, especially after the return of revenue to households and businesses is taken into account, the effects of the proposed carbon price will be so modest as to be barely noticeable against a general background of a growing but variable economy. My own analysis confirms the results of this modelling. A particularly relevant observation is that the impact of the proposed carbon price will be about one-quarter that of the GST.
6. Recent claims by the NSW government that the carbon price will have a devastating impact on households on the state's economy are unfounded and rely on misleading presentation of extreme cases, most notably in the

claim that “household electricity bills will rise by ‘up to’ \$498 a year.” The correct analysis, based on Commonwealth Treasury modelling yields average cost increase of \$3.30 or about \$170 a year. The NSW number is derived by taking a high-price projection applied to a household with electricity consumption far above the average.

7. The proposed compensation package for households is well-designed in its focus on low-income households, for whom the effective price increase as a proportion of income (around 1.2 per cent) will be substantially higher than for middle-income and high-income households.
8. The suggestion that the provision of compensation in the form of income tax cuts or higher pensions will undermine the incentive effects of a carbon price is incorrect, and reflects a misunderstanding of basic economics
9. Compensation provided to electricity generators and emissions-intensive export industries is somewhat higher than would be suggested as necessary by economic analysis. However, compared to the CPRS, the design of compensation has been improved, with a greater focus on measures designed to assist adjustment to a clean energy future.
10. The main area where Treasury modelling is subject to doubt relates to the extent to which Australian carbon emissions will respond to a price and, conversely, the proportion of the targeted emissions reductions that will be met by purchases of permits from overseas. International and Australian experience has shown that standard estimation procedures persistently underestimate response to carbon prices in the medium term and beyond. Most notably, whereas early projections suggested that the New Zealand ETS would require substantial purchases of overseas offsets, it now appears that the target will be reached without any such requirement.