Scrutiny of New Taxes Committee

Inquiry into a Carbon Tax

Response to Question on Notice

9 June 2011

Question No: 1

Topic: Clean energy standard

Question:

Senator XENOPHON: Sure, and you may want to take this on notice, but are you familiar that President Obama in his 2011 State of the Union address proposed a clean energy standard? It has been the subject of some comment by Resources for the Future in their submission to the US Senate which said that in the absence of tax reform it could be a more efficient way of achieving a reduction in emissions. To what extent does your department consider alternative approaches to achieve the same end—that is, an appreciable reduction in emissions? The critics, and I am one of them, say that five per cent is not enough if you want to achieve a sustainable environmental outcome.
Dr Kennedy: I will take most of that question on notice, but I will make a quick response. The department is interested in the way other policies support emissions reduction. For example, on the energy efficiency side there was the task group report on energy efficiency that was released last year and it identified issues there. So we are not hypnotised by all market mechanisms. There are other opportunities to reduce emissions. Under certain conditions, particular types of regulations or other ways of reducing emissions can become effective. I do think, though, that they are normally complementary to the centrepiece, which would be a market based mechanism—a carbon tax or an emissions trading scheme of some form. I suspect that would have been the approach in the US had they been able to pass that legislation.

Answer:

The Department has analysed and assessed a broad range of possible mitigation measures for Australia. In the area of carbon pricing, the following price-based approaches were analysed and assessed to support the Multi-Party Climate Change Committee:

- cap-and-trade emissions trading schemes;
- a carbon tax;
- baseline-and-credit scheme;

- a hybrid scheme;
- a intensity-based scheme; and
- a consumption based scheme.

Separate to carbon pricing, the Department has also considered and assessed various regulatory and subsidy-based approaches, and considered the recommendations of the Task Group on Energy Efficiency.

The Department operates a number of existing energy efficiency and renewable energy programs and reviews their cost-effectiveness and their contribution to meeting Australia's possible emissions reduction targets. The Department also monitors and assesses the contribution of other Australian Government measures and state and territory government measures towards meeting Australia's 2020 targets.

The report *Australia's Emissions Projections 2010* projects that Australia's emissions in 2020 will be 24 per cent above 2000 levels. This projection already accounts for the emissions reductions expected from the Renewable Energy Target (RET), the National Strategy on Energy Efficiency, New South Wales and Queensland land clearing controls, and a range of other smaller programs at national, state and territory level.

The Department's analysis indicates that for Australia, a market-based instrument with broad coverage, such as a carbon price, is the most cost effective approach to reduce emissions and meet Australia's 2020 emissions reduction targets.

There would also be a case for complementary measures, for example to address specific market failures or to target reductions in emissions that are not easily covered by a carbon price. These could include targeted regulatory approaches such as mandatory labelling to support energy efficiency, but may also deploy market based incentives such as the RET and the proposed Carbon Farming Initiative.

The United States (US) Clean Energy Standard, recently subject to consultation in the US Senate, proposes that, by 2035, 80 per cent of the electricity produced in the US come from clean energy sources, such as wind, solar, nuclear, clean coal and efficient natural gas. It is envisaged this standard will be established in conjunction with biofuels and electric car initiatives. Details of this proposal are yet to be determined but initial indications suggest it will involve the US Federal Government providing incentives for private investment in energy generation from clean sources through various policies, potentially through mandating an increasing proportion of electricity generation that must come from prescribed clean energy sources.

The discussions in the US suggest that the Clean Energy Standard may have similarities to Australia's RET scheme.

It should be noted that while significant reductions in emissions are possible from the electricity generation sector, it is unlikely that Australia could realistically meet a 5 per cent emissions reduction target in 2020 from reductions in electricity generation under the RET alone.

Similarly, Resources for the Future indicated in its submission to the US Senate on the Clean Energy Standard that the standard, at the proposed 80 per cent level, would be able to achieve 41 per cent (1.7 billion tonnes) of the USA's pledged emissions reductions by 2035, and that additional policies would be required to reduce carbon dioxide emissions in 2035 by the remaining 59 per cent (2.4 billion tonnes) including emissions reductions in other sectors.