

Submission to Senate Inquiry on Carbon Pollution Reduction Scheme

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The recent Copenhagen Climate Scientists' Summit clearly indicated that our activities are changing the world's climate faster than the IPCC indicated in 2007 and that the risks to future generations of humanity were great.

The Government needs to set an ambitious target in line with the recommendations of the climate scientists of a minimum of 25 per cent reduction in emissions on 1990 levels by 2020 and push for a strong international agreement that commits all high emission countries, such as Australia, to even greater emission reductions. The Australian Treasury modelling indicated that a 25 per cent reduction target only slows the economic growth rate only by 0.2 per cent. This is surely a worthwhile investment on behalf of future generations to protect them for climate change.

The scheme needs to be changed to ensure that household activity is able to deliver additional benefits by empowering individuals to make a difference by their own efforts. The largest potential reductions in emissions result from small changes in the behaviour of large numbers of people but if there is no nexus between households and small organisations and the CPRS, these changes will make no difference. This can be done by establishing a secondary market for household and small business reductions in emissions, a way of achieving additionality and recognising community achievements.

The compensation to the trade exposed industries is unnecessary if an alternative approach was taken. Full auctioning of all permits would provide substantially more revenue for the government to invest in moving Australia rapidly to a low emission economy. The only rebate would be on exports with a charge being made on imports using the border adjustment mechanism discussed in more detail below.

The compensation to the coal-fired electricity generators is not appropriate given that the science of climate change has been clear since at least the first IPCC Report in 1990.

A better approach to emissions-intensive trade-exposed firms in the Carbon Pollution Reduction Scheme

If these trade-exposed firms choose to relocate elsewhere, with no consequent global reduction in emissions, it results in what is called carbon dioxide leakage. In other words, the carbon dioxide is still produced, just somewhere else. The better way to prevent this, than the free permits proposed is in the CPRS is Border Adjustment.

Border adjustment

A border adjustment would preserve the international competitiveness of Australian energy intensive producers while maintaining the carbon price signal within the domestic economy. Under the type of border adjustment most appropriate to Australia's circumstances, a rebate would be paid to aluminium exporters, for example, to offset the increase in production costs resulting from a carbon tax or emissions trading. The rebate would only be paid for exported product; aluminium consumed domestically would remain subject to the price signal. A similar adjustment, in this case a levy, could be applied to imported energy-intensive goods to offset any significant carbon price disadvantage faced by competing local producers.

Border tax adjustments are a common feature of tax systems, like Australia's Goods and Services Tax (GST) and European Value Added Taxes (VATs). GST, for example is payable on most goods that are imported into Australia, either at the border or the point of sale. Exported goods are generally GST-free. In the same vein, many Australian travellers will be familiar with the opportunity on departure from European airports to obtain VAT refunds for major purchases. Border adjustments are not tariffs or export subsidies, but an integral part of consumption and production tax systems that serve to clearly define the tax base and protect the revenue.

Border adjustments have been proposed as a solution to carbon leakage in the United States and Europe, but have not yet been adopted for this purpose by any country. The United States, however, has implemented border adjustments for two environmental taxes, the ozone-depleting chemicals (ODC) tax and the Superfund chemical excises. These border adjustments were applied not only to the target chemicals, but also to certain other traded products that are manufactured using these chemicals. They applied regardless of whether the target chemicals were consumed in the manufacturing process or physically incorporated into the traded good.

Most energy tax systems, such as fuel excises, are structured to apply border adjustments to exports and imports of fuels. For example, petrol produced at Australian refineries is subject to excise of just over 38 cents per litre under the Excise Act, if sold into the Australian market, but is excise exempt if exported. But petrol imported from refineries overseas, e.g. in Singapore, is subject to an exactly equal import duty under the Customs Act if consumed in Australia. A border adjustment designed to avoid carbon leakage would extend this approach to the emissions resulting from the manufacture of energy-intensive, traded products. These emissions are commonly called 'embodied' carbon. A border adjustment exempts this embodied carbon from the domestic carbon price. This is the same principle as the United States applied in the cases of the ODC and Superfund chemicals taxes.

While border adjustments are primarily a taxation device, it would not be technically difficult to design and implement an equivalent approach for emissions trading.

A border adjustment would insulate energy-intensive producers from cost increases resulting from a carbon price signal, but only for the share of their production that is exported. Products destined for local consumption would be subject to the full carbon price signal, but so would any competing imports.

A border adjustment, therefore, preserves competitiveness as effectively as an exemption, while maintaining the price signal for domestic consumption.

For further details on Border Adjustment:

Competitiveness and Carbon Pricing - Border adjustments for greenhouse policies

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