

Chapter 8

Impact of the Carbon Pollution Reduction Scheme on consumers

Introduction

8.1 The committee received evidence that consumers will experience the impact of the Carbon Pollution Reduction Scheme (CPRS) through increased fuel and energy prices. This will in turn lead to increased grocery prices, putting additional pressure on consumers, particularly low income households. Chapter 8 details the evidence received about the expected extent of retail fuel and energy price increases and the impact of that on the community.

Consumer price signal

8.2 Some witnesses argued that for an emissions trading scheme (ETS) to work, consumers need to receive a price signal. For example, the Australian Industry Greenhouse Network argued 'unless the consumer is paying then this scheme is not working. That is the nature of the beast.'¹

8.3 A similar argument was put by BP Australia: 'if we are going to have behaviour change and change in investment, everyone has to see the price signal of carbon, either directly or indirectly, via energy prices.'²

Electricity prices

8.4 The National Generators Forum explained to the committee that the retail cost of electricity is:

...made up effectively of two parts. One is the transport and network costs, which are regulated because that is a natural monopoly. The other part is what I would call the commodity cost. The proportion is approximately fifty-fifty...The commodity area is reflective of the costs of producing power...In terms of the wholesale area, that is the area that will be impacted by a CPRS. That is where the carbon cost will factor into the price of electricity paid by the consumer...There will be a direct impact in terms of carbon costs to the commodity and there will be an indirect impact to the

1 Mr Michael Hitchens, Chief Executive Officer, Australian Industry Greenhouse Network, *Committee Hansard*, 2 February 2009, p. 40.

2 Mr Mark Proegler, Director, Environmental Policy, BP Australia, *Committee Hansard*, 17 February 2009, p. 44.

cost of transporting the commodity as a result of changes to the transmission system.³

8.5 The National Generators Forum anticipated that the 'wholesale price of electricity under the current proposed scheme will roughly double by 2020 and will probably triple by about 2025.'⁴

8.6 The committee received evidence from a number of witnesses, including the Australian Academy of Technological Sciences and Engineering and the Australian Council of Social Service that the CPRS will lead to increased retail electricity prices.⁵

8.7 The Energy Supply Association of Australia explained that the increase to the retail cost of electricity 'could be higher than 25 per cent'.⁶

8.8 The Australian Council of Social Service noted that this will impact low income households: 'Low-income consumers...will pay more for electricity and a range of other products. So they will be paying higher prices.'⁷

8.9 The Australian Council of Social Service also noted:

...retail prices for electricity and gas are increasing at rates that make the CPRS impacts look relatively minor. Factors such as input fuel costs, infrastructure and drought are all at work...⁸

8.10 The committee received evidence that higher electricity prices for business will lead to higher prices for other goods and services. The Australian Chamber of Commerce and Industry explained to the committee that 'typically, if businesses have higher energy prices they will pass those on to a final consumer.'⁹

8.11 The Collie Chamber of Commerce and Industry explained to the committee that increased electricity prices will have a significant impact on the community:

3 Mr Carlo Botto, Director, National Generators Forum, *Committee Hansard*, 2 February 2009, p. 9.

4 Dr Harry Schaap, Policy Adviser, National Generators Forum, *Committee Hansard*, 2 February 2009, p. 10.

5 Dr John Burgess, Fellow, Australian Academy of Technological Sciences and Engineering, *Committee Hansard*, 17 February 2009, p. 20; Mr Tony Westmore, Senior Policy Officer (Electricity), Australian Council of Social Service, *Committee Hansard*, 19 February 2009, p. 7.

6 Ms Clare Savage, Acting Chief Executive Officer, Energy Supply Association of Australia, *Committee Hansard*, 2 February 2009, p. 21.

7 Mr Tony Westmore, Senior Policy Officer (Electricity), Australian Council of Social Service (ACOSS), *Committee Hansard*, 19 February 2009, p. 7.

8 Mr Westmore, ACOSS, *Committee Hansard*, 19 February 2009, p. 3.

9 Mr Gregory Evans, Director Economics, Australian Chamber of Commerce and Industry, *Committee Hansard*, 8 December 2008, p. 58.

In a town that has already been identified as being at social and economic disadvantage, the likely implications of significantly higher electricity prices would mean that many families would suffer severely...¹⁰

Household energy consumption

8.12 The Clean Energy Council explained the break up of energy consumption in households to the committee:

Roughly 30 per cent is water heating, then the heating of the house itself is the next 20 to 25 per cent, and then white/browngoods are taking up a larger slice of the rest that is left. Lighting is about six per cent.¹¹

Fuel prices

8.13 BP Australia informed the committee that 'If the permit price is \$25 a tonne then that would be roughly 6c a litre'¹² price increase.

8.14 The Australian Council of Social Service argued that fuel price increases have a disproportionate effect on low income households:

...higher prices for these products flow through to all consumers quickly. They have an immediate and disproportionate effect on households with low incomes...

Low-income households spend relatively less on those products but more as a proportion of their income. With regard to transport and car use, there are often few alternatives for low-income families in rural and regional communities.¹³

8.15 The Commonwealth Scientific and Industrial Research Organisation (CSIRO) made a similar argument:

If fuel prices do rise, those with low incomes will be most vulnerable as spending on fuel represents a greater proportion of their disposable income. In addition, this group tends to have fewer resources to invest in alternative fuels or more efficient vehicles. Regional communities and those located on the urban fringes will also be disproportionately impacted owing to their higher fuel use, higher fuel prices relative to cities and fewer options for reducing motor vehicle travel.¹⁴

10 Collie Chamber of Commerce and Industry, answer to written question on notice, 22 January 2009 (received 9 February 2009).

11 Mr Matthew Warren, Chief Executive Officer, Clean Energy Council, *Committee Hansard*, 17 February 2009, p. 7.

12 Mr Proegler, BP Australia, *Committee Hansard*, 17 February 2009, p. 44.

13 Mr Westmore, ACOSS, *Committee Hansard*, 19 February 2009, p. 2.

14 Commonwealth Scientific and Industrial Research Organisation (CSIRO), *Submission 25*, p. 8.

8.16 The Sustainable Transport Coalition of Western Australia argued that the fuel price increase resulting from the CPRS:

...would be less than the current tax differential between Australia and most industrial developed economies...Since most developed economies already operate with transport fuel prices in excess of those that would apply with an emissions trading scheme, there is no reason to expect that the Australian economy would be unable to adapt to the effects of such a scheme.¹⁵

8.17 The CSIRO argued that:

...the potential impact of carbon pricing on transport prices is relatively modest...recent increases in the oil price will far exceed anything that we will see even in the next few decades from the impact of the carbon price.¹⁶

8.18 Mr Frank Topham, the Manager of Government Affairs and Media for Caltex Australia, argued that:

...the CPRS does not really [sic] do anything significant to reduce greenhouse gas emissions from fuel despite the increase in cost to consumers, which could ultimately be 10c a litre or more.¹⁷

8.19 Mr Michael Roth, the Executive Manager of the Royal Automobile Club of Queensland (RACQ) argued that the CPRS 'will not reduce driving or greenhouse emissions.'¹⁸ He also argued that:

...any real fuel price increases will still result in little change to total emission levels due to the low demand elasticity of fuel. Demand for fuel is relatively inelastic, and therefore any increase in fuel price only leads to a small decrease in consumption.¹⁹

8.20 Mr Roth provided further explanation about the impact of price on demand for fuel:

Increasing the price of anything will reduce the consumption of it to some extent. Fuel is acknowledged, in the research internationally and the local research, as being quite inelastic, so an increase in fuel price will reduce the demand for fuel, but only very slightly. The short-term elasticity is usually considered as about negative 0.1, and the long-term elasticity is more in the realm of minus 0.3 to minus 0.5...There is a longer-term effect, mainly

15 Sustainable Transport Coalition of Western Australia, *Submission 30*, [p. 7].

16 Mr Paul Graham, Theme Leader, Energy Futures, Commonwealth Scientific and Industrial Research Organisation, *Committee Hansard*, 19 November 2008, p. 13.

17 Mr Frank Topham, Manager, Government Affairs and Media, Caltex Australia, *Committee Hansard*, 20 February 2009, p. 54.

18 Mr Michael Roth, Executive Manager, Royal Automobile Club of Queensland (RACQ), *Committee Hansard*, 20 February 2009, p. 3.

19 Mr Roth, RACQ, *Committee Hansard*, 20 February 2009, p. 3.

through the choices of vehicles that people purchase as they turn over their vehicles.

...

...in the short term, car fuel use declines about 1.5 per cent with any 10 per cent concurrent increase in the price of fuel...²⁰

8.21 Caltex Australia also commented on the inelasticity of demand for fuel, 'Price does little to change motorists' consumption behaviour so the necessary changes will inevitably come from new vehicle technologies'.²¹

8.22 The Australian Council of Social Service argued that fuel prices have an impact on grocery prices, 'higher fuel prices affect the checkout price in increments all along the chain of production.'²² Further, 'rural and regional communities are particularly exposed to price increases for basics—for fuel and food.'²³

8.23 The Sustainable Transport Coalition of Western Australia also argued that:

Higher oil prices will affect grocery prices through the impacts on the cost of production (oil-based fertilisers, in particular) and transport, but the impact does not need to be proportionate to the increase in the cost of oil.

There are many aspects of the food distribution system that could be improved, to reduce the transport intensiveness of what we buy.²⁴

8.24 As discussed in chapter 7, the Chamber of Commerce and Industry of Western Australia argued that increased fuel costs will affect Western Australia, particularly the north west of the state, due to geographic isolation and reliance on long distance freight.²⁵

Fuel tax adjustment

8.25 The committee received some evidence supporting the fuel tax offset, however the majority of organisations that addressed this topic opposed the offset.

8.26 The *Carbon Pollution Reduction Scheme: Australia's Low Pollution Future – White Paper* (the White Paper) stated:

20 Mr Roth, and Ms Susan Furze, Senior Transport Economist, RACQ, *Committee Hansard*, 20 February 2009, pp 4 and 5.

21 Caltex Australia, *Committee Hansard*, 20 February 2009, p. 50.

22 Mr Westmore, ACOSS, *Committee Hansard*, 19 February 2009, p. 2.

23 Mr Westmore, ACOSS, *Committee Hansard*, 19 February 2009, p. 11.

24 Sustainable Transport Coalition of Western Australia, *Submission 30*, [p. 5].

25 Mr Andrew Canion, Senior Advisor, Industry Policy, Chamber of Commerce and Industry of Western Australia, *Committee Hansard*, 17 November 2008, pp 6-7.

The Government recognises that people have limited flexibility to respond quickly to changes in fuel prices but that, over time, transport choices are influenced by price changes.

To give households and businesses time to adjust to the Scheme, the Government outlined transitional arrangements for fuels in the Green Paper. It will provide 'cent-for-cent' reductions in fuel taxes as a transitional measure. It will also provide transitional assistance to agriculture, fishing and heavy on-road transport industries. Liquefied petroleum gas (LPG), liquefied natural gas (LNG) and compressed natural gas (CNG) will also receive assistance.

The assistance will give households and key industries time to adjust to the Scheme.²⁶

8.27 The RACQ explained that they support the fuel tax offset 'as it will offer relief to those households that cannot access walking, cycling or public transport alternatives and are dependent on driving.'²⁷

8.28 Caltex Australia argued:

It doesn't make sense to impose a carbon price on motorists then immediately offset it with an excise reduction. In fact, the way the excise reduction proposal works will actually reduce the price of petrol for several years so emissions from petrol are likely to increase. That's not an environmentally sound policy.²⁸

8.29 BP Australia also explained that they do not agree with the fuel tax offset because they:

...want to get a carbon price signal throughout the economy. The excise offset effectively delays that for three years...If your goal is to put a carbon price throughout the economy, then do it.²⁹

8.30 The Biofuels Association of Australia also argued against the fuel tax offset:

The main issue we have with the CPRS is the government has essentially exempted fuels. They are saying that petrol will not be affected by a CPRS for three years from 2010, even if the CPRS is brought in in 2010. That means there will be no pricing signals for biofuels until at least 2013 on the petrol side.³⁰

26 Australian Government, *Carbon Pollution Reduction Scheme: Australia's Low Pollution Future – White Paper*, December 2008, p. 17.15.

27 Mr Roth, RACQ, *Committee Hansard*, 20 February 2009, p. 3.

28 Caltex Australia, *Committee Hansard*, 20 February 2009, p. 50.

29 Mr Proegler, BP Australia, *Committee Hansard*, 17 February 2009, p. 48.

30 Mr Bruce Harrison, Chief Executive Officer, Biofuels Association of Australia, *Committee Hansard*, 20 February 2009, p. 40.

Treasury modelling

8.31 The committee received evidence that raised concerns about the veracity of the modelling undertaken by the Department of the Treasury with respect to the impact of the CPRS on consumers.

8.32 The Australian Council of Social Service stated:

We are concerned that Treasury in the modelling underestimate some price increases, particularly for non-energy products that have high energy content, including food.

...

We have some concerns about the Treasury modelling, particularly about the non-energy price impacts. I am concerned, for example, that energy prices that begin to increase are going to increase the production costs for food—the storage and sale and retail costs of food. I think we have underestimated those impacts.³¹

Assistance for consumers

8.33 The South Coast Labour Council explained that they strongly support the equity measures in the CPRS which compensate low income earners for increased fuel and energy costs.³²

8.34 Mr Tony Westmore, the Senior Policy Officer (Electricity) for the Australian Council of Social Service, argued that the compensation for households appears to be adequate stating 'we are reasonably satisfied that most people will be accommodated in what looks like a 2.5 per cent increase in benefits and arrangements through the family tax system.'³³

8.35 However, Mr Westmore also raised concerns about the ability of low income households to purchase low emissions technology:

With low-income households, even if Newstart allowance is increased by 2.5 per cent, that is 2.5 per cent of \$225 a week. It is not the kind of thing that is going to empower someone to do very much. It will not even empower someone to be able to afford a high-efficiency light globe, for example. But if the CPRS is robust and if the targets, trajectories, changes and transitions that it engenders are serious enough then we will see some change—and low-income households will buy different kinds of electricity and hopefully will find work in different kinds of jobs.³⁴

31 Mr Westmore, ACOSS, *Committee Hansard*, 19 February 2009, pp 3 and 10.

32 Mr Arthur Morris, Secretary, South Coast Labour Council, *Committee Hansard*, 1 April 2009, p. 25.

33 Mr Westmore, ACOSS, *Committee Hansard*, 19 February 2009, p. 4.

34 Mr Westmore, ACOSS, *Committee Hansard*, 19 February 2009, p. 13.

8.36 Mr Westmore further argued that low income households will be worse off if climate change is not addressed:

...in the absence of significant work to ameliorate the effects of climate change low-income household people are going to be even worse off. They are the people who have the least capacity to cope to adapt, to move, to change, and we have come to believe that climate change is coming and it is coming reasonably quickly.³⁵

8.37 The National Institute of Economic and Industry Research put forward an alternative perspective, arguing 'that the assistance to consumers should be strongly related to their participation in energy efficiency improvements'.³⁶

Overall impact of the CPRS on consumers

8.38 The committee is of the view that the evidence outlined above clearly shows that the CPRS will lead to increased fuel and energy prices for Australian consumers. It is also clear that increased fuel and energy prices will lead to increased prices in other goods and services.

8.39 Mr Leon Bradley, from the Western Graingrowers Committee and the Pastoralists and Graziers Association of Western Australia argued: 'I do not think there is any question that if you impose this scheme you will lower living standards for every Australian...'

Committee comment

8.40 In considering the impact of the CPRS on consumers, the committee agrees with the view expressed by Mr David Pearce, Executive Director of the Centre for International Economics who stated:

...you may be able to compensate the household in the first round increase in prices, but households are also workers, and they are also shareholders, mostly through superannuation funds and so on. So the idea that you can compensate the household for the cost of the scheme is, I think, misleading...³⁷

8.41 The committee is particularly concerned about the impact of higher fuel and energy prices on low income households. In addition, the committee is concerned that increased fuel and energy prices will lead to increases in other goods and services, including grocery prices, particularly in light of the evidence received that increased fuel prices will do little to reduce emissions.

35 Mr Westmore, ACOSS, *Committee Hansard*, 19 February 2009, p. 14.

36 Dr Ian Manning, Deputy Executive Director, National Institute of Economic and Industry Research, *Committee Hansard*, 17 February 2009, p. 25.

37 Mr David Pearce, Executive Director, Centre for International Economics, *Committee Hansard*, 2 April 2009, p. 29.