

## Chapter 3

### The carbon tax the Prime Minister promised we wouldn't have

#### Introduction

3.1 This chapter outlines the key features of the carbon tax which were released on 10 July 2011 and subsequently updated with the introduction of the Clean Energy Legislative Package into the Parliament on 13 September 2011.

#### The carbon tax is announced

3.2 On 10 July 2011, the Prime Minister, the Hon. Julia Gillard MP, announced her plan to introduce a carbon tax. The Prime Minister stated:

... we have now had the debate, 2011 is the year we decide that as a nation we want a clean energy future.

Now is the time to move from words to deeds.

That's why I announced today how Australia's carbon price will work.

From 1 July next year, big polluters will pay \$23 for every tonne of carbon they put into our atmosphere.<sup>1</sup>

#### Features of the carbon tax

3.3 This part of this chapter outlines the key features of the carbon tax.

#### *Start date and transitional period*

3.4 Starting from 1 July 2012, the price of each tonne of carbon dioxide emissions will be fixed, operating as a carbon tax (the fixed-price period). The initial starting price '... will be \$23 for each tonne of pollution beginning on 1 July 2012'.<sup>2</sup> The carbon tax will be in operation for three years. Under the government's carbon tax, 'the

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1 Prime Minister of Australia, the Hon. Julia Gillard MP, *Address to the nation*, <http://www.pm.gov.au/press-office/transcript-address-nation> (accessed 11 July 2011).

2 Joint media release, the Hon. Julia Gillard MP, Prime Minister, the Hon. Wayne Swan MP, Deputy Prime Minister and Treasurer and the Hon. Greg Combet AM MP, Minister for Climate Change and Energy Efficiency, *Putting a price on carbon pollution*, <http://www.pm.gov.au/press-office/putting-price-carbon-pollution> (accessed 10 July 2011).

price will rise by 2.5 per cent a year in real terms during a three-year fixed price period until 1 July 2015'.<sup>3</sup>

3.5 Then, from 1 July 2015, the carbon tax will move to an emissions trading scheme where the price will be set by government imposed limits on the permissible amount of carbon dioxide emissions in any one year (the flexible-price period).<sup>4</sup>

3.6 The table below provides an overview of the revenue that will be collected from the carbon tax, and associated changes that form part of the government's carbon tax, according to Treasury modelling.

**Table 3.1: Revenue from the carbon tax and associated measures<sup>5</sup>**

Year	Revenue from carbon tax (\$m)	Revenue from carbon tax applied via other measures (\$m)	Fuel tax credit reductions (\$m)	Total per year (\$m)
2011-12	0	0	0	0
2012-13	7,740	290	570	8,600
2013-14	8,690	320	70	9,080
2014-15	9,190	320	70	9,580
Total	25,620	930	710	27,260

3.7 An equivalent carbon tax will also apply to synthetic greenhouse gasses and aviation fuels.<sup>6</sup>

### ***The carbon permit a property right?***

3.8 Under the Clean Energy Bill 2011:

Section 103: A carbon unit is personal property and, subject to sections 105 and 106, is transmissible by assignment, by will and by devolution by operation of law.<sup>7</sup>

3 Joint media release, the Hon. Julia Gillard MP, Prime Minister, the Hon. Wayne Swan MP, Deputy Prime Minister and Treasurer and the Hon. Greg Combet AM MP, Minister for Climate Change and Energy Efficiency, 'Putting a price on carbon pollution', <http://www.pm.gov.au/press-office/putting-price-carbon-pollution> (accessed 10 July 2011).

4 Joint media release, the Hon. Julia Gillard MP, Prime Minister, the Hon. Wayne Swan MP, Deputy Prime Minister and Treasurer and the Hon. Greg Combet AM MP, Minister for Climate Change and Energy Efficiency, 'Putting a price on carbon pollution', <http://www.pm.gov.au/press-office/putting-price-carbon-pollution> (accessed 10 July 2011).

5 Clean Energy Bill 2011, Explanatory Memorandum, p. 41.

6 Australian Government, *Clean Energy Future - Securing a clean energy future: The Australian Government's Climate Change Plan*, pp 106 and 105.

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3.9 The Explanatory Memorandum for the Clean Energy Bill does not explain why a carbon unit is clearly defined as personal property.

3.10 The direct consequence of defining a carbon unit as personal property is to make it more likely that:

Repeal would amount to an acquisition of property by the commonwealth, as holders of emissions permits would be deprived of valuable asset[s].<sup>8</sup>

3.11 In these circumstances, under section 51(xxxi) of the Australian Constitution, a government acquiring these assets would be required to 'pay compensation, potentially in the billions of dollars. A future government would therefore find repeal prohibitively costly'.<sup>9</sup>

3.12 The definition of a carbon unit as a personal property right limits the scope of action of future governments and parliaments. As economist Professor Henry Ergas has noted:

...internationally, governments have generally ensured that pollution permits are not treated as conventional property rights, precisely as to be able to revise environmental controls as circumstances change. Rather, this provision serves one purpose only: to guarantee any attempt at repeal triggers constitutional requirements to pay compensation, shackling future governments.<sup>10</sup>

3.13 The committee explored the issue further and sought advice from the Department of Climate Change and Energy Efficiency on permits and their standing as personal property rights:

**Senator BOSWELL:** In particular, have you received any advice about the liability of a government which removed the carbon legislations thus removing any value of it in a carbon unit? So, we come into power and we say: 'No, we are not having this.' What happens to that carbon unit?

**Mr Sakellaris:** I do not recall the details, we would have to take that on notice.

**Senator BOSWELL:** When did you ask for advice, when did you receive the advice on this particular issue? What did that advice say? Has the department evaluated what the size of any potential future liability will be?

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7 *Clean Energy Bill 2011*, Carbon Units Part 4: Property in, and transfer of, carbon units: Division 3, section 103.

8 Remarks attributed to the Hon. Mark Dreyfus QC MP, Parliamentary Secretary for Climate Change and Energy Efficiency, cited in an article by Professor Henry Ergas, 'Labor plants poison pills in carbon tax', *The Australian*, 16 September 2011, p. 12.

9 Professor Henry Ergas, 'Labor plants poison pills in carbon tax', *The Australian*, 16 September 2011p. 12.

10 Professor Henry Ergas, 'Labor plants poison pills in carbon tax', *The Australian*, 16 September 2011, p. 12.

**Dr Kennedy:** For the last part of the question I can say that the department has not done any analysis around the possible repeal of the system and what the cost would be. As to all the previous questions about when advice was taken, we have not brought our legal advisors with us but we are very happy to take all those questions on notice and provide you with an answer.

**Senator BOSWELL:** I will read them out again. When did you ask for that advice and when did you receive it? What did the advice say? Has the department evaluated what the size of any potential future liability will be?

**Dr Kennedy:** We had a person from the Australian Government Solicitor working throughout the pulling together of the legislation. So, if you like, we were receiving advice on an ongoing basis, but we also sought additional—

**Senator BOSWELL:** You cannot give me what I am asking now, you are prepared to take that on notice.

**Dr Kennedy:** I can, but I wanted to let you know that a lawyer from the Australian Government Solicitor worked with us all the way through, so in a sense advice was provided as it was done. But we can answer your questions about whether particular pieces of advice were sought external to the department. We are happy to do that.

**Senator BOSWELL:** And when you received it and what it said, and its potential size of future liabilities.

**Dr Kennedy:** As I said I do not think we have done any analysis at all on potential liability because we have not evaluated the scenario of repealing the scheme.<sup>11</sup>

3.14 In its response to the questions taken on notice, the Department of Climate Change and Energy Efficiency noted that they:

... received legal advice on the effect of section 51(xxxi) of the Constitution, relating to the acquisition of property on just terms, on repeal of the legislation. The advice was requested on 16 September 2011 in view of the interest in this issue in the Parliament and in the media, and draft advice was received on 21 September 2011.

Legal advice is subject to legal professional privilege.

The Department has not evaluated the size of any potential future liability of a government that removed the clean energy package of legislation.<sup>12</sup>

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- 11 Senator Ron Boswell, participating Senator, Senate Select Committee on the Scrutiny of New Taxes and Mr Tasos Sakellaris, Assistant Secretary, Carbon Price Legislation Branch, Department of Climate Change and Energy Efficiency and Dr Steven Kennedy, Deputy Secretary, Department of Climate Change and Energy Efficiency, *Proof Committee Hansard*, 16 September 2011, p. 20.
- 12 Department of Climate Change and Energy Efficiency response to a Question on Notice taken at the public hearing on 16 September 2011.

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## Committee Comment

3.15 The committee considers that it is highly irresponsible and inappropriate for a government seeking to implement a carbon tax in clear defiance of an explicit pre-election commitment and to deliberately expose Australian taxpayers and the economy to these significant costs in its efforts to prevent future governments from implementing a mandate to rescind such a tax based on its assessment of the national interest.

3.16 This is all the more the case given the uncertainty that currently surrounds the future international environment for climate change policy. Given that uncertainty, the proper course is to seek and retain flexibility, rather than lock-in a path that may prove both futile and costly.

### *How will the carbon tax work?*

3.17 The carbon tax will work in the following way:

Large polluters will report on their emissions and buy and surrender to the Government a carbon permit for every tonne of carbon pollution they produce.

In the fixed price period, as many carbon permits as businesses require to meet their obligations will be available at the set price. This will operate like a carbon tax on around 500 polluters.<sup>13</sup>

Liable businesses will need to buy and surrender to the Government a permit for every tonne of pollution they produce.

- In the fixed price stage, that runs from 1 July 2012 to 30 June 2015, the carbon price will start at \$23 per tonne and rise by 2.5 per cent a year in real terms.
- From 1 July 2015 onwards, the price will be set by the market and the number of permits issued by the Government each year will be capped.

If businesses can lower their pollution, the price they pay will be less. This is how the carbon price drives innovation and energy efficiency.

All revenue from the carbon price will be used by the Government to:

- assist households with price impacts they face by cutting taxes and increasing payments
- support jobs and competitiveness
- build our new clean energy future.<sup>14</sup>

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13 Australian Government, Securing A Clean Energy Future Website, Carbon Pricing, <http://www.cleanenergyfuture.gov.au/clean-energy-future/carbon-price/#content02> (accessed 10 July 2011).

### *Coverage*

3.18 The carbon tax will apply to facilities that have direct emissions of 25 000 tonnes or more a year of carbon dioxide equivalent, with some exclusions.<sup>15</sup> This is expected to be around 500 carbon emitters.<sup>16</sup>

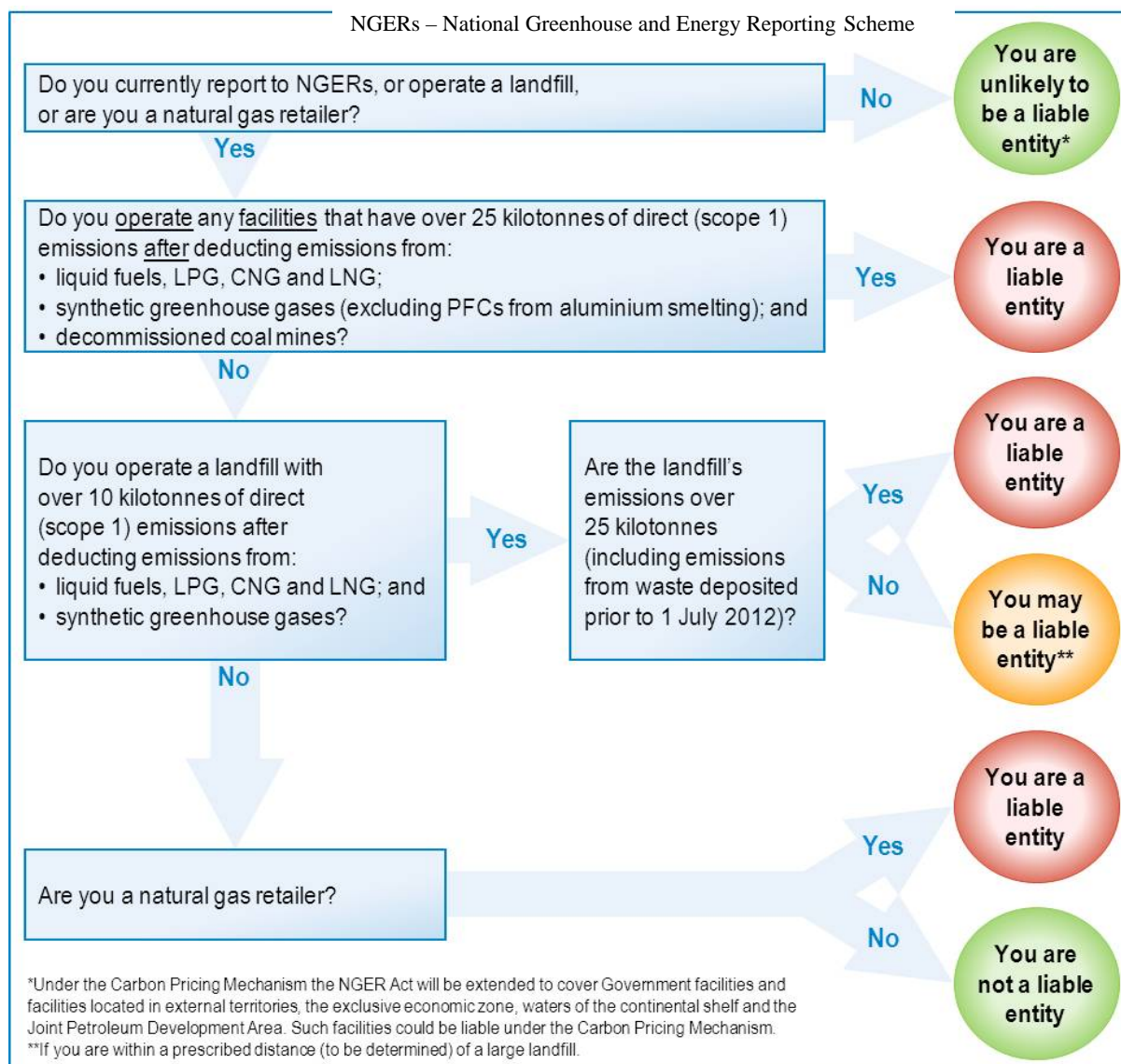
3.19 The graphical representation below provides an overview of how the scheme will rule in and rule out what businesses are covered by the carbon tax.

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14 Australian Government, Securing A Clean Energy Future Website, Carbon Pricing, <http://www.cleanenergyfuture.gov.au/clean-energy-future/carbon-price/#content01>, (accessed 10 July 2011).

15 Australian Government, *Clean Energy Future - Securing a clean energy future: The Australian Government's Climate Change Plan*, p. 28.

16 Joint media release, the Hon. Julia Gillard MP, Prime Minister, the Hon. Wayne Swan MP, Deputy Prime Minister and Treasurer and the Hon. Greg Combet AM MP, Minister for Climate Change and Energy Efficiency, 'Putting a price on carbon pollution', <http://www.pm.gov.au/press-office/putting-price-carbon-pollution>, (accessed 10 July 2011).

**Graphic 3.1: Coverage of the carbon tax<sup>17</sup>**

3.20 The government has not released the names of the emitters that it believes will be covered by the carbon tax. However, on 18 July 2011 the Parliamentary Library released a paper listing the top 299 emitting companies (remembering that the tax is based on individual facilities rather than corporations), using information provided under the National Greenhouse and Energy Reporting Scheme.

3.21 The Parliamentary Library notes that:

... although imperfect, the NGER data is the only public information that provides any indication as to which companies may be liable under the proposed Carbon Pricing Mechanism.<sup>18</sup>

17 Australian Government, 500 biggest polluting companies, <http://www.cleanenergyfuture.gov.au/500-companies/> (accessed on 16 August 2011).

3.22 The carbon tax does not apply to certain industry sectors and energy forms. The agriculture sector is excluded from the carbon tax<sup>19</sup> and closed landfills are exempt from the carbon tax as well.<sup>20</sup> In addition, parts of the transport sector, for example, fuels used by passenger cars and light commercial vehicles, are also exempt.<sup>21</sup>

3.23 Of the liable businesses, it is estimated that around:

- 135 operate solely in New South Wales and the Australian Capital Territory;
- 110 solely in Queensland;
- 85 solely in Victoria;
- 75 solely in Western Australia;
- 25 solely in South Australia;
- 20 solely in Tasmania; and
- fewer than 10 solely in the Northern Territory.<sup>22</sup>

3.24 A further 45 liable entities operate across multiple states.

3.25 Of the estimated 500 businesses:

- around 60 are primarily involved in electricity generation;
- around 100 are primarily involved in coal or other mining;
- around 40 are natural gas retailers;
- around 60 are primarily involved in industrial processes (cement, chemicals and metal processing);
- around 50 operate in a range of other fossil fuel intensive sectors; and
- the remaining 190 operate in the waste disposal sector.<sup>23</sup>

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18 Source: <http://www.aph.gov.au/library/pubs/climatechange/CarbonPricing/Companies.htm> (accessed 18 July 2011).

19 Australian Government, *Clean Energy Future - Securing a clean energy future: The Australian Government's Climate Change Plan*, p. 104.

20 Australian Government, *Clean Energy Future - Securing a clean energy future: The Australian Government's Climate Change Plan*, p. 104.

21 Australian Government, *Clean Energy Future - Securing a clean energy future: The Australian Government's Climate Change Plan*, pp 105-106.

22 Australian Government, *Securing A Clean Energy Future Website, Carbon Pricing*, <http://www.cleanenergyfuture.gov.au/clean-energy-future/carbon-price/#content02> (accessed 10 July 2011).

23 Australian Government, *500 biggest polluting companies*, <http://www.cleanenergyfuture.gov.au/500-companies/> (accessed 16 August 2011).



3.26 The issue of the number of businesses covered by the carbon tax was raised by the committee during the course of its inquiry. The government has indicated that around 500 emitters would be covered by the carbon tax but this number was questioned. The challenge is about the number of small businesses that will be caught under the government's changes to fuel tax:

**CHAIR:** I am looking at the exposure draft, page 5, 43(8), 'Working out the amount of carbon reduction'. This clause effectively imposes a carbon price on fuel through a reduction in the fuel tax credit, does it not?

**Mr Comley:** That is correct.

**CHAIR:** Essentially, it contains a formula. The credit for taxable fuel or the fuel tax rebate is reduced by a formula that is the quantity of fuel times the carbon price times the carbon emissions rate. Doesn't this mean that recipients of the fuel tax rebate are paying a carbon price from the word go by the wording of your own legislation?

**Mr Comley:** It certainly means that they are having a reduction in their credit linked to the carbon price, yes.

**CHAIR:** From day 1, as of 1 July 2012 under your exposure draft?

**Mr Comley:** Yes, that is correct.

**CHAIR:** I thought that that was correct, which is not entirely consistent with the proposition that fuel has been excluded from the carbon pricing package that has been released by the government.

**Mr Comley:** The documents make it clear that there is coverage of the transport sector. In fact, if I were to turn to both the policy tables and the full clean energy document, it is clear that transport is covered in some part. There are exclusions for small on-road vehicles under 4.5 tonnes. But it is entirely consistent with the documentation that has been provided.

**Senator WILLIAMS:** So are you telling us that the 6.21c a litre on the rebate for transport of more than 4.5 tonnes tare weight will start on 1 July 2012?

**Mr Comley:** No—sorry Senator. For the large vehicle issue, there is a government commitment to start on 1 July 2014. The fuels being referred to here are a fuels related effectively to off-road use.

**CHAIR:** And of course the expected revenue which the government intends to include, in terms of transport fuels, into the carbon pricing regime from 2014-15 has been included in the costings of the package, too, has it not?

**Mr Comley:** It is part of the forward estimates, yes.<sup>24</sup>

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24 Senator Mathias Cormann, Chair, Senate Select Committee on New Taxes, Senator John Williams and Mr Blair Comley, Secretary, Department of Climate Change and Energy Efficiency, *Committee Hansard*, 10 August 2011, p. 42.

3.27 Seeking further information about the impact of the change to the fuel tax, the committee challenged the notion that only 500 companies would be caught by the tax with the Department of the Treasury:

**Senator BOSWELL:** Yes, how many will be subject to carbon price on fuel from July 2011?

**CHAIR:** 2012, I think.

**Senator BOSWELL:** Okay, we will make it 2012.

**Mr Heferen:** We would have to take that one on notice.

**Senator BOSWELL:** Based on Taxation Office data, 60,000 businesses including small business will pay a carbon price. Not just the 500 big polluters. Will those 60,000 businesses start paying a carbon price by 2012?

**Mr Heferen:** Is the reference to the 60,000 businesses those which would have had their fuel tax credit adjusted?

**Senator BOSWELL:** Yes.

**Mr Heferen:** I think that relates to the question before, which would be the question of how many businesses will be affected. We have to take that on notice.<sup>25</sup>

3.28 At the time of finalising the report, no reply to the Question taken on Notice had been received by the committee.

### *Australia's carbon emissions reduction targets - binding future governments*

3.29 The government has committed to reducing carbon emissions by 5 per cent from 2000 levels by 2020 and by up to 15 or 25 per cent depending on the scale of global action.

3.30 Under the Clean Energy Bills, a 'carbon pollution cap' will be put in place through regulations, allowing the government to review the target as circumstances change in accordance with defined principles.<sup>26</sup>

3.31 The exposure draft includes a mechanism for setting a default carbon emission cap should there not be any regulations in effect. While the regulation containing proposed 'carbon pollution caps' may be disallowed by either House of Parliament, this will not stop the scheme from continuing its operation, as explained by the Explanatory Memorandum to the Clean Energy Bill 2011:

2.8 Having a default in the legislation ensures that the mechanism continues to operate in the event that regulations setting pollution caps do not come into effect. The default cap follows a trajectory consistent with Australia's

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25 Senator Ron Boswell, participating Senator, Senate Select Committee on the Scrutiny of New Taxes and Mr Rob Heferen, Executive Director, Department of the Treasury, *Committee Hansard*, 23 September 2011, p. 23.

26 Clean Energy Bill 2011, Carbon pollution cap: Part 2, sections 17 and 18.

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unconditional target of reducing national emissions to five percent below 200 levels by 2020, taking into account projections for emissions from uncovered sectors (including the impact of emissions reduction measures on those sectors).<sup>27</sup>

3.32 The consequences of this legislative design were clearly identified by economist, Professor Henry Ergas, who noted that:

... unless the government can secure a majority for an alternative target, permitted emissions are automatically cut by up to 10 per cent in a single year crippling economic activity.

A Coalition government, or even a Labor government less wedded to the Greens, would therefore find itself trapped.<sup>28</sup>

3.33 Under the legislation, these automatic reductions in carbon emissions are not a disallowable instrument. That is, to prevent automatic increases in the carbon tax, or the trading price of emission permits, both Houses of Parliament would need to pass legislation to that effect. As the Explanatory Memorandum to the Clean Energy Bill 2011 states:

Default pollution caps exist in the event the regulations setting pollution caps do not take effect. This is only a concern when regulations setting pollution caps are either not tabled in the Parliament by the deadline or are tabled and then disallowed.<sup>29</sup>

3.34 In contrast, any Ministerial decision to reduce carbon emissions by more than the default amount is a disallowable instrument, meaning that only one house of parliament need vote against this decision to have it disallowed.<sup>30</sup> In effect, under the government's clean energy legislation, in the future taxes can increase even without the approval of the House of Representatives, even though the House is given the exclusive constitutional power to raise taxes.<sup>31</sup>

### ***Australia's carbon emissions reduction targets***

3.35 The government has committed to reduce carbon emissions by 5 per cent from 2000 levels by 2020 and by up to 15 or 25 per cent depending on the scale of global action. Though the target is one that has bipartisan support, the opposition disagrees about the mechanism by which the target might be reached. It should be noted that this target is not included in the Clean Energy Bill introduced into Parliament on 13 September 2011. Rather a 'carbon pollution cap' will be put in place through

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27 Clean Energy Bill 2011, Explanatory Memorandum, pp 109-110.

28 Professor Henry Ergas, 'Labor plants poison pills in carbon tax', *The Australian*, 16 September 2011, p. 12.

29 Clean Energy Bill 2011, Explanatory Memorandum, p. 107.

30 Clean Energy Bill 2011, Explanatory Memorandum, p. 106.

31 Australian Constitution, section 53.

regulations, allowing the government to review the target as circumstances change, in accordance with principles set out in the Bill. The Bill does include a mechanism for setting a default carbon pollution cap should there not be any regulations in effect.

3.36 Under the Government's carbon tax scheme, Australia's emissions to 2020 will actually rise by around 90 million tonnes. The only way Australia will meet its 5% target will be as a result of the purchase of international permits. Therefore, the Government will be implementing a new tax that, from the outset, will not actually achieve its desired aim.

3.37 The table below highlights the policy dimension of this. In 2009-10 Australia emitted 578 million tonnes, but by 2020 it will be 679 million tonnes. So despite slower GDP growth and slower growth in real wages, emissions will be 90 million tonnes higher. These are the government's own figures.

## Table 3.2 Headline Indicators<sup>32</sup>

### Table 1: Headline Australian indicators

Macroeconomic modelling with an initial domestic carbon price of \$20 in 2012-13				
	Medium global ac tion scenario	Core policy scenario	Ambitious global action scenario	High price scenario
<b>Current levels – at 2009-10</b>				
Actual emissions, Mt CO <sub>2</sub> -e	578	578	578	578
GNI per person, \$'000/person	55.8	55.8	55.8	55.8
<b>Medium term – at 2020</b>				
Emission target, change from 2000 level, per cent	-	-5	-	-25
Emission target, tonnes CO <sub>2</sub> -e per person	-	20.5	-	16.2
Domestic emissions, Mt CO <sub>2</sub> -e	679	621	664	534
Carbon price, real, \$/t CO <sub>2</sub> -e	-	29	-	62
GNI per person, \$'000/person	65.1	64.8	65.0	64.1
GNI, change from global action scenario, per cent	-	-0.5	-	-1.4
GDP, change from global action scenario, per cent	-	-0.3	-	-0.9
Emission-intensity of GDP, kg CO <sub>2</sub> -e/\$	0.39	0.36	0.38	0.31
<b>Long term – at 2050</b>				
Emission target, change from 2000 level, per cent	-	-80	-	-80
Emission target, tonnes CO <sub>2</sub> -e per person	-	3.1	-	3.1
Domestic emissions, Mt CO <sub>2</sub> -e	1008	545	951	323
Carbon price, real, \$/t CO <sub>2</sub> -e	-	131	-	275
GNI per person, \$'000/person	91.2	86.9	90.6	84.2
GNI, change from global action scenario, per cent	-	-4.7	-	-7.1
GDP, change from global action scenario, per cent	-	-2.8	-	-4.7
Emission-intensity of GDP, kg CO <sub>2</sub> -e/\$	0.28	0.15	0.26	0.09
<b>Overall impact, 2010 to 2050</b>				
Australian real GNI per person, average annual growth, per cent	1.2	1.1	1.2	1.0
Australian real GDP per person, average annual growth, per cent	1.4	1.3	1.4	1.3
Gross world product, PPP, average annual growth, per cent	3.4		3.4	

Note: All dollars are 2010 prices, PPP - purchasing power parity, Mt CO<sub>2</sub>-e - million tonnes of carbon dioxide equivalent.

Effects on household prices with an initial carbon price of \$23 in 2012-13		
	Weekly expenditure \$ per week	Consumer prices Per cent
Electricity	3.30	10
Gas	1.50	9
Food	0.80	<0.5
Overall effect	9.90	0.7

Source: Treasury estimates from MMRF, GTEM and PRISMOD.

3.38 These targets will require cutting forecast emissions by at least 23 per cent in 2020.<sup>33</sup> Importantly:

The Government also commits to a new 2050 target to reduce emissions by 80 per cent compared to 2000 levels, in line with targets announced by the United Kingdom and Germany.<sup>34</sup>

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[http://www.treasury.gov.au/carbonpricemodelling/content/report/downloads/Modelling\\_Report\\_Consolidated\\_update.pdf](http://www.treasury.gov.au/carbonpricemodelling/content/report/downloads/Modelling_Report_Consolidated_update.pdf), p. 1 (accessed 4 October 2011).

33 Australian Government, *Clean Energy Future - Securing a clean energy future: The Australian Government's Climate Change Plan*, p. xi.

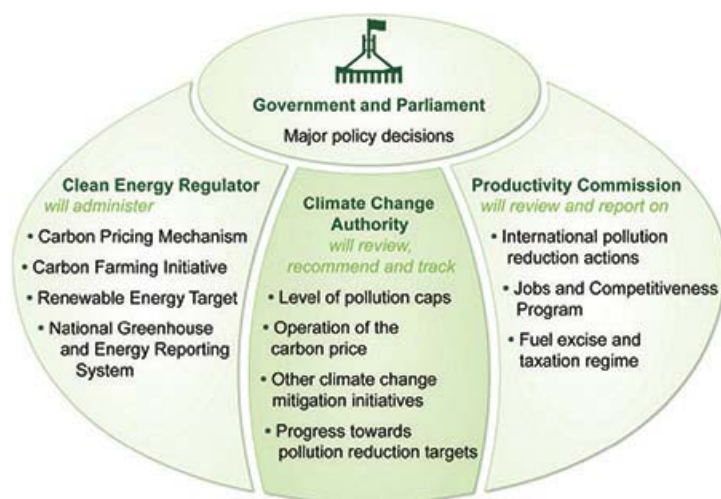
34 Australian Government, *Clean Energy Future - Securing a clean energy future: The Australian Government's Climate Change Plan*, p. xi.

### ***Regulatory and governance structure***

3.39 The governance structure for the scheme is set out in the graphic below. The Australian government and the Minister for Climate Change and Energy Efficiency are responsible for setting the overall policy direction for climate change.

3.40 The Climate Change Authority will recommend pollution caps and oversee the operation of the flexible carbon permit trading market. The Clean Energy Regulator will administer the scheme that enables the trading of permits. The Productivity Commission will conduct ad hoc reviews into climate change matters at the direction of the government and will review the compensation provided under the scheme but not the direct spending on, for example, the Clean Energy Finance Corporation. As a result, significant Commonwealth expenditure will not be subject to regular, independent scrutiny.

**Graphic 3.2: Governance arrangements for the carbon tax<sup>35</sup>**



### *Good money after bad*

3.41 Prior to the announcement of the framework for the Clean Energy Plan and the institutions outlined above to administer the carbon tax, the government had already started allocating resources to the climate change cause.

### *Australian Competition and Consumer Commission*

3.42 The government announced on 13 July 2011 that the Australian Competition and Consumer Commission (ACCC) would be policing claims by businesses that could mislead consumers into believing that price rises had occurred due to the carbon tax when this was not the case.

35 Australian Government, *Clean Energy Future Plan*, Chapter Three – Putting a price on carbon (Figure 3.3), <http://www.cleanenergyfuture.gov.au/clean-energy-future/securing-a-clean-energy-future/#content04>, (accessed 10 July 2011).

3.43 The funding for the ACCC to undertake this activity is:

... \$12.8 million over four years to the ACCC and those funds will go towards the establishment of a dedicated team which will involve more than 20 staff and their activities will be directed towards enforcement and towards education of businesses and consumers.<sup>36</sup>

3.44 This measure was not included as a cost in the government's Clean Energy Plan announced on 10 July 2011.

*Other regulatory agencies*

3.45 In addition to the establishment of the regulators referred to above, other agencies who will be involved in the implementation of the government's Clean Energy Plan are:

- the Australian Renewable Energy Agency (ARENA); and
- the Clean Energy Finance Corporation (CEFC).

3.46 ARENA will be a statutory authority, set up to provide funds for research, development and commercialisation of renewable energy technologies. It will incorporate a number of existing programs, such as the Australian Centre for Renewable Energy, the Australian Solar Institute and the Australian Biofuels Research Institute. It is projected to be revenue neutral, as it will utilise \$3.2 billion of funding already allocated to those programs over nine years. The government's plan is that future funding for ARENA will come from dividends paid by the Clean Energy Finance Corporation.<sup>37</sup>

3.47 The role of the CEFC will be to invest in the commercialisation and deployment of renewable energy, energy efficiency and low-emissions technology. It has allocated funding under the Clean Energy Plan of \$10 billion over five years from 2013-14.<sup>38</sup>

3.48 The CEF was subject to inquiry during the course of the committee undertakings its public hearings. The corporation is a part of the regulatory

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36 Joint Press Conference by the Hon. David Bradbury MP, Parliamentary Secretary to the Treasurer and Mr Peter Kell, Deputy Chair of the Australian Competition and Consumer Commission and Member of Enforcement Committee, Press Conference – Melbourne, 13 July 2011, <http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=transcripts/2011/103.htm&pageID=004&min=wms&Year=&DocType> (accessed 13 July 2011).

37 Australian Government, *Clean Energy Future - Securing a clean energy future: The Australian Government's Climate Change Plan*, p. 122.

38 Australian Government, *Clean Energy Future - Securing a clean energy future: The Australian Government's Climate Change Plan*, p. 121.

architecture for the overall carbon tax scheme but despite this its exact status remains unclear:

**CHAIR:** The carbon tax package said that no decision had yet been made whether the Clean Energy Finance Corporation would sit in Treasury or in the Finance portfolio. Has this been resolved?

**Mrs McCulloch:** It has not yet been finalised.

**CHAIR:** When is that expected to be finalised?

**Mrs McCulloch:** Discussions are ongoing with the government, including in relation to appointments to the CEFC.<sup>39</sup>

3.49 The reason for the inability of the government to determine which Minister will have responsibility for the CEFC opens the way for speculation about whether disagreements between Ministers or departmental secretaries is driving the delay.

3.50 The CEFC will be responsible for a substantial amount of public funds, some \$10 billion dollars in total. The committee was very much interested in the corporations and the decisions surrounding its creation:

**CHAIR:** Did the government or the Multi-Party Climate Change Committee seek advice from Treasury on the Clean Energy Finance Corporation before a decision was made to establish it?

**Mrs McCulloch:** Treasury provided advice on the package in its entirety, including the Clean Energy Finance Corporation.<sup>40</sup>

3.51 The committee pursued the matter further and sought information about the rationale for a public sector organisation competing with private businesses in the provisions of loans:

**CHAIR:** I am seeking an explanation as to what the policy basis is for a government-financing entity providing commercial loans to private sector energy companies? By definition, if they are commercial loans why can companies not source their loans from the private sector?

**Mrs McCulloch:** Commercial in that sense does not necessarily mean the market rate or the hurdle rates that that these businesses would need to go through. There are a large number of potential clean energy and renewable projects out there that cannot get finance for a range of reasons and the purpose of the entity, the CEFC, is to leverage private sector investment in this area.

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39 Senator Mathias Cormann, Chair of the Senate Select Committee on the Scrutiny of New Taxes and Mrs Luise McCulloch, General Manager, Industry, Environment and Defence Division, Department of the Treasury, *Committee Hansard*, 10 August 2010, p. 8.

40 Senator Mathias Cormann, Chair of the Senate Select Committee on the Scrutiny of New Taxes and Mrs Luise McCulloch, Department of the Treasury, *Committee Hansard*, 10 August 2010, p. 8.



**CHAIR:** So the Clean Energy Finance Corporation will provide loans and equity and they are not quite commercial because you are saying that they are pitched at a level that would not necessarily be market level?

**Mrs McCulloch:** Commercial is, in that sense, intending that they will earn a positive return.

**CHAIR:** What sort of positive return?

**Mrs McCulloch:** I will have to take that on notice. I do not know that detail.<sup>41</sup>

3.52 The response from Treasury to the question taken on notice, in its entirety is:

Recipients of commercial loans provided by the CEFC are expected to be charged an interest rate comparable to that offered by lenders in the private sector.

The objective of the CEFC is to remove market barriers that would otherwise hinder the financing of large-scale clean energy and renewable projects. That is, the CEFC will operate in the ‘market gap’, encouraging projects that wouldn’t otherwise proceed by providing an alternative source of debt or equity to underpin a project’s financial viability.<sup>42</sup>

3.53 While the Clean Energy Finance Corporation will be providing a variety of loans, some of which are to be non-commercial, this invariably gives rise to concerns about the fiscal impact of such organisations on the Commonwealth Budget:

**CHAIR:** I refer to the costings that you referred me to before, on page 131, of the plan document. How come the Clean Energy Finance Corporation has a fiscal impact of \$944 million over the forward estimates?

**Mrs McCulloch:** That costing includes things like the administration—the actual running costs of the CEFC. It also includes an allowance for some concessional loans—some loans that are below the government’s bond rate—and it also allows for some prudent estimation of defaults. It is standard.

**CHAIR:** Out of \$10 billion, you are expecting nearly \$1 billion will go to administration, defaults and non-commercial loans or equity?

**Mrs McCulloch:** They are a portion of the costings, yes.

**CHAIR:** Are you able to provide us the detail of what makes up that \$944 million? How much of it is administration? How much of it is an estimate

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41 Senator Mathias Cormann, Chair of the Senate Select Committee on the Scrutiny of New Taxes and Mrs Luise McCulloch, Department of the Treasury, *Committee Hansard*, 10 August 2010, p. 8.

42 Department of the Treasury, reply to Question on Notice taken at the public hearing on 10 August 2011.

of defaults? How much of it is an estimate of what you call concessional loans?<sup>43</sup>

3.54 Treasury also took these questions on notice and replied:

The fiscal impact of \$944 million across the forward estimates reflects the net impact of revenue and expenses excluding public debt interest costs. Departmental expense is equal to \$60 million over the forward estimates.

Over half is explained by the expense associated with concessional loans and the remainder is largely explained by the allowance that is made for defaults.

The funding provided to the CEFC will impact on gross debt. To the extent that the CEFC acquires offsetting debt-like assets, such as loans, there will be a lesser impact on net debt.

Treasury expects that taxpayers will, over time, receive interest and dividends. That is, taxpayers will get a positive return on the investment.<sup>44</sup>

3.55 The inevitable outcome of a government-owned financing corporation providing funds to industry is the age-old issue of picking winners. During the 1980s various state governments were engaged in this practice with the electorates across Western Australia, South Australia and Victoria left to pick up the pieces:

**CHAIR:** Essentially this is back to governments picking winners in supposedly commercial transactions, though, isn't it? Have you looked at the history of Tricontinental, the State Bank of South Australia and WA Inc. to better manage the risk that eventuated in those circumstances, where governments lost billions picking winners in what were supposedly commercial transactions? Is the risk management framework more robust than what it was at the time?

**Mrs McCulloch:** The government has announced that it will appoint a chair to conduct a review over a period of about six months, reporting early next year, to assess a risk management framework, provide advice to government on an appropriate investment mandate and look at issues around the establishment of the CEFC—what function and form it takes. The risk management frameworks have not been established yet. The government is seeking advice, including from experts in the financial sector.

**CHAIR:** I am sure that with the Tricontinental, State Bank of South Australia and WA Inc. examples there were chairs of boards. I am sure that they had corporate governance frameworks and reviews of risk management and so on. Governments getting involved in this sort of

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43 Senator Mathias Cormann, Chair of the Senate Select Committee on the Scrutiny of New Taxes and Mrs Luise McCulloch, Department of the Treasury, *Committee Hansard*, 10 August 2010, p. 8.

44 Department of the Treasury, reply to Question on Notice taken at the public hearing on 10 August 2011.

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business and trying to pick winners is not really a very good way of dealing with taxpayers' money. But that is just my view.<sup>45</sup>

3.56 To the extent that picking winners is successful or unsuccessful, there will be an impact on the Commonwealth Budget:

**CHAIR:** I am giving that as an example to make a point. The point is this: if the government is taking equity through the Clean Energy Finance Corporation, what is the accounting treatment when the value of shares drops, for example, from \$1.50 to 25c?

**Mrs McCulloch:** That would affect the government's balance sheet, just like it does with any other equities that it enters into.

**CHAIR:** So it would affect the government's balance sheet?

**Mrs McCulloch:** Yes.

**CHAIR:** Are you quite sure of that?

**Mrs McCulloch:** Yes. The government's balance sheets takes into account all of its assets and liabilities.

**CHAIR:** Except that the Clean Energy Finance Corporation of course as a whole is off budget.

**Mrs McCulloch:** No, it is within the general government sector and therefore on the government's balance sheet.

**CHAIR:** Except that you are assuming that you are going to make a return. You are saying that, to the extent that that does not happen, that will be obvious; that will be transparent.

**Mrs McCulloch:** There are two distinctions here. The figures that you are looking at in the document are the cash and fiscal flows on an annual basis. Then there is also the balance sheet—what does it do for gross debt, for the government's asset position and for net debt? The CEFC is incorporated in the government's balance sheet.<sup>46</sup>

3.57 The committee pursued the matter:

**CHAIR:** How is the accounting treatment of the Clean Energy Finance Corporation determined? How subcommercial would a Clean Energy Finance Corporation transaction have to be before it was treated as a subsidy that had a fiscal impact? Is it, as you have just mentioned, as soon as it is below the bond rate that it hits the budget bottom line?

**Mrs McCulloch:** I would have to double-check the exact definition. The accounting standards here are consistent with the ABS GFS guidelines and

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45 Senator Mathias Cormann, Chair of the Senate Select Committee on the Scrutiny of New Taxes and Mrs Luise McCulloch, Department of the Treasury, *Committee Hansard*, 10 August 2010, p. 9.

46 Senator Mathias Cormann, Chair of the Senate Select Committee on the Scrutiny of New Taxes and Mrs Luise McCulloch, Department of the Treasury, *Committee Hansard*, 10 August 2010, p. 9.

consistent with the way Finance do the costings for these types of entities. Exactly the definition used for what is concessional, I will take on notice.<sup>47</sup>

3.58 The reply from Treasury to the question taken on notice, in its entirety, stated:

The Charter of Budget Honesty Act 1998 requires that the budget be based on external reporting standards. The budget treatment of CEFC is consistent with accounting and budget rules.

Concessional loans are loans that charge an interest rate below the market interest rate.

The accounting treatment of concessional loans involves an upfront impact to the fiscal balance and net debt (to the extent of the concession). As repayments are made, this impact is unwound over the life of the loan.

The impact to the underlying cash balance is limited to the net of interest receipts and interest payments.

Treasury expects that taxpayers will, over time, receive interest and dividends. That is, taxpayers will get a positive return on the investment.<sup>48</sup>

#### *Advertising and community awareness*

3.59 On 16 June 2011, almost a month before it unveiled its plan, the government announced a national advertising campaign to sell the carbon tax. The Minister for Climate Change and Energy Efficiency, the Hon. Greg Combet AM MP, has stated that the campaign will cost \$12 million. This is in addition to an allocation of \$8.2 million in the 2011-12 Budget for the Climate Change Foundation Campaign, which will fund a \$3 million grants program, as well as 'partnerships and other community engagement activities'.<sup>49</sup>

3.60 It has been suggested that the total cost of all government advertising to support its carbon tax is closer to \$25 million, when the cost of leaflets and websites is added in.<sup>50</sup>

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47 Senator Mathias Cormann, Chair of the Senate Select Committee on the Scrutiny of New Taxes and Mrs Luise McCulloch, Department of the Treasury, *Committee Hansard*, 10 August 2010, p. 9.

48 Department of the Treasury, reply to Question on Notice taken at the public hearing on 10 August 2011.

49 The Hon. Greg Combet AM MP, Minister for Climate Change and Energy Efficiency, Climate change public information campaign, Media Release, 16 June 2011 <http://www.climatechange.gov.au/minister/greg-combet/2011/media-releases/June/mr20110616.aspx> (accessed 18 August 2011).

50 Ross Peake, 'Gillard, Abbott in campaign cost debate', *Canberra Times*, 18 July 2011, p. 3.

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### *Compensation for households*

3.61 The government has indicated that the price impact of its carbon tax will mean that '[o]n average, households will see cost increases of \$9.90 a week, while the average assistance will be \$10.10 a week'.<sup>51</sup>

3.62 As a tax, the carbon tax and related measures will raise around \$27.2 billion between 2012-13 and 2014-15. The government has announced that '[m]ore than half of the revenue raised by putting a price on carbon pollution will go to households to help meet price impacts'.<sup>52</sup>

3.63 Chapter 7 explores the impact of the carbon tax on households in more detail.

#### *For households under the carbon tax*

3.64 Under the government's carbon tax, a new Clean Energy Supplement will be paid. The assistance will mean up to:

- \$110 per child for a family that receives Family Tax Benefit Part A;
- \$69 extra for families that receive Family Tax Benefit Part B;
- \$218 extra per year for single income support recipients and \$390 per year for couples combined for people on allowances; and
- \$234 per year for single parents, in addition to the increased family payments they receive.<sup>53</sup>

3.65 The '[p]ayments of the Clean Energy Supplement will be paid on a fortnightly basis from March 2013 for most allowances, July 2013 for family payments and January 2014 for students on Youth Allowance'.<sup>54</sup>

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51 Joint media release, the Hon. Julia Gillard MP, Prime Minister, the Hon. Wayne Swan MP, Deputy Prime Minister and Treasurer, the Hon. Jenny Macklin MP, Minister for Families, Housing, Community Services and Indigenous Affairs and the Hon. Greg Combet AM MP, Minister for Climate Change and Energy Efficiency, 'Assistance for nine out of ten Australian households', <http://www.pm.gov.au/press-office/assistance-nine-out-ten-australian-households>, (accessed 10 July 2011).

52 Joint media release, the Hon. Julia Gillard MP, Prime Minister, the Hon. Wayne Swan MP, Deputy Prime Minister and Treasurer, the Hon. Jenny Macklin MP, Minister for Families, Housing, Community Services and Indigenous Affairs and the Hon. Greg Combet AM MP, Minister for Climate Change and Energy Efficiency, 'Assistance for nine out of ten Australian households', <http://www.pm.gov.au/press-office/assistance-nine-out-ten-australian-households>, (accessed 10 July 2011).

53 Joint media release, the Hon. Julia Gillard MP, Prime Minister, the Hon. Wayne Swan MP, Deputy Prime Minister and Treasurer, the Hon. Jenny Macklin MP, Minister for Families, Housing, Community Services and Indigenous Affairs and the Hon. Greg Combet AM MP, Minister for Climate Change and Energy Efficiency, 'Assistance for nine out of ten Australian households', <http://www.pm.gov.au/press-office/assistance-nine-out-ten-australian-households>, (accessed 10 July 2011).

*For pensioners under the carbon tax*

## 3.66 Under the government's carbon tax:

A new Clean Energy Supplement will be paid, equal to a 1.7 per cent increase in pensions, allowances and family payments. The assistance will mean:

- Up to \$338 extra per year for single pensioners and self-funded retirees, and up to \$510 per year for pensioner couples combined.<sup>55</sup>

3.67 The '[p]ayments of the Clean Energy Supplement will be paid on a fortnightly basis from March 2013 for pensions and most allowances'.<sup>56</sup>*Reform of income taxation arrangements*

## 3.68 Under the carbon tax, a range of income taxation reform measures will also be introduced. These include:

From day one of the carbon price on 1 July 2012, every taxpayer with income below \$80,000 will receive a tax cut, with most getting at least \$300 a year.

These tax cuts will be permanent, and they will increase. On 1 July 2015, a second round of tax cuts will apply, increasing the saving to at least \$380 a year for most taxpayers earning under \$80,000 compared to now.<sup>57</sup>

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54 Joint media release, the Hon. Julia Gillard MP, Prime Minister, the Hon. Wayne Swan MP, Deputy Prime Minister and Treasurer, the Hon. Jenny Macklin MP, Minister for Families, Housing, Community Services and Indigenous Affairs and the Hon. Greg Combet AM MP, Minister for Climate Change and Energy Efficiency, 'Assistance for nine out of ten Australian households', <http://www.pm.gov.au/press-office/assistance-nine-out-ten-australian-households>, (accessed 10 July 2011).

55 Joint media release, the Hon. Julia Gillard MP, Prime Minister, the Hon. Wayne Swan MP, Deputy Prime Minister and Treasurer, Minister for Families, the Hon. Jenny Macklin MP, Housing, Community Services and Indigenous Affairs and the Hon. Greg Combet AM MP, Minister for Climate Change and Energy Efficiency, 'Assistance for nine out of ten Australian households', <http://www.pm.gov.au/press-office/assistance-nine-out-ten-australian-households>, (accessed 10 July 2011).

56 Joint media release, the Hon. Julia Gillard MP, Prime Minister, the Hon. Wayne Swan MP, Deputy Prime Minister and Treasurer, the Hon. Jenny Macklin MP, Minister for Families, Housing, Community Services and Indigenous Affairs and the Hon. Greg Combet AM MP, Minister for Climate Change and Energy Efficiency, 'Assistance for nine out of ten Australian households', <http://www.pm.gov.au/press-office/assistance-nine-out-ten-australian-households>, (accessed 10 July 2011).

### 3.69 Taken together:

The combined changes mean headline tax rates will better match the effective rate that a lot of taxpayers are actually paying at the moment. All taxpayers under \$80,000 will pay less tax.<sup>58</sup>

#### *Cost of household assistance measures*

3.70 The cost of all household assistance measures are set out in the table below.

**Table 3.3: Cost of household assistance under the carbon tax<sup>59</sup>**

Year	Increases in transfer payments (\$m)	Tax Reform (\$m)	Low Carbon Communities (\$m)	Other energy efficiency measures (\$m)	Implementation of assistance (\$m)	Totals (\$m)
2011-12	1,470	0	5	7	51	1,543
2012-13	775	3,350	39	13	54	4,230
2013-14	2,302	2,370	83	15	39	4,890
2014-15	2,380	2,320	90	13	28	4,830
Total	6,927	8,040	217	48	172	15,403

Note: Numbers may not add due to rounding. Numbers in the above table are those contained in the source document.

3.71 Chapter 7, 8 and 10 of the Report provide a detailed critique of the government's carbon tax and its impact on households, the Commonwealth Budget, the states and, importantly, jobs and investment.

#### *Links to international markets*

3.72 Under the carbon tax, emitters cannot buy carbon credits from international markets for the purpose of offsetting their domestic emissions. This prohibition will

57 Joint media release, the Hon. Julia Gillard MP, Prime Minister, the Hon. Wayne Swan MP, Deputy Prime Minister and Treasurer, the Hon. Jenny Macklin MP, Minister for Families, Housing, Community Services and Indigenous Affairs, and the Hon. Greg Combet AM MP, Minister for Climate Change and Energy Efficiency, 'Assistance for nine out of ten Australian households', <http://www.pm.gov.au/press-office/assistance-nine-out-ten-australian-households>, (accessed on 10 July 2011).

58 Joint media release, the Hon. Julia Gillard MP, Prime Minister, the Hon. Wayne Swan MP, Deputy Prime Minister and Treasurer, the Hon. Jenny Macklin MP, Minister for Families, Housing, Community Services and Indigenous Affairs and the Hon. Greg Combet AM MP, Minister for Climate Change and Energy Efficiency, 'Assistance for nine out of ten Australian households', <http://www.pm.gov.au/press-office/assistance-nine-out-ten-australian-households>, (accessed on 10 July 2011).

59 Clean Energy Bill 2011, Explanatory Memorandum, p. 41.

last during the fixed-price period.<sup>60</sup> At the conclusion of the fixed-price period, an emissions trading scheme will come into operation. Once the flexible-price period commences and up until 2020, emitters will be restricted to meeting at least half of their annual liability from domestic permits or credits. This prohibition will be reviewed by the Climate Change Authority in 2016.

### *Compensation for affected industries*

3.73 Compensation arrangements for affected industries come from two sources. Measures agreed by the MPCCC and stand alone Government measures.

3.74 Under the carbon tax, '[t]he Government will allocate around 40 per cent of carbon price revenue to help businesses and support jobs'.<sup>61</sup> Chapter 5 of the report considers compensation for emissions intensive industries.

### *Jobs and Competitiveness Program*

3.75 The government has developed a Jobs and Competitiveness Program to assist industries that are vulnerable under the carbon tax. The Program:

... has been designed to provide assistance to the most emissions-intensive activities in the economy that are highly exposed to international competition - either on export markets or from importers.<sup>62</sup>

3.76 The fund is to provide \$9.2 billion over the first three years of the carbon tax.<sup>63</sup>

3.77 The types of industries that are emissions intensive are those that are very important to the Australian economy. These industries include coal, steel, aluminium, food and farming. Together, the mining and agriculture sectors account for over 70 per cent of Australia's exports. They are the industries that build and sustain Australia's prosperity.

3.78 Almost all emissions-intensive and trade exposed activities are in the manufacturing sector. The Jobs and Competitiveness Program will provide support to activities that generate 80 per cent of emissions, specifically:

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60 Australian Government, *Clean Energy Future - Securing a clean energy future: The Australian Government's Climate Change Plan*, p. 107.

61 Australian Government, *Clean Energy Factsheet – Supporting Jobs and Industry*, <http://www.cleanenergyfuture.gov.au/wp-content/uploads/2011/06/012-FS-Supporting-jobs-and-industry.pdf>, (accessed 10 July 1011).

62 Australian Government, *Clean Energy Factsheet – Supporting Jobs and Industry*, <http://www.cleanenergyfuture.gov.au/clean-energy-future/securing-a-clean-energy-future/#content06>, (accessed 5 October 1011).

63 Clean Energy Bill 2011, Explanatory Memorandum, p. 42.



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The Government expects that 40 to 50 activities will be eligible. Examples of eligible activities include aluminium products, steel, manufacturing, pulp and paper manufacturing, glass making, cement production and petroleum refining.<sup>64</sup>

3.79 Unfortunately for emissions intensive industries as they confront the carbon tax, '[f]urther details on eligibility for assistance under the Jobs and Competitiveness Program will become available in the future'.<sup>65</sup> This situation is undesirable given that the introduction of the carbon tax is less than one year away and businesses will need to make employment and investment decisions prior to and after the possible introduction of the carbon tax.

3.80 In order to assist the emissions-intensive industries most exposed to the impact of the carbon tax '[t]he government will allocate, free of charge, Australian carbon permits to the most emissions-intensive and trade exposed industries'.<sup>66</sup>

3.81 The Jobs and Competitiveness Program entails two categories of assistance:

The most emissions-intensive and trade-exposed activities will initially be eligible for 94.5 per cent shielding from the carbon price. A second category of assistance will provide an initial shielding level of 66 per cent of the carbon price.<sup>67</sup>

3.82 The table below provides an overview of the cost of the Jobs and Competitiveness Program.

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64 Australian Government, *Clean Energy Future - Securing a clean energy future: The Australian Government's Climate Change Plan*, p. 54.

65 Australian Government, *Clean Energy Factsheet – Supporting Jobs and Industry*, <http://www.cleanenergyfuture.gov.au/wp-content/uploads/2011/06/012-FS-Supporting-jobs-and-industry.pdf>, (accessed 10 July 1011).

66 Australian Government, *Clean Energy Future - Securing a clean energy future: The Australian Government's Climate Change Plan*, p. 55.

67 Australian Government, *Clean Energy Factsheet – Supporting Jobs and Industry*, <http://www.cleanenergyfuture.gov.au/wp-content/uploads/2011/06/012-FS-Supporting-jobs-and-industry.pdf>, (accessed 10 July 1011).

**Table 3.4: Cost of the Jobs Competitiveness Program<sup>68</sup>**

Year	Jobs and Competitiveness Program (\$m)
2011-12	0
2012-13	2,851
2013-14	3,059
2014-15	3,312
<b>Total</b>	9,222

The assistance rates will be reduced by 1.3 per cent per year.<sup>69</sup>

### *Steel industry*

3.83 In order to help the steel industry adjust to a lower carbon future:

The Government will provide assistance worth \$300 million over four years to encourage investment and innovation in the Australian steel manufacturing industry through the Steel Transformation Plan. This will help the sector transform into an increasingly efficient and economically sustainable industry in a low-pollution economy.<sup>70</sup>

3.84 A separate government document the *Clean Energy Future - Securing a clean energy future: The Australian Government's Climate Change Plan* states that the \$300 million is over five years.<sup>71</sup>

3.85 According to the government, this measure is '... additional to those agreed by the Multi-Party Climate Change Committee'.<sup>72</sup> The Steel Transformation Plan is not

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68 Clean Energy Bill 2011, Explanatory Memorandum, p. 41.

69 Australian Government, *Clean Energy Future - Securing a clean energy future: The Australian Government's Climate Change Plan*, p. 55.

70 Australian Government, *Clean Energy Factsheet – Supporting Jobs and Industry*, <http://www.cleanenergyfuture.gov.au/wp-content/uploads/2011/06/012-FS-Supporting-jobs-and-industry.pdf>, (accessed 10 July 1011).

71 Australian Government, *Clean Energy Future - Securing a clean energy future: The Australian Government's Climate Change Plan*, p. 133.

72 Australian Government, *Clean Energy Factsheet – Supporting Jobs and Industry*, <http://www.cleanenergyfuture.gov.au/wp-content/uploads/2011/06/012-FS-Supporting-jobs-and-industry.pdf>, (accessed 10 July 1011).

included as a cost in the government's Clean Energy Plan released on 10 July 2011 and was not agreed by the MPCCC.<sup>73</sup>

3.86 The Steel Transformation Plan is costed at \$189 million over 2011-12 until 2014-15.<sup>74</sup>

### *Coal industry*

3.87 The coal industry is of vital importance to the Australian economy. To assist the coal industry:

The \$1.3 billion Coal Sector Jobs Package will provide transitional assistance to help the coal industry to implement carbon abatement technologies for the mines that produce the most carbon pollution. The amount of carbon pollution produced by coal mines varies greatly, so the fairest way to deliver assistance is to target assistance at those mines that are most impacted by the introduction of the carbon price.<sup>75</sup>

3.88 The Coal Sector Jobs package is \$1.3 billion over six years, the cost running over a four year period starting in 2011-12 is \$696 million.<sup>76</sup>

3.89 In addition, this measure will be supported by a '\$70 million Coal Mining Abatement Technology Support Package (which) will provide support for the development and deployment of technologies to reduce fugitive emissions from coal mines'.<sup>77</sup> A total of \$70 million is allocated over six years, with the allocation during the four year period starting 2011-12 being a total of \$41 million.<sup>78</sup>

3.90 This measure is '...additional to those agreed by the Multi-Party Climate Change Committee'.<sup>79</sup> The Coal Sector Jobs Package and the Coal Mining Abatement

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73 Australian Government, *Clean Energy Factsheet – Supporting Jobs and Industry*, <http://www.cleanenergyfuture.gov.au/wp-content/uploads/2011/06/012-FS-Supporting-jobs-and-industry.pdf>, (accessed 14 September 2011).

74 Clean Energy Bill 2011, Explanatory Memorandum, p. 42.

75 Australian Government, *Clean Energy Factsheet – Supporting Jobs and Industry*, <http://www.cleanenergyfuture.gov.au/wp-content/uploads/2011/06/012-FS-Supporting-jobs-and-industry.pdf>, (accessed 10 July 1011).

76 Clean Energy Bill, Explanatory Memorandum, p. 42.

77 Australian Government, *Clean Energy Factsheet – Supporting Jobs and Industry*, <http://www.cleanenergyfuture.gov.au/wp-content/uploads/2011/06/012-FS-Supporting-jobs-and-industry.pdf>, (accessed 10 July 1011).

78 Australian Government, *Clean Energy Future - Securing a clean energy future: The Australian Government's Climate Change Plan*, pp 134–135 and Clean Energy Bill, Explanatory Memorandum, p. 42.

79 Australian Government, *Clean Energy Factsheet – Supporting Jobs and Industry*, <http://www.cleanenergyfuture.gov.au/wp-content/uploads/2011/06/012-FS-Supporting-jobs-and-industry.pdf>, (accessed 10 July 1011).

Technology Support Package are not included as costs in the government's Clean Energy Plan announced on 10 July 2011. Chapter 4 explores the impact of the carbon tax on the coal industry.

### *Treatment of heavy on-road transport*

3.91 The government will alter the application of taxation arrangements in the transport industries. Under the government's plans:

... an effective carbon price on fuel used by heavy on-road transport from 1 July 2014 through changes in fuel tax credits. This will significantly broaden coverage of the carbon price as heavy on-road vehicles account for over 25 per cent of road transport emissions.<sup>80</sup>

3.92 The changes to the treatment of heavy on-road transport were not included as costs in the government's Clean Energy Plan announced on 10 July 2011.<sup>81</sup> The measure starts in 2014-15 and amounts to \$510 million in revenue in its first year of operation.<sup>82</sup>

### *Electricity Industry*

3.93 The government has also made a commitment to negotiate the closure of some of the highest emitting coal-fired power stations, representing around 2000 megawatts of generation capacity, by 2020.<sup>83</sup> No funds are set aside in the Clean Energy Plan for this project, however, Treasury has advised the committee that these funds will derive from the budget's contingency reserve.<sup>84</sup> Chapter 6 explores the issues surrounding the impact of the carbon tax on Australia's electricity industry.

## **Revenue and outlays under the carbon tax**

3.94 The table and graph below compare revenues and outlays associated with the carbon tax agreed within the MPCCC.

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80 Australian Government, *Clean Energy Future - Securing a clean energy future: The Australian Government's Climate Change Plan*, p. 133.

81 Australian Government, *Clean Energy Future - Securing a clean energy future: The Australian Government's Climate Change Plan*, p. 133.

82 Clean Energy Bill, Explanatory Memorandum, p. 42.

83 Australian Government, *Clean Energy Future - Securing a clean energy future: The Australian Government's Climate Change Plan*, p. 74.

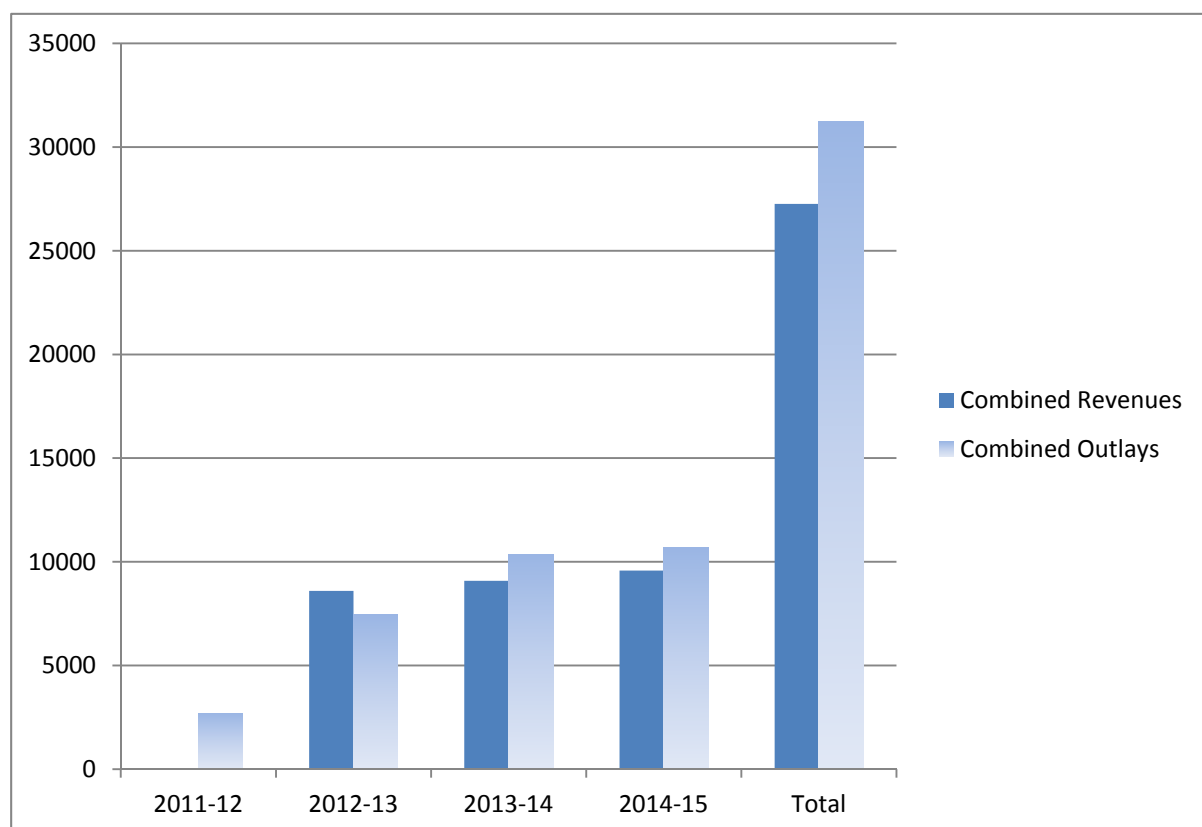
84 Mrs Luise McCullough, Department of the Treasury, *Committee Hansard*, 10 August 2011, pp 3-4.

**Table 3.5: Revenues and outlays under the carbon tax agreed by the MPCCC<sup>85</sup>**

Year	Combined revenues (\$m)	Combined outlays (\$m)	Difference (\$m)
2011-12	0	2,717	-2,717
2012-13	8,600	7,490	1,110
2013-14	9,080	10,366	-1,285
2014-15	9,580	10,696	-1,116
Total	27,260	31,269	-4,008

Note: Numbers may not add due to rounding, total net impact matches exactly the source for this table.

**Graphic 3.3 Revenues and outlays under the carbon tax agreed by the MPCCC<sup>86</sup>**



3.95 Table 3.5 and Graphic 3.3 do not give the full picture of the cost blow-out of the carbon tax and associated measures. It does not include:

85 Clean Energy Bill 2011, Explanatory Memorandum, p. 41.

86 Clean Energy Bill 2011, Explanatory Memorandum, p. 41.

- \$12.8 million for the ACCC;<sup>87</sup>
- \$12 million for advertising and raising community awareness of the carbon tax and its effect;<sup>88</sup>
- \$41 million for the Coal Mining Abatement Technology Support Package;<sup>89</sup>
- \$189 million for the Steel Transformation Plan;<sup>90</sup> and
- \$696 million for the Coal Sector Jobs Package.<sup>91</sup>

3.96 Outlay measures not directly accounted for in the release of the government's Clean Energy Plan amount to a staggering \$950.8 million.

3.97 The government's stand alone measures have increased revenues by \$510 million due to the imposition of an additional fuel tax credit reduction for heavy on-road transport from 2014-15.

3.98 These same stand alone measures create a deficit of \$440.8 million. That is, the government's measures raise \$510 million through the fuel tax credit reduction and outlay \$950.8 million.

3.99 The table and graphic below bring together the combined MPCCC and government revenues and outlays to highlight a combined deficit of \$4449.8 million.

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87 Joint Press Conference by the Hon. David Bradbury MP, Parliamentary Secretary to the Treasurer and Mr Peter Kell, Deputy Chair of the Australian Competition and Consumer Commission and Member of Enforcement Committee, Press Conference – Melbourne, 13 July 2011  
<http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=transcripts/2011/103.htm&pageID=004&min=wms&Year=&DocType>, (accessed 13 July 2011).

88 The Hon. Greg Combet AM MP, Minister for Climate Change and Energy Efficiency, 'Climate change public information campaign', Media Release, 16 June 2011  
<http://www.climatechange.gov.au/minister/greg-combet/2011/media-releases/June/mr20110616.aspx>, (accessed 18 August 2011).

89 Clean Energy Bill 2011, Explanatory Memorandum, p. 42.

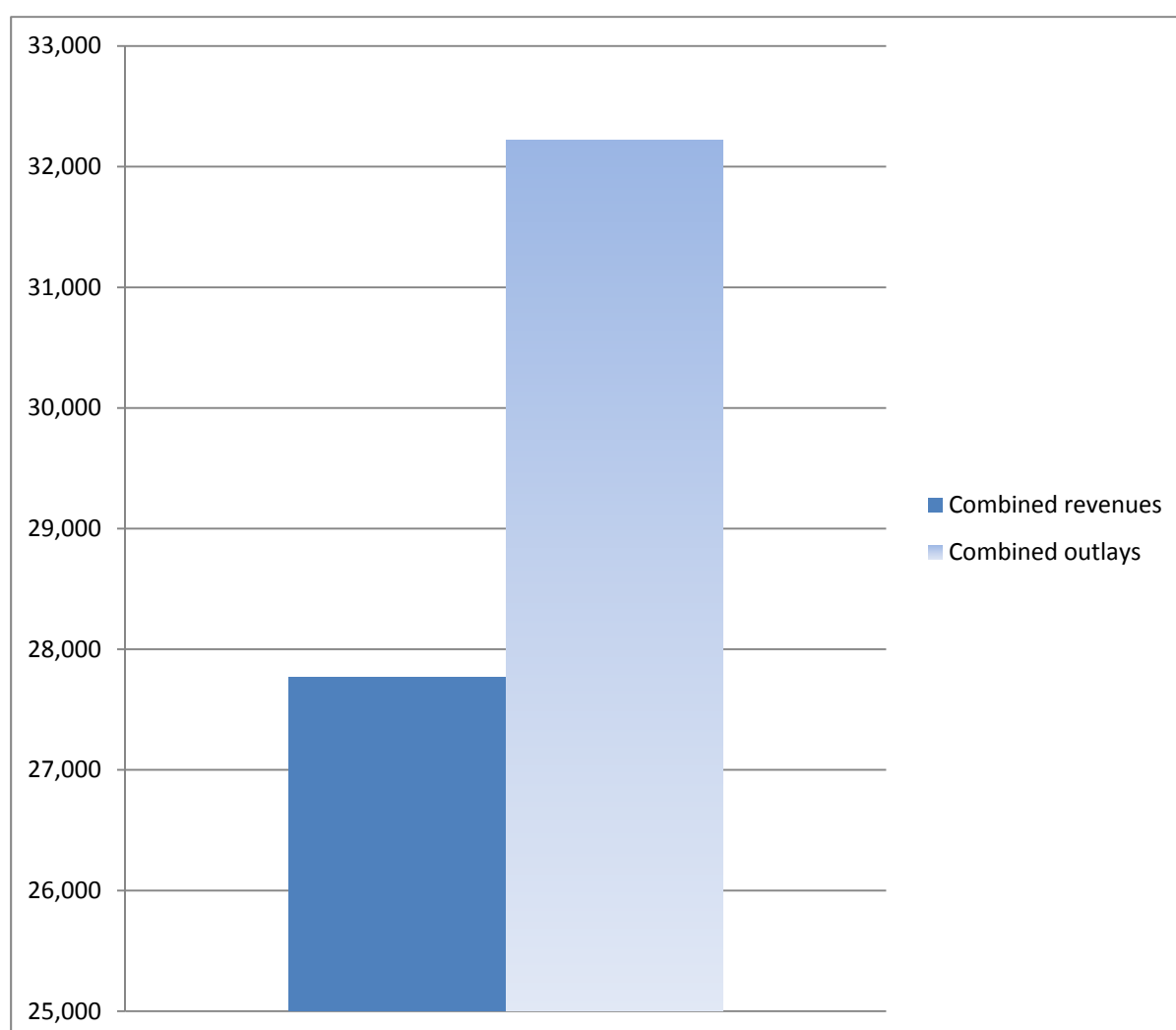
90 Clean Energy Bill 2011, Explanatory Memorandum, p. 42.

91 Clean Energy Bill 2011, Explanatory Memorandum, p. 42.

**Table 3.6: Total revenues and outlays under the carbon tax agreed by MPCCC and the government's stand alone measures<sup>92</sup>**

	MPCCC and government combined revenues (\$m)	MPCCC and government combined outlays (\$m)	Difference (\$m)
Total	27,770	32,219.8	-4,449.8

**Graphic 3.4 Total revenues and outlays under the carbon tax agreed by MPCCC and the government's stand alone measures<sup>93</sup>**



92 Clean Energy Bill 2011, Explanatory Memorandum, pp 41 – 42 and paras: 3.95 – 3.99 of this Report.

93 Clean Energy Bill 2011, Explanatory Memorandum, pp 41 – 42 and paras: 3.95 – 3.99 of this Report.

## **Committee comment**

3.100 It is clear to the committee that the case for a carbon tax has not been made. The proposed tax is a tax which the Gillard Government promised it would not introduce.

3.101 Furthermore, the committee considers that the proposed design of the tax, which will introduce property rights, is highly inappropriate. This feature of the carbon tax legislation is clearly and deliberately designed to prevent future governments from implementing a mandate to rescind the carbon tax and has the potential to expose taxpayers to significant compensation payouts.

3.102 More generally, given the uncertainties surrounding the global framework for climate change, it could lock Australia into a policy that is both futile and costly.

3.103 Not only is this particular aspect of the proposed legislation highly inappropriate but, in addition, the carbon tax package as proposed is fiscally irresponsible – the introduction of the tax and its associated measures will result in a cost blow-out of \$4,449.8 million. So much for the carbon tax being 'budget neutral' as the Parliament was promised at budget time.

## **Recommendation 1**

**It is the Committee's view that the carbon tax should be opposed and the legislation defeated in the Parliament as:**

- **there is no electoral mandate for the carbon tax;**
- **the modelling that supports it is based on a number of highly contestable assumptions;**
- **it is likely to undermine Australian businesses' ability to compete in the global economy;**
- **it will have significant adverse effects on particular sectors and regions, with a particularly disproportionate impact on regional Australia;**
- **the effect of the policy on the cost of living, and on jobs is likely to be higher than the government's current estimates indicate;**
- **there is considerable evidence that the carbon tax will not result in any real environmental gain, despite imposing a significant cost on the economy over the next thirty years.**

**The Committee recommends that the carbon tax be opposed by the Parliament.**



**Recommendation 2**

**The Committee recommends that if the Parliament believes that it should proceed with the carbon tax, any provisions in the legislation designed to bind future governments seeking to prevent them from amending or rescinding the scheme be removed.**

