

# Suffocating the economy one tax at a time

[Energy](#) and [Climate Change](#) | [Alan Moran](#)  
*The Drum* 13th July, 2011

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If implemented, Julia Gillard's proposed carbon price starting at \$23 per tonne will push us closer to economic stagnation.

If the Government wanted to make the 159 million tonnes saving in 2020 it seeks, it would not attempt to do this with a domestic tax. According to the Government's Securing a Clean Future report, half of the saved emissions are domestically derived.

If the price is \$30 per tonne this will involve an annual cost of \$2.385 billion incurred in overseas buying. The cost of achieving the emission reduction locally if the price is \$30 per tonne is incurred on all the remaining emissions (336 million tonnes). That comes to \$10.08 billion. This begs the question that since carbon dioxide is the same the world over why not buy all our emissions overseas? At \$30 per tonne, 159 megatonnes of emissions costs \$4.77 billion, which is far less costly than striving to do it with the mix of local (\$10.08 billion) plus overseas (\$2.385 billion) giving a total of \$12.465 billion.

Even without a carbon tax, Australia's energy price regulator has reported an expected increase of 30 per cent in electricity prices over the next three years, largely due to higher 'poles and wires' costs. For New South Wales, the state's pricing tribunal has announced a 17 per cent electricity increase for next year, a third of which is for "green schemes".

Against this backdrop last month's Productivity Commission (PC) report, Carbon Emission Policies in Key Economies examined over 1,000 abatement reduction schemes across eight countries. These are overwhelmingly focused on electricity, and the PC converted them into carbon tax equivalents.

The PC's analysis illustrates that taxes are high and substantial abatement is taking place in the European Union (EU). In Germany and the UK carbon dioxide emission programs bring increases of 12-17 per cent in electricity prices (though the recent slump in the EU carbon price will reduce this considerably).

For Australia and New Zealand the emission control programs currently bring electricity price increases of 1-2 per cent, while in China, US, Japan and South Korea the effect is negligible. And Australia's main scheme, the 20 per cent Renewable Energy Target, is only just gearing up to cost levels that by 2020 will be perhaps tenfold those of today.

Australia's trading rivals are among the 170-odd other countries which the PC did not examine. In fact, exporters of fuel and raw materials in Canada, South Africa, Brazil, Indonesia, India and the Middle East face negligible carbon abatement costs and already have tax advantages over Australia's exporters. Carbon taxes figured prominently in the Canadian Liberal Party's platform in that country's recent election and the party suffered its worst defeat in a century.

Although no country has a carbon tax, the PC's material demonstrates that cap-and-trade market mechanisms offer cheaper means of bringing about abatement than specified regulatory measures like renewable programs. Thus Germany's costs under the European Union's cap-and-trade carbon tax were about \$20 per tonne of CO<sub>2</sub> (for shifting from coal to gas) but costs under specific measures requiring wind and solar use on average \$137 per tonne.

Australia's schemes involving feed-in tariffs for small scale renewable systems come at a CO<sub>2</sub> price of up to \$425 per tonne. Wind farms cost \$37-69 per tonne.

The PC estimates that a carbon tax set at \$9 per tonne could replace all existing Australian measures and notes that a tax is less inefficient than 'direct action' approaches favoured by the Opposition.

However, the current abatement measures requiring renewables are also direct action approaches and the Government wants these to be retained alongside a carbon tax. Moreover, it is negotiating for another direct action proposal, involving closure of Victoria's Hazelwood power station. That closure could reduce emissions by 3 per cent but only in the unlikely event that the station's output is not replaced by output from other fossil fuel sources.

The Productivity Commission estimated the cost of Australian emission reduction programs at \$473-694 million in terms of total subsidy equivalent. But this excludes direct government subsidies. The Department of Climate Change and Energy Efficiency (DCCEE) provides an "A to Z" of (Commonwealth) Government initiatives. Ranging from Advanced Electricity Storage Technologies to the World Bank Clean Technology Fund, these comprise 93 separate programs. DCCEE put Australia's budget expenditures on abatement measures totalled \$1.069 billion in 2009/10. The Government's package budgets for \$4.2 billion in 2014/15 in the Clean Energy Finance Corporation and other supports for green energy and conservation.

In addition to excluding direct budgetary spending in estimating Australia's carbon tax rate, the PC also does not count the effects of a range of standards. A previous commission report had put the annual costs of greenhouse abatement measures embodied in the national five/six-star building standards at \$3 billion a year.

Clearly Australia outlays much more than the \$473-694 million the PC used to estimate Australia's greenhouse abatement costs. Our expenditures are much higher than those of our competitors and the carbon tax would further increase the baggage we have to carry.

The outcome would be a spiralling down of our living standards relative to those of other resource rich countries.

But the carbon tax is only the latest blow. To restore the nation's competitiveness, a future Coalition government must both revoke any carbon tax that is introduced and purge the economy-killing measures that have been gathering moss over the past few years.

To start this ball rolling, the O'Farrell Government is calling for the repeal of the Commonwealth's 20 per cent Renewable Energy Target. And the Nationals Senator Ron Boswell has made similar moves in the Coalition party room by seeking to have support for the target reviewed by a policy committee.

With his 'direct action' approach Tony Abbott expects to achieve the Government 5 per cent reduction in emissions but at a lower cost than a carbon tax involves. That is implausibly optimistic. But more significantly he has announced a review of policies for 2015, an action which foreshadows an unwinding of the green juggernaut.

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