



Response to the Special Review on Australia's Climate Policy options

Citizen's Climate Lobby¹ commends the Authority for producing this Draft Report and for seeking views from the public on a matter that could not be more important or more urgent.

We would like to propose an important pricing scheme to be included in your analysis. It is called [Carbon Fee and Dividend](#) which we predict would be more effective and more efficient than an ETS or a Carbon Tax.

This approach to carbon pricing assesses a steadily-increasing fee on the carbon content of fossil fuels at the point where they enter the economy and returns 100% of the revenue evenly to households. In the US we are recommending a starting fee of around \$15 with a \$10 annual increase until emissions reach 90% below 1990 levels. (Australia may need to set a different fee). The fee can be varied in response to varying circumstances but changes should be kept to a minimum to give as much certainty as possible to companies and investors.

Border adjustments on imports and exports ensures a level playing field with countries that do not have a carbon price, encourages them to adopt their own carbon price and greatly reduces 'carbon leakage'.

A comprehensive study ([The REMI Report](#)) on the US economy shows a 50% reduction in emissions in 20 years, 2.8m new jobs and many lives saved from fossil fuel pollution. As yet no similar study has been done in the Australian economy though a request to the Parliamentary Budget Office is currently being prepared.

We will address the three principles your study uses to assess the various policies

1. Cost effectiveness

Direct implementation costs will be minimal as the emission reductions will be achieved by consumers shifting from high-carbon consumption to low or zero-carbon options. The market will naturally follow and individual firms will incur costs if they do not respond quickly enough to the market trend. The trend will be largely predictable as the annual increase in the carbon fee can be signalled for many years ahead. This approach will create many thousands of jobs as the differentiating effect of the carbon price flowing through the economy causes innovative businesses and citizens to choose renewable and low-carbon energy options. (Employment and potential job losses in coal mining have been greatly exaggerated by the industry and an effective

¹ Citizen's Climate Lobby (CCL) is a non-profit, non-partisan, volunteer driven organisation that exists 'to create the political will for climate solutions by enabling individual breakthroughs in personal and political power'. Founded in the US eight years ago it now has members in many other countries. We have been active in Australia for two years and have a growing membership, currently 220 members.

carbon price will create far more new and long-term sustainable jobs in renewable energy technologies).

Costs to Government will be minimal as the fee is charged at the point where the fossil fuel enters the economy (well, mine or port) and therefore only affects a small number of companies. Pricing emissions affects a lot more companies and is much more complex. The ATO could easily collect the fee from the small number of fossil fuel providers and Social Security could distribute the dividend to households. As the infrastructure is already in place it will only cost a tiny percentage of the revenue to pay for the changes that will be required.

Indirect costs will be considerable as the cost of the fee will inevitably flow through the economy and prices will increase accordingly. However, because all the revenue goes back to householders as a dividend, most householders (66% in the US according to REMI) will have more money and will easily be able to afford the increased costs. Only high carbon users (who are usually on higher incomes) will pay more, unless they too choose lower carbon options.

Passing on 100% to householders is very important as it ensures that people can afford the increased prices and businesses will be able to prosper, provided they adapt and innovate to reduce their carbon exposure. Fossil fuel companies will finally have sufficient incentive to become low-carbon energy providers as the steadily-increasing fee will erode the inefficient subsidies that protect them and which ultimately cost the economy. This creates the level playing field that will enable non-carbon energy sources to compete.

Fee and Dividend will be very efficient because it does not need a special carbon market in order to operate. This cuts out the incidental earnings that are made in the trading process. It is simple, transparent and can be set up relatively quickly. The British Columbia Carbon Tax is its closest equivalent and took only 6 months to set up.

2. Environmental Effectiveness

The REMI Study found that emissions would drop by 30% in 10 years and by 50% in 20 years in the US economy. No modelling has yet been done in the Australian economy but it is not unreasonable to expect similar reductions in our emissions. It would certainly enable Australia to more than meet its targets. Other factors operating in the economy and our environment would likely drive other reductions additional to the effects of the Fee and Dividend policy.

Border adjustments, specifically tariffs on the carbon content of imports from countries that do not have an equivalent carbon price will ensure Australian companies are not disadvantaged and thus prevent 'carbon leakage'. Furthermore it will encourage countries that export to us to adopt a similar carbon price so that they can collect the fee themselves rather than allow importing countries to benefit from the tariff. As more countries adopt carbon pricing the risk of leakage further diminishes.

Rebates paid to companies exporting to countries without similar carbon pricing will ensure that Australian companies are competing fairly with exporters from countries that have no carbon tax. They greatly reduce the need for exemptions, even for emissions-intensive trade-exposed industries.

If just two of the world's major economies adopt this policy it will be difficult for the rest not to follow and border adjustment will become an effective carbon market between countries.

Border adjustment has another significant advantage over cap and trade which causes carbon prices to trend to the lowest market levels. This slows innovation and change. With Fee and Dividend the annual increments in the fee will generally cause the carbon price to rise steadily and continue to provide a degree of certainty to all stakeholders. As a member of the 'coalition of high ambition' Australia may wish to go beyond the targets agreed in Paris. Fee and Dividend will make this relatively easy to achieve, as well as helping create the agile and innovative economy outlined by the Prime Minister.

3. Equity

The payment of equal Dividends (preferably by monthly direct credit) to all households ensures that those who can least afford the increased costs of living will actually have more money. Even those who can easily afford it will receive a dividend.

Companies that are most carbon exposed will be most affected, especially the fossil fuel companies that have recently invested in new plant. However companies and investors will now have much more certainty about carbon price movements than under business as usual or under an ETS. They will be able to plan their production and move their investments in order to minimise negative effects and to position themselves to benefit from the steadily increasing carbon price. Those who are able to adapt and innovate successfully will benefit most. Adapting and innovating are always beneficial but they become less necessary when companies are protected by subsidies.

Developing countries may be affected disproportionately by the application of the policy, especially before they are able to establish their own schemes. For this reason the Green Climate Fund that assists them to shift to low-carbon economies may be needed for some years.

4. International Competitiveness

As discussed above a key strength of Fee and Dividend, with border adjustments, is that it encourages other countries to adopt carbon pricing. These mechanisms comply with WTO and GATT regulations. Border adjustments will ensure Australian companies are not disadvantaged relative to other countries by paying the carbon fee.

Fee and Dividend has a great deal to offer Australia and the world economy as we face up to the difficult task of meeting and hopefully exceeding the targets set in Paris. Its simplicity, fairness and transparency make it much more attractive to citizens than more complex and gameable policies like cap and trade. We believe that Fee and Dividend should be examined by your staff and included in your final report as a real option for Australian climate policy.

References

George P. Shultz & Gary S. Becker “Why We Support a Revenue-Neutral Carbon Tax”

The Wall Street Journal, April 7 2013

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CCL US: Legislative proposal: Carbon Fee and Dividend

<https://citizensclimatelobby.org/wp-content/uploads/2014/10/Carbon-Fee-and-Dividend-July-2015.pdf>

REMI Report

<https://citizensclimatelobby.org/remi-report/>

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