Carbon price must rise rapidly: study

Marcus Priest

The introduction of a carbon price starting at a relatively low level offers the most politically feasible way to price pollution but the rate will need to escalate rapidly over the next 10 years to enable Australia to reduce greenhouse emissions.

A study to be released today says the carbon price may need to more than double based on starting prices now being discussed. Payments of carbon pricing revenue to industry may also need to be limited to create more room for income tax cuts.

The release of the report, by Frank Jotzo of the Crawford School of Economics and Government at the Australian National University, comes before the release of a critical report by the federal government's climate change adviser, Ross Garnaut, on the structure of a "credible carbon pricing regime". Dr Jotzo was an adviser to the Garnaut climate change review.

The Jotzo report says the approach proposed by the government and the Greens of an initial fixed carbon price followed by a transition to an emissions cap-and-trade scheme would allow households and business time to adjust and manage the initial economic impact of a carbon price.

But the report says a minimum carbon price trajectory that escalates rapidly is also needed to provide investment certainty.

If the starting price is $25 in 2012 - as recommended in the 2008 Garnaut review - an annual increase of 12 per cent for the next five years would be needed to reach $60 in 2020 to ensure a fall in domestic emissions.

"If you are going to have to get up to those higher carbon price levels by the end of the decade, that will apply some cost and meet resistance but the easiest way of going about it is to do it in a phased way where you start quite softly and you provide the maximum degree of certainty about the price," Dr Jotzo told The Australian Financial Review yesterday.

"We shouldn't fool ourselves that a relatively low carbon price will do the job. It will do a very important job sending a signal there will be a price on carbon but what is really needed is a solid expectation about medium-term carbon pricing that is a fair bit higher than is in discussion for a starting level." A fixed domestic carbon price and trajectory would also need to be set by reference to expected international carbon prices.

"Given the expectations that Australia would be a net importer of permits under a future international climate agreement, setting the domestic price below the world price for a sustained period would shift costs from emitters firms to the government budget, risking large fiscal costs and reducing overall economic efficiency," Dr Jotzo says in his report.

Under the government's 2009 emissions trading scheme, industry would have received an increasing share of carbon revenue over time.

But Dr Jotzo warns in his report that industry assistance may need to be capped under a future scheme to enable tax cuts for individuals and ensure community acceptance of the scheme.

"In assessing industries' claims for assistance, it needs to be considered that mitigation policy action in many other countries, including developing countries, has ramped up over the last few years and that starting an Australian scheme with a fixed price eliminates the upside risk on businesses' carbon liabilities," he says.

"Together, these factors present a strong argument for a lower amount of industry assistance than was anticipated under the Carbon Pollution Reduction Scheme, and/or for accelerated phase-out of industry assistance."

Holding pattern on policy change

David Crowe
Chief political correspondent

A big advance in the federal government's carbon pricing plan has been all but ruled out over the next week as Prime Minister Julia Gillard misses the next meeting of the top committee charged with finalising the policy.

The multi-party committee formed by Labor, the Greens and independent MPs is expected to hold a general discussion rather than make a significant step forward on the framework announced on February 24.

senators Bob Brown and Christine Milne and independents Rob Oakeshott and Tony Windsor.

The meeting, ahead of the resumption of federal Parliament next week, comes as Labor caucus members acknowledge the challenge in convincing Australians of the national benefit of putting a price on carbon.

But some Labor MPs said the government would eventually prevail despite trailing in the opinion polls.

Labor took another blow yesterday when a Nielsen telephone poll of 1400 voters showed a slump in the party's primary vote slipped to 36.7 per cent, while the Greens rose to 23.6 per cent.

Julia Gillard will be out of the country when carbon pricing is next discussed at the top level.

however, from indications that not