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News release

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GOVERNMENT URGED TO INTRODUCE CARBON EMISSIONS TRADING AS PART OF BUSINESS TAX RESTRUCTURE

DOMESTIC EMISSIONS TRADING WOULD RAISE $7 BILLION IN REVENUE WHICH COULD BE USED TO OFFSET PAYROLL TAX

POTENTIAL FOR DOUBLE DIVIDEND OF MORE JOBS AND REDUCED GREENHOUSE GASES

The introduction of a domestic emissions trading system as part of the business tax restructuring program represents "the last best opportunity" for Australia to meet its greenhouse commitments under the Kyoto Protocol, says a paper to be published by the Australia Institute today (August 5).

The authors, Dr Clive Hamilton and Hal Turton, calculate that domestic emissions trading will raise $7 billion annually, permitting the abolition or drastic reduction of payroll tax, thus delivering a double dividend of increased employment and reduced greenhouse gas emissions.

Dr Hamilton said: "Jobs and the environment will be the over-riding issues of the next decade. Neglect of environmental considerations is a serious omission on the part of the Ralph Committee, and in this regard it has failed to fully address the needs of the new millennium."

The paper, *Business Tax and the Environment*, warns that failure to introduce emissions trading will signal to the international community Australia's intention not to comply with the Kyoto Protocol.

The paper observes: "Australia's greenhouse gas emissions are growing rapidly. Energy-related emissions already exceed the 108 per cent target Australia was allocated at Kyoto and, unchecked, will exceed 140 per cent of 1990 levels in 2010.

"Current policies are wholly inadequate, and without a major policy development in the next two years, Australia has no chance of meeting its international commitment.

"The only feasible policies are an emissions trading system and a carbon tax.

"As the Federal Government has ruled out a carbon tax, a decision not to proceed with emissions trading in effect signals an intention not to comply with the Kyoto Protocol.

"The economic consequences for countries that fail to comply maybe serious, not to mention the international opprobrium that non-compliance will attract."

Impact on Sydney's credentials as a financial centre

The authors say emissions trading will rapidly develop into a large and valuable instrument of financial exchange and its undue delay may well set back the aspirations of Sydney to become an international financial centre.

Standing in world community

The report observes that several countries, including Germany and Britain, are reforming their tax systems to accommodate environmental impacts. Other countries – Canada, Norway and Denmark among them – are well ahead of Australia in committing to domestic emissions trading.

"Increasingly, trade and environment are being linked internationally. G8 leaders ended their June 1999 summit declaring that environmental issues would be fully taken into account in the forthcoming round of WTO negotiations.

"Having received preferential treatment at Kyoto, the international community will be paying close attention to our efforts to meet our greenhouse commitments.

"Environmental considerations aside, the early introduction of emissions trading is required for sound economic management. At some stage emissions trading will be introduced in Australia; the Government, industry and the bureaucracy all recognise it is inevitable. The only question is when.

"We believe it should be soon in order to provide Australia-based firms with a 'first-mover advantage' when international emissions trading begins. Early introduction will also permit many existing greenhouse programs to be abolished and improve Australia's standing in the world community.

Accelerated depreciation has key benefits

The report takes issue with the Ralph recommendations that accelerated depreciation should be abolished in the interests of cutting the company tax rate.

"The Ralph review provides no rationale for abolishing accelerated depreciation, but provides strong reasons for its retention in order to encourage investment, ensure a faster turnover of the capital stock and maintain international competitiveness.

"From an environmental perspective there may be strong grounds to retain accelerated depreciation. It encourages faster replacement of older equipment and makes the commercial application of new technology more viable.

"Many renewable energy sources and most pollution prevention equipment rely on new technologies.

Emissions trading: the detail

The study recommends a "cap-and-trade" system that uses permits to limit the quantity of greenhouse gases that major emitters can discharge. The scheme would cover CO2 emissions from all fossil fuel combustion, and impose financial penalties on companies or others that emitted greenhouse gases without sufficient permits.

The permits would be allocated by an auctioning process, and banking and borrowing against them would be permitted.

The scheme would come into force in 2001 and continue until 2012, the end of the current commitment period under the Kyoto Protocol.

Revenue should be put to offsetting payroll tax

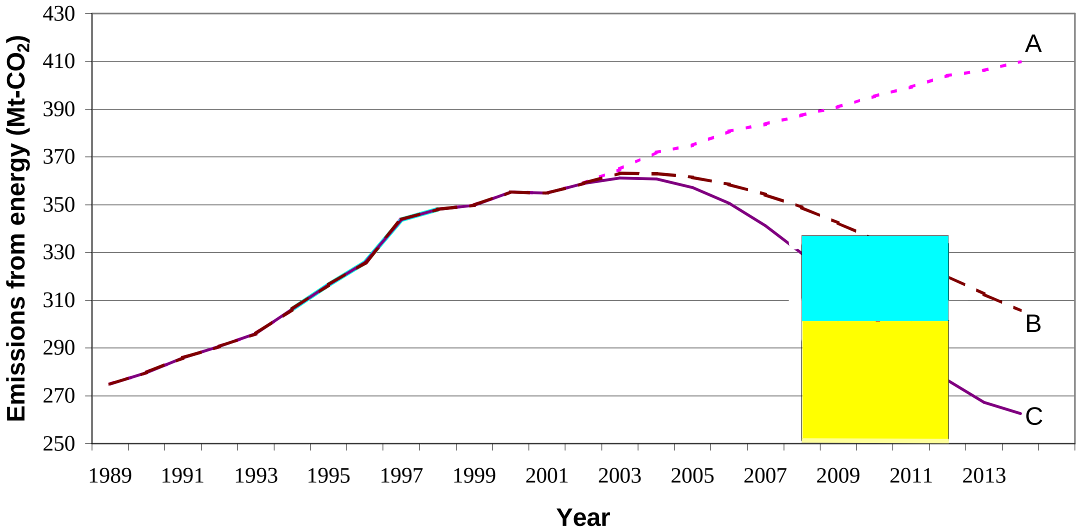
The study forecasts that the auctioning process would generate annual revenue of $7 billion at a price of $20 per tonne of CO2, or $5 billion at a price of $15 per tonne.

This revenue could be applied to reducing company tax, changing accelerated depreciation, or reducing or abolishing payroll tax.

"Economic modelling studies demonstrate that the abolition of payroll tax, or its reduction by a large margin, would result in net job creation at the same time as reducing greenhouse gas emissions – a double dividend."

Australia can meet its Kyoto target through emissions trading

Emissions of greenhouse gases: three scenarios



A Emissions continue unchecked (ABARE forecast)

B Emissions trading limits emissions to 120% of 1990 levels in 2008-12 (Australia Institute forecast)

C Emissions trading limits emissions to 108% of 1990 levels in 2008-12 (Australia Institute forecast)