

Coming to grips with carbon emissions

Like the GST before it, the introduction of a carbon tax from 1 July 2012 now seems inevitable. So, if you're going to have to pay it, how can you live with it successfully, and possibly profit from it?

Impact on our pockets

The overseas models are reassuring. Carbon taxes are well established in many countries including Denmark, Sweden, the UK and the Netherlands. Each of these countries has packaged its carbon emissions regime with its own balance of charges, rebates, trade-offs and offsets, making it difficult to compare the outcomes. A 2010 survey reported that the introduction of the carbon tax had had negligible impact on the economies of the European countries which introduced it between 1994 and 2004¹. More recently, a May 2011 report commissioned by General Electric concluded that it is possible for economies to reduce carbon emissions while maintaining economic growth.²

Even though motor fuel is exempt and the government has announced compensation for 70 per cent of households, the tax will affect some individual tax payers as prices rise, depending on what they consume, and how much of it. Household compensation is designed to meet predicted cost of living increases flowing from the tax of an estimated \$10 per family per week at the supermarket checkout.³

However, it seems that the tax will have minimal impact on the investment strategies of those saving for superannuation and approaching retirement. The Investor Group On Climate Change, which includes the chief executives of Australia's largest superannuation funds have rebuffed criticism that a carbon tax would leave them unable to compete with overseas rivals and they predict it will have little negative effect on their performance.⁴

Impact in our economy

There is no doubt that the new carbon tax will impact on the economy, even though diesel and petrol are not affected, and Australian export industries such as the steel industry will be compensated to ensure that their pricing remains competitive in overseas markets. The new tax will be paid by the 500 heaviest producers and consumers of emissions produced by burning carbon fuels, including every coal-based electricity generator, and this extra cost will inevitably be passed on to end users.



As a result, most businesses will be exposed to it in the form of higher energy bills, or pay it as part of the price of products and components manufactured using carbon-based energy.

This, of course, is the central point of the tax – commercial energy producers and users, obliged to factor the tax into their business plans, will adopt strategies to minimise environmental impacts, thus reducing both their carbon tax liability and greenhouse emissions. The new tax should stimulate industry to seek cost-effective replacements for carbon energy or less carbon-hungry power sources. This pressure on industry to cut carbon use will only increase, since the tax rate will be increased annually to achieve greenhouse reduction targets.

New opportunities

Non carbon-based power sources such as solar energy and wind farms, environmentally advantaged power generation from sources like landfill gas, and new technology such as improved solar energy panels, should become sought-after investment prospects in the near future. Airlines, for example, are planning to partly replace crude oil as a source of aviation fuel, with Virgin investing in technology to convert eucalyptus oil into aviation fuel, while Qantas is investigating production of aviation fuel from green waste and garbage.

Companies which effectively cut their expenditure on carbon tax permits or introduce lower carbon technologies will attract the attention of venture capitalists, shareholders and fund managers. For many, the real financial incentive will come with the promised transition to emission trading in 2015. Emission trading schemes are already in place in 32 countries and converting carbon emissions to a tradeable commodity in Australia could transform energy credits earned through carbon efficiency into a viable exportable product.

Australia's carbon future: The ins and outs⁵

- Starts on 1 July 2012, at a rate of \$23 per tonne, rising annually by 2.5 per cent in real terms. Transition to an emissions trading scheme from July 1, 2015 means that the market then sets the price.
- Affects around 500 companies, the largest producers of carbon emissions. They pay the tax and will pass costs on to their business customers.
- Compensates around 70 per cent of households fully for cost of living increases; a further 20 per cent of households are partly compensated.
- Imposes no new tax on household and commercial diesel fuel and petrol.
- Gives assistance to conventional electricity generators to convert to cleaner technologies.
- Introduces a new \$1.2 billion Clean Technology Program to improve energy efficiency in manufacturing and support research into low pollution technologies.
- Assists emissions-intensive businesses with a \$9.4 billion program, to offset exposure to competition from countries without a comparable carbon price.

1 <http://sapiens.revues.org/1072#tocto2n3>

2 <http://www.ge.com/au/protectingprosperity/>

3 SMH, July 11, 2011

4 IGCC: <http://www.igcc.org.au/Resources/Documents/Global%20Investor%20Report%20embargoed%20to%20June%2013th.pdf>

5 Australia's carbon tax details on tap, Marketwatch, July 8 2011. http://www.marketwatch.com/story/australias-carbon-tax-details-on-tap-2011-07-08?reflink=MW_news_stmp AFR, Monday, 11 Jul 2011, p 8.