

REGULATION IMPACT STATEMENT – REPEAL OF THE CARBON TAX

Introduction

This is a Regulation Impact Statement (RIS) for the Government's commitment to repeal the carbon tax (the carbon pricing mechanism).

The Australian Government is committed to repealing the carbon tax to reduce households' living costs and input costs for business.

The Australian Government is also committed to reducing Australia's emissions of greenhouse gases (GHG) by 5 per cent below 2000 levels by 2020 but it believes there is a simpler, more practical way to achieve it than by taxing carbon.

The carbon tax is directly applied to a limited range of inputs, and is paid by a relatively small number of 'liable entities'. Directly, the carbon tax increases the cost of:

- electricity and gas;
- managing landfill and wastewater;
- taxable fuels for off-road use; and
- synthetic greenhouse gases.

However, the importance of many of these inputs to the Australian economy means that the incidence of the tax is felt by households as well as throughout the business sectors. As a result of the carbon tax, liable entities are required to either absorb the higher costs of production or pass them on to their customers (or, more likely a combination of both); to the extent that higher costs are passed through to customers, the prices that businesses and households pay for goods and services are indirectly increased. As an example the regulated retail electricity prices in New South Wales were allowed to increase by an average of 8.9 per cent in 2012-13 as a result of the carbon tax (IPART 2012).

As of the *Final Budget Outcome 2012-13*, the carbon tax is estimated to raise \$6.5 billion of revenue in 2012-13.¹

See [Attachment A](#) for further detail on how the carbon tax operates.

Problem

The problem the Government is addressing through the repeal legislation is twofold. Firstly, the carbon tax increases the cost of living for the household sector. Secondly, it increases costs for business, both in terms of higher input costs, and the costs incurred by liable entities in complying with carbon tax obligations.

¹ This estimate is considered preliminary as certain emitters are not required to report in interim emissions reports, and emitters may base their interim report on the previous year's emissions. Information on actual 2012-13 emissions will become available following the final emissions reporting in October 2013. This estimate does not include the equivalent carbon taxes on liquid fuels or synthetic greenhouse gases.

Household costs of living

Broadly, the carbon tax impacts households through increases in consumer prices. The carbon tax has increased prices for goods and services consumed by households that are emissions-intensive in their production or supply chains.

Impacts on business

The carbon tax has two broad impacts on business costs: the impacts associated with the imposition of the tax itself; and the additional costs the liable entities face in complying with the administrative requirements associated with the carbon tax.

Objectives

The objectives of Government action in this area are to remove the carbon tax altogether to:

- reduce cost of living pressures on households; and
- reduce cost pressures faced by business.

The Government does not propose to transition to an emissions trading scheme. The Government will implement its direct action plan to achieve its emission reduction target in the absence of the carbon tax. However the purpose of this RIS is to consider the impacts of repealing the Clean Energy Act and associated regulations. Further RISs will be prepared, as required, for the Government's alternative emissions-reduction measures.

Option: The Government's election commitments

The Government was elected with a commitment to abolish the carbon tax. In practice, this involves:

- the repeal of six Clean Energy Acts, the Climate Change Authority Act, the Steel Transformation Plan Act and consequential amendments to other legislation;
- the extinguishment of carbon tax liabilities for approximately 370 liable entities under the carbon pricing mechanism, as well as equivalent carbon taxes on liquid fuels and synthetic greenhouse gases;
- ending mandatory audit of reported emissions for large emitters;
- ending the requirement for liable entities to report emissions;
- ending industry support schemes related to the carbon tax; and
- abolishing the Climate Change Authority.

In addition, the Government made an election commitment to require the Australian Competition and Consumer Commission (ACCC) to monitor and enforce reasonably expected price reductions following the abolition of the carbon tax. This will include:

- changes to the *Consumer and Competition Act 2010* to provide the ACCC with new powers to monitor prices and prohibit carbon-related price exploitation and misrepresentations following its repeal; and
- pecuniary penalties of around \$220,000 for individuals and \$1.1 million for corporations that engage in carbon-related price exploitation or misrepresentations following its repeal.

The Government also made an election commitment to discontinue, or take savings from a range of carbon-related programs.

Impact Analysis

Carbon abatement

The Government remains committed to reducing GHG emissions by 5 per cent below 2000 levels by 2020. This is the same target the carbon tax was implemented to achieve.

The Government considers that its Direct Action Plan, including an Emissions Reduction Fund, is a simpler, more practical way of achieving abatement. The Direct Action Plan is under development. Further RISs will be prepared, as required, for various elements of the plan as they are developed. Stakeholders will be closely engaged in this process.

Terms of Reference for the development of a White Paper in relation to an Emissions Reduction Fund were released to assist interested parties in making submissions on the design of the Fund on 16 October 2013. Submissions in response to the Terms of Reference will inform the development of a Green Paper setting out the Government's preferred options for the design of the Fund which will be released in December 2013. A White Paper outlining the final design of the Fund will be released in early 2014, in order to enable it to commence operations on 1 July 2014.

Household costs of living

Household costs will be lower than they otherwise would be under a \$25.40 carbon price. Recent modelling by the Australian Treasury suggests that the removal of the carbon tax in 2014-15 will reduce the Consumer Price Index by around 0.7 percentage points than it otherwise would be in 2014-15. This is based on the currently legislated fixed carbon price of \$25.40 for 2014-15 and the scope intended by the former government, including fuel use by heavy on-road transport.

Treasury modelling suggests that the removal of the carbon tax in 2014-15 will leave average costs of living across all households (based on existing expenditure patterns) around \$10.50 per week (or around \$550 over the year) lower than they would otherwise be in 2014-15.

It is also estimated that retail electricity and gas prices should on average be around 9 and 7 per cent lower respectively in 2014-15 than they would otherwise be. On this basis, household average electricity and gas bills would on average be around \$3.80 per week (or around \$200 over the year) and \$1.40 per week (or \$70 over the year) lower respectively than they would otherwise be in 2014-15 with a \$25.40 carbon tax.

The prices of other goods and services are more difficult to estimate. A range of factors, including general movements in inflation and other broader economic impacts, have influenced prices over the intervening period since the carbon tax was introduced, and it is possible that prices will not, in all cases, reduce to their former levels. However to the extent that the cost bases of goods and services are affected by the repeal of the carbon tax, and there is competitive pressure in the market to pass these cost reductions on, price reductions could reasonably be expected.

As noted above, the ACCC will be provided additional powers to monitor and enforce reasonably expected price reductions following the abolition of the carbon tax. This element of the repeal package is discussed in more detail later in this RIS.

The removal of the carbon tax is likely to affect different households in different ways. For example, low income households are currently disproportionately affected by the carbon tax as they spend, on average, a higher proportion of their disposable income on emission-intensive goods, such as electricity and gas.

A range of measures were put in place to assist households with the cost of living pressures associated with the introduction of the carbon tax. These measures include increases to fortnightly pension and benefit rates and income tax cuts equivalent to around \$300 per annum for most taxpayers. This assistance will continue after the repeal of the carbon tax. However, the second round of personal income tax cuts legislated to commence in 2015-16 will no longer proceed.

Impacts on business

The primary impact of repealing the carbon tax on businesses is to reduce the cost of inputs. While the carbon tax is directly applied to a relatively small number of activities and liable entities, the size and importance of these activities means that as these costs are passed on through the economy the carbon tax results in an increase in input costs for the majority of businesses. The main driver of these input cost increases is the impact of the carbon tax on energy prices – primarily electricity and gas prices.

Table 1 provides an indication of which sectors are likely to have been affected the most by the imposition of the carbon tax. It shows the projected changes in industry gross output (a measure of economic activity) in 2020 under the carbon tax compared with a no carbon tax scenario.

Within the services sector, the production of electricity (particularly coal-fired electricity) was most heavily affected and should benefit most from the repeal of the carbon tax. In the mining sector, coal mining would be the major beneficiary. In the manufacturing sector, producers with emissions- or energy-intensive activities that were unable to access carbon tax-related assistance would be the main beneficiaries of repeal. There would be minimal impact on dwelling ownership².

² While modelling undertaken for the Strong Growth, Low Pollution update report provides a robust picture of the Clean Energy Package at an aggregate industry and macroeconomic level, it does not capture the impacts of those programs and measures that had not been finalised at the time the modelling task was undertaken in September 2011. While impacts on the CPI were estimated, changes in producer prices were not. Similarly impacts on investment and capital stock were estimated at the national level. For more details see http://carbonpricemodelling.treasury.gov.au/carbonpricemodelling/content/update/Modelling_update.asp.

Table 1: Change in gross output in 2020 as a result of the carbon tax, compared with a 'no carbon tax' scenario

Industry sector	Change in gross output (per cent) ^a
Agriculture	0.4
Sheep and cattle	0.3
Dairy cattle	0.2
Other animals	0.4
Grains	0.5
Other agriculture	0.2
Agricultural services and fisheries	0.6
Forestry	0.3
Mining	-0.9
Coal	-2.4
Oil	0.0
Gas	-1.5
Iron ore	0.8
Non-ferrous ore	-0.9
Other	0.6
Manufacturing	0.3
Meat products	0.2
Other food	0.1
Textiles, clothing and footwear	0.7
Wood products	-0.1
Paper products	0.3
Printing	0.0
Refinery	0.0
Chemicals	1.7
Rubber and plastic products	0.5
Non-metallic construction products	-0.7
Cement	-0.8
Iron and steel	0.9
Alumina	2.3
Aluminium	0.8
Other metals	-0.3
Metal products	-0.1
Motor vehicles and parts	0.6
Other	0.2
Construction	-0.9
Services	-0.3
Electricity generation – coal fired	-9.4

Industry sector	Change in gross output (per cent) ^a
Electricity generation – gas fired	0.2
Electricity generation – hydro	-1.4
Electricity generation – other	21.6
Electricity supply	-3.2
Gas supply	-1.2
Water supply	-0.3
Trade	-0.2
Accommodation and hotels	-0.4
Road transport – passenger	-0.1
Road transport – freight	-0.2
Rail transport – passenger	0.2
Rail transport – freight	-0.1
Water transport	-0.1
Air transport	-0.2
Communication	-0.3
Financial	-0.2
Business	-0.2
Public	0.0
Other	-0.4
Ownership of dwellings	-0.1

Note: **a.** Modelled estimates include the impact of industry and household assistance measures.

Source: *Strong growth, low pollution: modelling a carbon price – update*, p. 8.

Investment in emissions reduction

Some businesses may incur costs following the repeal of the carbon tax where they have made investments in clean technology solely on the basis of avoiding emissions liabilities. In most cases, such investments are likely to have associated benefits, such as lower energy usage or lower waste disposal costs, as was intended. These benefits will be ongoing. In such cases, the repeal of the carbon tax is likely to extend the payback period or reduce the internal rate of return. The risks associated with stranded investments or sunk costs were not raised as significant issues in stakeholder consultation.

Carbon price pass-through

The extent to which the carbon tax has been absorbed by businesses or has been passed on to consumers depends on the nature and structure of each market, including relative demand and supply elasticities, and the type of competition in the market.

In some cases, it is likely that the carbon price would have been passed through in full (for example, in the case of synthetic greenhouse gases where a carbon-tax equivalent levy or excise was imposed).

The range and complexity of sector specific factors, including commercial and contractual arrangements and the specific features at each point in any given

supply chain mean it is not possible to say with certainty what proportion of the carbon price may have been passed through or was absorbed in any given sector. In addition, other changes in the production cost base and general inflationary impacts since the carbon tax was introduced mean that at this stage any specific price changes that could occur are difficult to quantify. However, as noted above, likely price changes in energy markets are more easily quantified.

As such, while price reductions are expected, they may not be entirely symmetrical to price increases that occurred after the carbon tax was introduced and may not be uniform across sectors of the economy. We note that the Australian Government has not collected detailed sectoral or industry-level data on price movements that specifically measure the impact of introducing the carbon tax.

The ACCC's new monitoring and enforcement powers

To address potential pricing concerns, the ACCC will be provided new time-limited powers in relation to price monitoring and enforcement of carbon-specific prohibitions on price exploitation and false or misleading representations.

Under its price monitoring role, the ACCC may be able to monitor the prices of regulated goods such as natural gas, electricity, synthetic greenhouse gas (SGG) and SGG equipment, goods supplied by entities that have an entry in the Liabile Entities Public Information Database, and any other goods designated by regulation.

The ACCC will be provided with information-gathering powers allowing it to compel certain businesses to provide relevant pricing information with respect to certain key goods relating to the carbon tax repeal.

The direct costs of complying with the ACCC's price monitoring requirements cannot be easily quantified as the ACCC has the discretion to determine which businesses will be subject to price monitoring and how it will monitor. The vast majority of businesses in the economy will not be affected by price monitoring at all.

For those affected businesses, there will be some administrative and compliance costs incurred, however these requirements should not be overly onerous or expensive as businesses would already have detailed pricing information available. In addition, these compliance costs would not be ongoing and be limited to the duration of the ACCC's new powers (for example, for a six month period prior to the repeal, and for one year afterwards).

Where the ACCC cannot otherwise access public information, it may request primary information. To comply with a monitoring request a business will need to provide copies of the current prices it is offering in the market. If the request is made after the carbon tax repeal, the business may also need to explain how the carbon tax repeal has affected their input costs and how that has been reflected in its current prices. Current price offerings will need to be compiled by the business but are not likely to require detailed searches. For example, in the energy sector, similar information is already provided to the Energy Made Easy comparator website. Input costs, including the carbon tax, will already be known to the business in its price setting.

The ACCC will take a targeted approach to the use of its new powers. It is likely to monitor around 500 businesses, including liable entities, plus energy retailers and synthetic greenhouse gas importers and wholesalers. As a preliminary estimate, the estimated total compliance cost for 500 businesses is \$2,320,000 per year, with an average ongoing compliance cost of \$4,640 per business. As noted above, these compliance costs will ultimately depend on the number of businesses monitored by the ACCC and the individual costs for each business to respond to these requirements.

The ACCC was given a similar price monitoring role for a period of three years following the introduction of the New Tax System (NTS).

Submissions by business focussing on ACCC issues suggest they are conscious of the need to pass through cost savings. However some submissions claim there may be practical difficulties in immediately passing on savings in some sectors due to sectoral and structural complexities (such as the treatment of intermediate inputs).

Carbon tax compliance costs

The removal of the carbon tax is expected to reduce annual ongoing compliance costs for liable entities by \$85.3 million per annum³. The avoided costs fall into two categories: administrative costs (including remaining abreast of changes in carbon pricing legislation, meeting recording and reporting obligations, negotiating contracts for carbon price pass-through, and discharging emissions liabilities) and substantive costs (emissions verification costs for large emitters).

All liable entities will no longer face the administrative costs associated with emissions monitoring, reporting, unit acquisition and surrendering obligations under the carbon tax. These costs are estimated at \$67.1 million per annum and are in addition to those imposed on entities under separate reporting obligations under the National Greenhouse and Energy Reporting Scheme. This estimate is based on feedback from liable entities that the introduction of the CPM has required the equivalent of one additional F.T.E. position to monitor, record and report emissions, to understand, and keep abreast of changes in, the legislation, and to acquit emissions liabilities⁴. A labour rate of 1.7 times average earnings⁵ was adopted reflecting the higher than average skills of those entrusted with these tasks (generally accounting, legal or engineering professionals), and the higher level of management oversight compared with the oversight given to emissions reporting when there were no associated financial liabilities. (The ongoing administrative cost of separate reporting obligations under NGER legislation is estimated at between 0.5 and 0.75 F.T.E. per reporting entity.)

These estimates do not include the additional costs businesses may have incurred in managing permit obligations (for example purchasing, banking or selling) when the carbon tax moved to a flexible pricing period in 2015.

³ These estimates exclude the costs of complying with assistance arrangements, including the Jobs and Competitiveness Program, which were included in the total figure of \$94.8 million set out in the earlier Options Stage RIS, as these costs are incurred voluntarily by applicants. They include the costs of complying with price monitoring arrangements which, as noted above, are uncertain but non-ongoing.

⁴ In keeping with the Victorian approach to measuring compliance costs and the methodology used in the Business Cost Calculator, the cost categories used to analyse administrative costs included: education/capacity building; enforcement; monitoring/record keeping; reporting/notification; and internal assurance (sub-set of reporting/notification). The costs of external assurance/verification are discussed later in the RIS.

⁵ Source: ABS Cat. No. 6302.0 – Average Weekly Earnings, Australia, May 2013.

These estimates were made public through the consultation process, but no substantive comments were received through formal submissions or in meetings with stakeholders.

Approximately 154 large liable entities will also avoid the substantive costs associated with verifying their total emissions. (Verification costs currently apply to entities with more than 125,000 tonnes carbon dioxide equivalent (CO₂-e) emissions per year.) The average avoided cost of emissions verification audits for large emitters is estimated at approximately \$133,000 per entity per annum (an ongoing reduction in compliance costs of around \$20.5 million per annum).

These estimates were also made public through the consultation process, but no substantive comments were received through formal submissions or in meetings with stakeholders.

Compliance Cost and Offset (CCO) Estimate Table⁶

Average Annual Compliance Costs (from Business as usual)				
Sector/Cost Categories	Business	Not-for-profit	Individuals	Total by cost category
Administrative Costs	-\$67.1m	\$-	\$-	-\$67.1m
Substantive Compliance Costs	-\$20.5m	\$-	\$-	-\$20.5m
Delay Costs	\$-	\$-	\$-	\$-
Total by Sector	-\$87.6m	\$-	\$-	-\$87.6m
Contingent administrative costs ⁷	\$2.3m	\$-	\$-	\$2.3m
Potential total by sector	-\$85.3m	\$-	\$-	-\$85.3m
Annual Cost Offset				
	Agency	Within portfolio	Outside portfolio	Total
Business	\$	\$	\$	\$
Not-for-profit	\$	\$	\$	\$
Individuals	\$	\$	\$	\$
Total	\$	\$	\$	\$
Proposal is cost neutral? no				
Proposal is deregulatory yes				
Balance of cost offsets \$85.3m				

Measures currently in place to address carbon tax cost pressures

A number of Australian Government programs were put in place to address some of the cost pressures faced by households and businesses.

For households, these measures include increases to fortnightly pension and benefit rates and income tax cuts equivalent to around \$300 per annum for most

⁶ These estimates exclude the costs of complying with assistance arrangements, including the Jobs and Competitiveness Program, as these costs are incurred voluntarily by applicants. They include the costs of complying with price monitoring arrangements which, as noted above, are uncertain but non-ongoing.

⁷ Contingent administrative costs are those that would only be incurred if a business was subject to an ACCC price monitoring notice.

taxpayers. Assistance provided in 2013-14 will remain. However, the second round of personal income tax cuts legislated to commence in 2015-16 will no longer proceed.

For businesses, these measures include the Jobs and Competitiveness Program (JCP) to support emissions intensive, trade exposed industries; the Energy Security Fund to maintain secure energy supplies through supporting electricity generators that are strongly affected by a carbon tax; and targeted grants to provide transitional assistance to specific industries.

Removing these programs will impact on a range of stakeholders and potential grant recipients. Sectors likely to be affected are the steel industry, energy-intensive manufacturing, emissions-intensive electricity generators and the land sector.

Consultation

The draft legislation to repeal the carbon tax was released for public consultation by the Government on 15 October 2013. The consultation period closed at 5 pm on 4 November 2013.

The Department received formal submissions and campaign e-mails during the consultation period. Formal submissions were received from industry peak bodies and companies, legal and academic institutions, individuals and non-government organisations

In addition, the Government held meetings or teleconferences with a range of stakeholders including:

- industry peak bodies, including the Business Council of Australia (BCA), the Australian Chamber of Commerce and Industry (ACCI), the Australian Greenhouse Industry Network (AIGN) and the Australian Industry Group (AIG);
- local governments through the Australian Local Government Association;
- electricity suppliers, retailers and users;
- state government electricity price regulators;
- synthetic greenhouse gas manufacturers, importers and suppliers;
- resource peak bodies and companies;
- manufacturing peak bodies and companies;
- natural gas suppliers, users and pipeline organisations;
- landfill and recycling peak bodies;
- financial peak bodies and institutions;
- non-government organisations;
- renewable energy organisations; and
- legal experts.

Further details are provided in Attachment B.

With regard to the options-stage RIS, the agency has fully complied with the RIS requirements.

- The options-stage RIS did not include at least three options as this is a specific election commitment.
- The options-stage RIS was certified at deputy secretary level and provided to the OBPR before consideration by the decision-maker.
- The options-stage RIS was published following the public announcement of an initial decision to regulate.

Issues related to the bills

The principal concern of all business stakeholders were the consequences of delayed passage of the repeal legislation. Several stakeholders noted that existing contractual and other commercial arrangements are likely to complicate cost pass-through arrangements if passage is delayed. Others noted that cost reductions may not be passed through in the supply chain immediately, and in full, if passage was delayed, despite public expectations.

For example, electricity suppliers and major users raised concerns including: the practical implications of how price reductions will be passed through to consumers; how expectations about the timing of these price reductions will be managed; and how the ACCC will apply its new powers to prevent price exploitation.

The Government's clear intention is that the carbon tax repeal legislation will be passed before 30 June 2014. If there is a delay, the legislation will apply retrospectively from 1 July 2014. The Government will not become involved in commercial issues between companies, including contracts.

Most business stakeholders, particularly the energy and synthetic greenhouse gas sectors, were concerned by the expanded temporary scope of the ACCC's powers. Several suggested that the ACCC should consider industry circumstances and the difficulty in immediate and full cost pass-through when determining whether price exploitation has occurred.

The Department of the Environment notes that in undertaking its price monitoring and enforcement activities, the ACCC has advised it will engage stakeholders to ensure that they understand their regulatory obligations; issue guidance material; and emphasise that its regulatory approach will be carefully considered and proportionate.

If necessary, the Treasurer has the power, under s29 of the *Competition and Consumer Act 2010* to direct the ACCC in connection with the performance of its functions, including issuing sector-specific guidance in relation to the carbon tax repeal.

Other issues raised in submissions included:

- allowing imports of synthetic greenhouse gases imported before 1 July 2014 not to accrue a carbon tax liability unless sold before 1 July 2014 (Refrigerants Australia);
 - Consideration will be given to use of the bonded warehouse system to avoid the payment of carbon tax liabilities until SGGs are entered for domestic sale. This provision will impact on up to forty seven licensed importers.
- simplifying transition arrangements for holders of Financial Liability Transfer Certificates for NGERs purposes (Baker & McKenzie);

- The Clean Energy Regulator is considering ways to streamline the transitioning of LTCs into Reporting Transfer Certificates for the purpose of future NGERs reporting.

During the workshops with stakeholders a number of other minor technical items were raised and discussed, including: the operation of the true-up process for the Jobs and Competitiveness Program and the process for developing the true-up process rules; the proposed approach for continuation of industry assistance, including the steel transformation plan; and the structure of the Renewable Energy Target (RET) reviews after abolition of the Climate Change Authority, and the timing, frequency and scope of RET reviews;

Conclusion

Repeal of the Clean Energy Act and associated regulations is expected to reduce cost of living pressures on households and cost pressures on business.

Recent modelling by the Australian Treasury suggests that the removal of the carbon tax in 2014-15 will reduce the Consumer Price Index by around 0.7 percentage points than it would otherwise be. This is based on the currently legislated fixed carbon price of \$25.40 and the scope intended by the former government, including fuel use by heavy on-road transport.

Treasury modelling also suggests that the removal of the carbon tax in 2014-15 will leave average costs of living across all households (based on existing expenditure patterns) around \$10.50 per week (or around \$550 over the year) lower than it would otherwise be in 2014-15.

It is also estimated that retail electricity and gas prices should be around 9 and 7 per cent lower respectively than they would otherwise be. On this basis, household average electricity and gas bills would be around \$3.80 per week (or around \$200 over the year) and \$1.40 per week (or \$70 over the year) lower respectively than they would otherwise be in 2014-15 with a \$25.40 carbon tax.

The prices of other goods and services are more difficult to estimate. A range of factors have influenced prices over the intervening period since the carbon tax was introduced, and it would therefore be likely that prices would not return to their former levels. However to the extent that the cost bases of goods and services are affected by the repeal of the carbon tax, and there is competitive pressure in the market to pass these cost reductions on, price reductions could reasonably be expected.

The primary impact on business of repealing the carbon tax is to reduce the cost of inputs. While the carbon tax is directly applied to a relatively small number of activities and liable entities, the size and importance of these activities means that as these costs are passed on through the economy the carbon tax results in an increase in input costs for the majority of businesses. The main driver of these input cost increases is the impact of the carbon tax on energy prices – primarily electricity and gas prices. Due to the complexity in many commercial arrangements it is difficult to provide a detailed breakdown of where producer prices could be expected to change.

The removal of the carbon tax is expected to increase gross output in the mining, construction and services sectors. Within the services sector, the production of electricity (particularly coal-fired electricity) is expected to benefit most from the repeal of the carbon tax. In the mining sector, coal mining is expected to be the major beneficiary. In the manufacturing sector, producers

with emissions- or energy-intensive activities that were unable to access carbon tax-related assistance would be the main beneficiaries of repeal.

Business compliance costs are expected to fall by around \$85.3 million per annum as a consequence of repealing the carbon tax although many businesses have concerns around the potential costs imposed by the ACCC exercising its proposed price monitoring and enforcement powers. These estimates exclude the costs of complying with assistance arrangements, including the Jobs and Competitiveness Program, as these costs are incurred voluntarily by applicants. The costs of complying with price monitoring arrangements are also excluded, being uncertain and non-ongoing.

The Government remains committed to reducing GHG emissions by 5 per cent below 2000 levels by 2020. This is the same target adopted by the carbon tax. The Government believes its direct action plan is a simpler, less costly way of achieving abatement. The direct action plan is under development and the details of the plan are beyond the scope of this RIS. Further RISs will be prepared, as required, for various elements of the direct action plan.

Implementation and review

Legislation to repeal the Clean Energy Act and associated regulations will be introduced in November 2013. The legislation will remove carbon tax liabilities from 30 June 2014 which, rather than a date part-way through the 2013-14 financial year, will simplify the transition for business. This is because it avoids the need to change compliance systems and renegotiate contracts that involve carbon tax pass-through in the middle of a financial year. It will also allow liquid fuel users to better manage their inventories during the transition period to reduce the risk of a shortage.

The ACCC will monitor and enforce reasonably expected price reductions following the abolition of the carbon tax.

- Amendments to the *Consumer and Competition Act 2010* (CC Act) will prohibit carbon-related price exploitation and misrepresentations following its repeal; and introduce pecuniary penalties of around \$220,000 for individuals and \$1.1 million for corporations that engage in carbon-related price exploitation or misrepresentations following its repeal.
- In undertaking its price monitoring and enforcement activities, the ACCC will engage stakeholders to ensure that they understand their regulatory obligations; issue guidance material; and emphasise that its regulatory approach will be carefully considered and proportionate.
- The Treasurer may also under section 29 of the CC Act direct the ACCC to issue sector-specific guidance where that would assist businesses in meeting their obligations under the Act.

Attachment A: Carbon Tax Background

The carbon tax puts a price on Australia's carbon pollution, and applies directly to Australia's biggest carbon emitters (called liable entities). In addition, a number of businesses pay 'effective carbon taxes' on liquid fuels and on synthetic greenhouse gases.

Under the mechanism, liable entities must pay a tax on the carbon emissions they produce each year. As at July 2013, there were approximately 370 liable entities, covering approximately 60 per cent of Australia's carbon emissions. The carbon tax covers a range of large business and industrial facilities, and includes emissions from electricity generation, natural gas supply, stationary energy, landfills, wastewater, industrial processes and fugitive emissions.

How does it work?

Liable entities must report annually on their emissions or potential emissions under the *National Greenhouse and Energy Reporting Act 2007* (NGER Act).

Under current arrangements, liable entities must surrender one carbon unit for every tonne of carbon dioxide equivalent (CO₂-e) that they have produced in that year.

There are two stages to the carbon tax:

- Fixed price – The price of carbon units – effectively the carbon tax – is fixed for the first three years. In 2012–13 it was \$23 a tonne of carbon pollution, in 2013–14 it is \$24.15 a tonne and in 2014–15 it will be \$25.40 a tonne. Liable entities can purchase units up to their emissions levels. Purchased units cannot be traded or banked.
- Flexible price – From 1 July 2015 the price will be set by the market. Most units will be auctioned by the Clean Energy Regulator – auctions are scheduled to take place before June 2014, in the lead up to the flexible price. The number of units the Government issues each year will be limited by a pollution cap set by regulations.

If a liable entity does not surrender any or enough units, it must pay a 'unit shortfall charge':

- from 2012 to 2015, this charge is set at 130 per cent of the fixed price for the relevant fixed price year; and
- from 2015 onwards, once the carbon tax moves to the flexible price period, the unit shortfall charge will be up to 200 per cent of the benchmark average auction price for the relevant period.

The shortfall charge creates an incentive to surrender units under the mechanism rather than pay the higher shortfall charge. The carbon tax arrangements include systems for assessing liability for emissions, meeting liability for emissions through payment and surrender processes for eligible emissions units, and relinquishing units (in certain circumstances units are returned to the Commonwealth without them being surrendered).

What are 'liable entities'?

Entities are liable if they operate facilities that exceed the threshold for covered direct emissions, or if they supply or use natural gas. The types of direct emissions covered by the carbon tax include:

- carbon dioxide (CO₂);
- methane (CH₄);
- nitrous oxide (N₂O); or
- perfluorocarbons specified in the NGER Regulations and that are attributable to aluminium production,

but do not include:

- agricultural emissions;
- fugitive emissions from decommissioned underground mines;
- emissions from legacy waste or closed landfill facilities;
- emissions of certain synthetic greenhouse gases;
- emissions from biomass, biofuels or biogas; or
- emissions from the combustion of fuels subject to duties under the *Excise Tariff Act 1921* or the *Customs Tariff Act 1995*.

The threshold for covered scope 1 emissions is 25 000 tonnes CO₂-e per year. Information collected through national greenhouse and energy reporting provides the basis for assessing liability under the tax arrangements.

The carbon tax covers approximately 60 per cent of Australia's carbon emissions including from electricity generation, natural gas supply, stationary energy, landfills, wastewater, industrial processes and fugitive emissions; Table A1 displays the proportion of emissions by industry according to reported interim emissions numbers for 2012-13. It should be noted that these are interim numbers and do not represent the full year's emissions data and that, due to the effect of the industry support programs described in this RIS, do not fully reflect the relative impact of the carbon tax on the various industries.

Equivalent carbon taxes

In addition to the carbon tax on liable entities, a number of businesses pay an equivalent carbon tax on liquid fuels and on synthetic greenhouse gases.

- Some businesses effectively pay no excise or excise-equivalent customs duty (fuel tax) on the fuel they use off-road, as their 'fuel tax' is offset under the fuel tax credits scheme. By reducing applicable fuel tax credits by an amount equal to the carbon tax, the Government imposes an effective carbon tax on businesses' liquid fuel emissions through the existing fuel tax regime. Aviation fuel that is not covered by the carbon pricing mechanism has had an increase in fuel tax representing the equivalent carbon price.
- Synthetic greenhouse gases are industrial chemicals used mainly as refrigerant gases in air conditioning and refrigeration equipment, but also for other purposes. Importers of synthetic greenhouse gases, including in manufactured products, are required to pay an equivalent carbon tax based on the carbon tax and the global warming potential of each gas relative to carbon dioxide. There are no Australian manufacturers of these gases.

Table A1: Reported emissions by industry ^a

	Proportion of emissions ^b (per cent)
Electricity Gas, Water and Waste Services	63.9
- Electricity generation	63.1
- Gas and water supply ^b	0.7
Manufacturing	16.7
- Basic non-ferrous metal manufacturing	5.1
- Basic ferrous metal manufacturing	3.3
- Cement, lime, plaster and concrete product manufacturing	2.5
- Petroleum and coal product manufacturing	1.8
- Fertiliser and pesticide manufacturing	1.2
- Other manufacturing ^c	2.7
Mining	14.7
- Coal mining	7.6
- Oil and gas extraction	6.5
- Metal ore mining	0.7
Natural Gas Supply embodied emissions^d	4.8

Notes: **a.** Emissions are the Interim Emissions Numbers reported in June 2013. An Interim Emissions Number is: for a direct emitter 75 per cent of the provisional emissions numbers relating to the relevant facilities for the 2011-12 financial year, or an estimate of 75 per cent of the person's provisional emissions number relating to the relevant facilities for 2012-13; for a natural gas supplier that person's provisional emissions number in relation to the supply of natural gas/fuel for the nine months to 31 March 2013. Emissions from waste to landfill are not included in estimates as waste deposited prior to 2012-13 is not liable. Numbers may not add due to rounding. **b.** Includes emissions from water supply, waste and drainage services and gas supply (both through a pipeline or mains system). **c.** Includes 14 ANZSIC subdivisions including emissions associated with agricultural manufacturing processes (e.g. dairy, meat and grain product manufacturing). **d.** Includes embodied emissions from natural gas supply. Excludes emissions from natural gas supplied to large gas consuming facilities, which are included in the totals for each industry sector above.

Source: Clean Energy Regulator, unpublished.

Attachment B: List of Stakeholders consulted

Carbon tax repeal stakeholder engagement

Summary of stakeholder engagement (as at 5:00 pm on Thursday, 7 November 2013)

Total number of meetings or teleconferences:	42
Submissions or emails addressing content of bills received:	82 submissions from industry peak bodies and companies 8 submissions from state and local governments 10 submissions from legal and academic institutions 142 submissions from individuals 28 submissions from non-government organisations 720 emails as part of the Australian Ethical Investment Campaign

Summary of stakeholder meetings and teleconferences (as at 5:00pm on Thursday, 7 November 2013)

Date	Participants
11 Oct	Energy Suppliers Association of Australia (ESAA)
15 Oct	Carbon Markets Institute
16 Oct	ESAA and Energy Network Association of Australia (ENAA)
16 Oct	Origin Energy
17 Oct	Energy Retailers Association of Australia (ERAA), Energy Users Association of Australia (EUAA), National Generators Forum and ESAA
17 Oct	Synthetic Greenhouse Gases Roundtable ABB, Actrol, A-Gas, Air conditioning and Heating (AIRAH), Air Conditioning and Mechanical Contractors' Association (AMCA), Air Conditioning and Refrigeration Equipment Manufacturers Association (AREMA), ARKEMA, Australian Airports Association (AAA), Australian Federation of International Forwarders (AFIF), Australian Industry Group (AIG), Australian Institute of Refrigeration, Australian Refrigeration Association (ARA), Automotive Air-conditioning, BOC, Consumer Electronics Suppliers' Association (CESA), Customs Brokers & Forwarders Council of Australia (CBFCA), Du Pont, Electrical and Cooling Technicians of Australia (AAECTA), Federal Chamber of Automotive Industries (FCAI), Fire Protection Association of Australia (FPAA), Ford, Heatcraft, Holden, Institute of Automotive Mechanical Engineers (IAME), National Electrical and Communications Association (NECA), Plastics and Chemicals Industry Association (PACIA), Refrigerant Reclaim Australia, Refrigerants Australia, Refrigeration and Air Conditioning Contractors Association (RACCA), Schneider Electric, Siemens, Solvents Australia, Toyota and Victorian Automobile Chamber of Commerce (VACC),

Date	Participants
18 Oct	Australian Industry Group ABB, AGL, Alcoa, Alstom, Amcor, Arrium (Onesteel), B&R Enclosures, Bluescope, Checkpoint Systems, CSR, Dow, ERM Power, GDF Suez, Incitec Pivot, Murray Goulburn, Orica, Pacific Hydro, Qenos, Rio Tinto, Schneider Electric, Veolia and Wilson Transformer
18 Oct	Business Council of Australia Adelaide Brighton, AGL Energy, Alcoa, ANZ, APA Group, BP, BG Group, BHP, Brickworks, Energy Australia, General Electric (GE), GDF Suez, Incitec Pivot, Leighton Holdings, Lend Lease, Macquarie Group, Norton Rose Fulbright, Origin Energy, Parsons Brinckerhoff, PricewaterhouseCoopers Australia (PwC), Rio Tinto, Santos, Shell, Transurban Group and Westpac
21 Oct	Dampier-Bunbury Pipeline (DBP)
21 Oct	Australian Energy Market Operator (AEMO)
21 Oct	ESAA
21 Oct	International Emissions Trading Association Baker & McKenzie, BG, BP, Chevron, Climate Friendly, Energy Australia, Norton Rose, Rio Tinto and Shell
22 Oct	Australian Financial Markets Association AGL Energy, Alinta Energy, AMP, ANZ, Ashurst, Australian Energy Market Operator (AEMO), Baker & Mackenzie, Clayton Utz, Clean Energy Regulator (CER), Commonwealth Bank, Delta Electricity, Deutsche Bank, Energy Developments, EnergyAustralia, ERM Power, Financial and Energy Exchange, GDF Suez, Hydro Tasmania, ICAP, Infigen, InterGen, Johnson Winter & Slattery, K&L Gates, King & Wood Mallesons, Macquarie Generation, NAB, Nextgen, Norton Rose Fulbright, Origin Energy, Snowy Hydro and Westpac
22 Oct	Energy Retailers Association of Australia (ERAA)
22 Oct	Fuel industry stakeholders including Association of Mining & Exploration Companies (AMEC) and Caltex (arranged by ATO)
22 Oct	Fuel industry stakeholders including the Australian Institute of Petroleum, Caltex, Exxon Mobil, Shell, and Woodside (arranged by ATO)
23 Oct	Aviation fuel stakeholders including Caltex, Qantas and Shell (arranged by ATO)
23 Oct	Australian Industry Greenhouse Network AI Group, Australian Aluminium Council, Australian Food & Grocery Council, Australian Institute of Petroleum, Australian Pipeline Industry Association (APIA), Australian Plastics & Chemicals Industries Association, Australian Sugar Milling Council, BP, Business Council of Australia (BCA), Caltex, Cement Industry Federation, Chevron, CSR, Dampier-Bunbury Pipeline (DBP), Exxon, Minerals Council of Australia, National Generators Forum, Origin, Rio Tinto, Santos, Shell, Wesfarmers,
23 Oct	Legal experts (Sydney) Ashurst, Baker & McKenzie, Clayton Utz, Dr Damien Lockie (Victorian Bar), Hunt & Hunt, Johnson Winter & Slattery, K&L Gates, the Law Council of Australia's Climate Change Law Committee and Sparke Helmore

Date	Participants
24 Oct	Legal experts (Melbourne) Allens, Ashurst, King & Wood Mallesons, Minter Ellison and Norton Rose
24 Oct	Waste sector Australian Landfill Operators Association, Australian Local Government Association (ALGA) and Waste Management Association of Australia
24 Oct	BlueScope Steel
24 Oct	Minerals Council of Australia Downer EDI, Glencore and Rio Tinto
25 Oct	Australian Aluminium Council Alcoa, Rio Tinto and others
25 Oct	Energy Australia
28 Oct	Gas Energy Australia and members
28 Oct	Energy Users Association of Australia (EUAA) and members
28 Oct	Cement Industry Federation
28 Oct	Tasmanian Regulation Authority
29 Oct	AGL
29 Oct	WA Economic Regulatory Authority
30 Oct	Clean Energy Council Acciona, Energy Developments Limited (EDL), Finlaysons, Hydro Tasmania, Infigen, Marchmont Hill, Pacific Hydro and Rheem
30 Oct	Ergon
30 Oct	Non-government organisations Australian Conservation Foundation, Australian Council of Trade Unions (ACTU), Australian Youth Climate Coalition, Climate Action Network Australia (CANA), ClimateWorks, Climate Institute, Grattan Institute UnitingJustice and World Wildlife Fund (WWF),
30 Oct	Australian Slag Association
30 Oct	Australian Pipeline Industry Association APA, Dampier-Bunbury Pipeline, Epic Energy and SEAGAS,
30 Oct	ACT Independent Competition & Regulatory Commission
31 Oct	NSW Independent Pricing and Regulatory Authority
31 Oct	EUAA and members
4 Nov	Synergy
6 Nov	Queensland Competition Authority; Glencore

References

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