



Australian Government
Department of the Environment

Mr Jason McNamara
Executive Director
Office of Best Practice Regulation
Department of Prime Minister and Cabinet

Dear Mr McNamara

Carbon tax repeal details-stage Regulation Impact Statement – for assessment

I am writing in relation to the attached final details-stage Regulation Impact Statement (RIS) prepared by the Department of the Environment concerning the repeal of the carbon tax.

I am satisfied that the final details-stage RIS addresses the matters raised in your letter of 4 November 2013.

The RIS makes it clear that the carbon tax will be repealed in its entirety and that the Government does not intend to transition to an emissions trading scheme at a future time. It also clarifies that measures to assist households with the cost of living pressures associated with the introduction of the carbon tax, including increases to fortnightly pension and benefit rates and income tax cuts 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.

The impact analysis has been refined to make clear that the Government remains committed to reducing GHG emissions by 5 per cent below 2000 levels by 2020 – the same emissions reduction target the carbon tax was implemented to achieve. However, the Government considers that its Direct Action Plan, including an Emissions Reduction Fund, is a simpler, more practical way of achieving this abatement.

The RIS includes a summary of the modelling used to estimate the price impacts of repealing the carbon tax on a range of sectors. This was undertaken at an aggregate industry and macro-economic level. 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.

The RIS details a range of factors that influence carbon price pass through in the economy. It notes that the extent to which the carbon tax has been absorbed by business or passed on to consumers depends on the nature and structure of each market and decisions made by individual businesses. The range and complexity of sector-specific factors mean it is not possible to say with certainty what proportion was passed on to consumers and what proportion was absorbed. Sector specific factors, combined with other changes in the production cost base and general inflationary impacts since the carbon tax was introduced mean that specific price changes that could occur in particular sectors are difficult to quantify, although price impacts in the energy sector are better understood than others.

The range of factors that have influenced prices since the carbon tax was introduced means that it is unlikely that prices would, in all cases, return to their pre-carbon tax levels. However, to the

extent that the cost bases of goods and services are affected by the repeal and there is competitive pressure within markets to pass on savings, price reductions could be expected.


The impact of carbon tax repeal on investments in carbon abatement is discussed. It notes that, while repeal may extend the payback period or reduce the internal rate of return for these investments, the risks associated with stranded investments or sunk costs were not raised as significant issues in stakeholder consultation.

Estimates of compliance costs in the RIS were developed using the methodology that underpins the business cost calculator, although the Java-based program itself was not used. The compliance cost estimates were made public through the stakeholder consultation process but no substantive comments were received.

The RIS includes an appropriately detailed outline of the ACCC's new monitoring and enforcement powers. It notes that stakeholder submissions indicate that business is well aware of the ACCC's new powers and of the need to pass through cost savings.

I am satisfied that the final details-stage RIS meets the Government's best practice regulation requirements and submit the attached certified final details-stage RIS for assessment against the Australian Government's RIS requirements.

Yours sincerely



Dr Steven Kennedy
Deputy Secretary
Department of the Environment

8 November 2013