

## Carbon Tax

While carbon trading has gained more media attention and rhetorical support, the initial and most obvious policy to reduce CO<sub>2</sub> emissions is to tax them. The most popular proposal is for a tax that is applied as a fuel tax, based on the amount of fuel sold. When the fossil fuel is burnt CO<sub>2</sub> is released and the quantity is directly related to the amount of fossil fuel consumed. The tax could be imposed in a number of different ways. The simplest would be an upstream tax, imposed on oil and coal companies when they extract the fuel from the ground. This would ensure that the total quantity of fuel were taxed and would be simple and cheap to administer. It would then be the responsibility of the fuel companies to pass the cost on to intermediate producers who would then in turn pass the cost on to consumers.

The immediate appeal of a system of taxation is that it would address all polluters, not just the businesses who would become part of a carbon trading system. Although taxation systems are costly to establish and to monitor, they do not involve the transaction and negotiation costs that are present with any trading system. The advantage of a market system is that it would be self-adjusting, i.e. the price of a CO<sub>2</sub> permit would rise or fall according to demand. However, this could also be a significant disadvantage for businesses, who would not be able to have a fixed idea about the cost of their emissions when producing business plans. There might be a high degree of volatility in the price of CO<sub>2</sub> emissions which could make planning difficult. A taxation system, by contrast, would be clear and it might be fixed on a gently rising trend so that businesses could plan for the cost of fossil fuels to rise gradually over time, and they could factor this in to their planning. Although such a cost would be unwelcome it would at least be foreseen.

Perhaps the most attractive aspect of a taxation proposal is that it is a type of policy which is already familiar to both taxpayers and policy-makers. Creating carbon markets, by contrast, is an innovative and highly complex process. As is clear from the first experiment with such a policy—the European ETS scheme described in Box 13.2—inexperience can lead to unexpected outcomes that may work against the objective of the policy. A tax would also generate revenues, which could be reinvested in the infrastructure of a low-carbon economy: being made available as grants for home insulation or transition grants for businesses to install renewable energy systems, for example. This apparent ‘benefit’ is something of a double-edged sword, however, since the public is sceptical about pro-environment taxes, which they suspect may be introduced primarily to generate revenue rather than to tackle the environmental problem.

Australia introduced a carbon tax in October 2011. A year on the consequences are begin to be felt. Even at the very low price of \$23 per tonne, ‘Electricity sold into the east coast market in the three months since the tax started created on average 7.6 per cent less carbon dioxide for each megawatt hour of power, an analysis of figures compiled by the Australian Energy Market Operator shows. Compared with the same three months last year, the decline in emissions is around 6.3 per cent.’

Read more: <http://www.smh.com.au/data-point/carbon-tax-contributes-to-emissions-drop-20121017-27r16.html#ixzz2A1uzHBiO>