Warning against high carbon price

Marcus Priest

Companies that emit large amounts of carbon have warned the federal government not to set a high carbon price this year to catch up on emissions from previous years.

The Greens also endorsed the warning by climate change adviser Ross Garnaut that industry assistance should be limited due to budgetary constraints.

Professor Garnaut told *The Australian Financial Review* that a carbon price might have to be set higher than proposed in 2009 to make up for lost time.

He also renewed his caution against industry assistance beyond what was necessary for emissions-intensive, trade-exposed industry, given present budgetary constraints.

Another political adviser on climate change, Port Jackson Partners director Rod Sims, said all parties had to be open about how much it would cost to adopt a carbon price.

"Everyone has to be clear — this is not an easy journey. But just because it is difficult, it doesn't mean we should not do it."

Mr Sims is regarded as a key figure by industry, particularly on the question of financial assistance for electricity generators.

"The costs of the transition are often underestimated," Mr Sims said. "We are an economy built on brown coal and we've had some of the lowest cost electricity in the world."

Industry assistance was one of the major differences between Canberra and the Greens during the emissions trading scheme negotiations in 2009.

Greens senator Christine Milne said yesterday Professor Garnaut was right to point to budget constraints, especially as the ETS was so generous to polluters that it would have been in the red for its first two years.

"The Greens and Professor Garnaut have long agreed that carbon-pricing legislation takes a principled approach to any assistance for trade-exposed industry," she said.

Industry questioned her claim, saying the ETS would have been budget neutral.

"Ross Garnaut's comments … are didactic," said Australian Industry Group chief executiveHeather Ridout. "The critical issue is that Australia responds positively to the climate change challenge in a way that doesn't damage the competitiveness of trade-exposed industries."

AGL Energy supported a carbon price but it should start at about $20 a tonne — the price set in 2009 — to ensure new investment in gas rather than baseload coal generation, managing director Michael Fraser said.

"Transitional assistance for trade-exposed industries, energy-intensive industries and the electricity-generation sector is a sensible public policy response," Mr Fraser said.

This was echoed by Origin Energy, which said an initial carbon price of up to $25 was required to drive a change in investment. "It's not just about price, investors need to believe that the framework put in place will last for the 30 years or more for which these large-scale assets operate," Origin executive general manager for policy, Carl McCamish, said.

Adelaide Brighton chief executive Mark Chellew — a member of the Business Council of Australia sustainability taskforce — said a soft transition to a carbon price should be adopted to ensure Australia was not too far ahead of other countries.

"The economic transition argument they are making is a bit overdone. Essentially the world's economy is based on carbon and until they find an economical alternative, the world has a terrible dilemma."

Abbott's tax gripe won't hold water

Analysis
John Kehoe

Carbon capture ... a coalmine in Baralaba is cut off by the Queensland floodwaters. Photo: REUTERS

Ever since he failed to win the election, Tony Abbott has taken potshots at the Labor government over its plans to introduce flood, mining and carbon taxes.

The Coalition leader is trying to give the impression that the Labor party is the government of high taxes.

A closer look at official budget figures shows that the Rudd-Gillard governments have kept the tax take below that of the final few years of the Howard government, as they promised to do.

The government's tax receipts as a proportion of the economy were 23.5 per cent in 2007-08, John Howard's last year in office. Since then, the government's tax-to-gross domestic product ratio has hovered between about 20 and 22 per cent.

The $1.8 billion flood levy will not breach Labor's promise at the 2007 election to keep taxes below 23.5 per cent of GDP. Indeed, the imposition on middle- and high-income earners amounts to little more than a rounding error in a budget collecting about $300 billion in annual taxes.

In any case, Macroeconomics director Stephen Anthony said the flood levy would be "significantly offset" by lower company tax receipts in the short term paid by miners and other businesses affected by the floods in Queensland.

Even with the introduction of the mining tax that is forecast to collect $7.4 billion in its first two years from 2012-13, the tax-to-GDP ratio is estimated to remain below 23 per cent.

The original resource super profits tax, which could have raised $24 billion in its first two years, might have pushed the ratio towards 23 per cent. But if the company tax rate was cut to 25 per cent, as recommended by Treasury secretary Ken Henry, the net effect on tax revenue would have been negligible.

So how can Labor be introducing new taxes, and increasing other imposts like the luxury car tax and so-called alcopops tax, while keeping the tax take lower than under the last Coalition government?

The answer lies in the more than $30 billion in personal income tax cuts promised by the Coalition and largely adopted by Labor at the 2007 election, that have been phased in over the past four years.

The tax cuts virtually guaranteed the tax-to-GDP ratio could not rise above pre-2007 levels for some years, unless there really was a so-called "great big new tax" imposed.

Speaking of which, Julia Gillard is determined to set a carbon price this year, either through an emissions trading scheme or carbon tax.

The decision on whether to impose an ETS or a carbon tax will be an interesting choice for the government.

Under budget rules, revenue raised through an ETS, whereby pollution permits are sold to big emitters, would not be classified as tax revenue, according to former Finance Department deputy secretary Stephen Bartos.

In contrast, a straight carbon tax would count towards the government's tax ceiling.

A carbon tax of $20 a tonne would raise about $10 billion a year and push the tax-to-GDP ratio to about 23.3 per cent, just short of the government's 23.5 per cent cap.

As the carbon prices rises as the emissions-reduction targets grow more ambitious, without tax cuts elsewhere in the budget, Labor risks breaching its tax-take promise.

But even with the temporary flood tax, until there is a carbon tax, Abbott's claims of high tax appear exaggerated.

As Anthony and Bartos suggest, the spending side of the budget is where Labor could muster some more courage and take the axe to programs delivering poor value for taxpayers' money.

Premiums to rise, page 47

Queensland prepares for cyclone Yasi

Mark Ludlow and **Dan Hall**

Queensland authorities are preparing for the state's second major natural disaster in weeks, with cyclone Yasi on course to cross the coast on Thursday.

The Bligh government is already reeling from an estimated $5 billion damage bill from last month's flood, and there are growing fears the category three or four cyclone could cause further serious damage to the state's coal and tourism industries.

Cyclone Yasi — which is developing north of Vanuatu and is already 1000 kilometres wide — is expected to hit the coast between Cairns and Mackay on Thursday morning. It is already tipped to surpass Cyclone Larry, which caused more than $1 billion damage to north Queensland in 2006.

Three of the four major coal ports in the state — Abbot Point near Bowen as well as Dalrymple Bay and Hay Point near Mackay — were closed over the weekend as the smaller cyclone Anthony crossed the coast. While the closures are precautionary, any further delays to coal exports, which have already been disrupted by flooded mines and damage to rail links, would impact the bottom line of both the state government and coal companies.

Queensland's island resorts, including Hamilton Island in the Whitsundays, have started to evacuate in preparation for what Premier Anna Bligh said could be one of the worst cyclones to hit the state. "This is a very serious threat. We have to take it seriously and we're preparing for it," Ms Bligh said.

Operators of the privately owned Dalrymple Bay coal terminal have sent coal vessels waiting to be loaded at the port 12 hours south to safer waters and expect to remain closed until the system passes.

"It is a terrifically big front, regardless of whether the eye goes through this region or not," a spokesman for Dalrymple Bay Coal Terminal Management said.

Dalrymple Bay has been operating at 70 per cent capacity in January after heavy rain inundated the region's coalmines. Coal suppliers affected by the shutdown include Anglo American, BHP Billiton, Vale, Isaac Plains Coal, Macarthur Coal, Peabody, Rio Tinto and Xstrata.

The Insurance Council said more than 38,000 claims valued at $1.5 billion had been lodged after the Queensland floods, and 4780 claims worth $69 million in Victoria.

Charities fear levy will make donations dry up

John Kehoe

Prime Minister Julia Gillard has disagreed with suggestions made by leading charity groups and the federal opposition that the $1.8 billion flood levy could cause taxpayers to reduce charitable donations.

The concerns were raised by World Vision chief executive Tim Costello and the Salvation Army, which says it has received phone calls from would-be donors confused by "misinformation" related to the levy on middle and high-income earners.

"The notion they got was that the government was going to be helping charities out with this levy, which is a deadly message for us because it's not true," Salvation Army Major Bram Cassidy said yesterday. "We are not against the levy, but there is a minor risk there, I think."

World Vision's Mr Costello said although the levy was "defensible", it could affect future donations because some people opposed stumping up money twice.

"Any charitable dollar depends on consumer and business confidence."

"If a levy does affect consumer confidence . . . it could have an impact on donations," he said.

Ms Gillard was pressed in a radio interview yesterday by radio veteran John Laws about the negative effect that the levy could have on donations.

"I think we've got to be clear about the differences here, about where the money is going," Ms Gillard said.

"People's donations are going to give their fellow Australians a helping hand. The government money, including the money of the levy, is going to rebuild the big infrastructure that's been damaged by flood waters — the roads, the rail, the ports, the bridges — and communities need that, the national economy needs that."

Opposition Leader Tony Abbott said redirecting $1 billion from water buybacks and $1.5 billion left in the Building the Education Revolution fund would allow the government to avoid imposing the levy.

Government officials were last night due to brief independent senator Nick Xenophon on the $5.6 billion flood package. Two-thirds of the funding will come from cuts to climate and other programs.

Senator Xenophon said the levy was a "Band-Aid" solution and, like independent MPs Tony Windsor, Rob Oakeshott and Bob Katter, he wants the government to consider setting up a natural disaster fund for floods, fires and cyclones.

Ms Gillard and Treasurer Wayne Swan were lukewarm towards the idea and said their immediate priority was rebuilding flood-affected areas in Queensland and Victoria.

Greens MP Adam Bandt will meet with Ms Gillard's staff today. He said the planned cut in the corporate tax rate should be deferred, instead of axing climate and public housing spending.