

Executive Summary

The Senate Select Committee on the Scrutiny of New Taxes (the committee) tabled its very comprehensive interim report on the carbon tax, *The Carbon Tax: Economic pain for no environmental gain*, on Friday, 7 October. On the same day the Labor-Green dominated Joint Select Committee on Australia's Clean Energy Future Legislation (the Joint Committee) also released its report about the carbon tax legislative package.

This final report of the committee on the carbon pricing plan provides some further assessments of the government's carbon tax and emissions trading scheme proposal in the context of issues that have emerged since the reports by the two committees have been released. This further report draws upon information that emerged during public discussions and evidence received by the Senate Supplementary Estimates Committees in the week of 17 October 2011.

Modelling

The committee's inquiry highlighted a number of concerns about the Treasury's modelling of the government's carbon tax, including:

- the failure to model a scenario where Australia imposes a carbon tax and its major resource competitors do not;
- the questionable nature of some of the assumptions made by the Treasury, including that:
 - the economy will maintain full employment;
 - countries will honour all the pledges made at Cancun even though these pledges are not legally binding;
 - countries will remain on a substantial abatement trajectory even when those pledges expire; and
 - the assumption that some form of generalised global carbon trading is in place by 2016;
- the failure to model the impact of a carbon tax on specific regions of Australia; and
- the decision not to release the full models used for public scrutiny.

Since the tabling of the Interim Report, the Joint Committee has conducted its inquiry into the draft bills and tabled its Advisory Report, and Senate Estimates hearings have allowed Committee members to further question the Minister for Finance and Deregulation, Senator the Hon. Penny Wong, and Treasury officials, and Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) officials about the modelling.

This further information has done nothing to dispel the committee's initial view that the government has moved with undue haste to implement this carbon tax.

The government has not allowed sufficient time for the proper consideration of its legislation, by the public or by the Joint Committee. As a result, in this committee's view, the Joint Committee failed to properly examine the draft Bills. Rather, it adopted a "see no evil, hear no evil, speak no evil" approach to the government's carbon tax.

The committee's Interim Report detailed concerns about the lack of transparency of the modelling. Information obtained at Estimates hearings only emphasised that the government has adopted a policy of preventing the full, independent scrutiny of the modelling. And it is clear, this was a government decision, not one made by the Treasury, which in other similar situations has taken steps to ensure its modelling is open to public review. In response to questions on releasing of the modelling, the government has dissembled and raised smoke screens in an attempt to avoid the real issue raised by its decision.

The committee is of the view that it now has an even stronger basis for making the recommendations about the modelling that it made in the Interim Report.

The trampling of democracy

The process for the development of the carbon tax has been deeply flawed. Prior to the 2010 Commonwealth Election the Prime Minister, the Hon. Julia Gillard MP, and her Deputy Prime Minister and Treasurer, the Hon. Wayne Swan MP, promised the Australian electorate that there would be no carbon tax.

After the election, on 24 February 2011, the Prime Minister announced that there would be a carbon tax. No details were released, with the electorate having to wait until 10 July 2011 for partial detail and only incomplete economic modelling. On 13 September 2011, the 19 Bills for the government's Clean Energy Future were introduced into the Parliament.

The 19 Bills were then pushed through a truncated Joint Committee for consideration. Many submissions were ignored and the 19 complex Bills and around 1100 pages of important law were quickly dealt with. The Joint Committee was so dominated by the government that not even the convention of an Opposition deputy chair was respected.

This Inquiry has sought to shine a torch into the dark places of the government's carbon tax. By receiving 102 submissions, as well as visiting regional Australia and conducting 13 public hearings, this committee has attempted to be a voice for Australians and to ensure proper scrutiny of the government's carbon tax. The committee's process contrasts with the methods adopted by the government.

In these circumstances, the committee extends its appreciation to those individuals and organisations that participated in this inquiry.

The government's disregard for the democratic process extends beyond the development of the carbon tax. While its effectiveness is questionable, it is clear that

by giving emissions permits the characteristics of private property, the government has sought to hinder the repeal of its legislation by a future parliament.

As mentioned previously, the government has succeeded in denying the public access to its carbon tax modelling. This has reduced public scrutiny of what the government has called a major economic transformation for Australia. Such restrictions have not applied to other major economic reforms.

Issues covered by this report

In this report:

- Chapter 2 highlights further issues with the Treasury's modelling that provide an even more compelling case to call into question the government's optimistic assessment of the impact of the carbon tax.
- Chapter 3 draws together a state-of-play on selected overseas emissions trading schemes and highlights events that have undermined these schemes and demonstrates potential risks that could derail Australia's attempts to source emissions abatement from overseas.
- Chapter 4 provides further evidence to support the view that the government cannot be relied upon to ensure effective implementations of its policies. The fundamental building block of the government's planned emissions trading scheme, the carbon unit, is to be personal property but the exact legal standing of that property is contested. While the government's efforts in this respect seem likely to be unsuccessful, it is clear that its intention is to undermine the scope future governments have to repeal this legislation without incurring massive compensation claims.
- Chapter 5 outlines the myriad of new regulators and agencies that are part of the new green bureaucracy. These new bodies represent a further risk to the Commonwealth Budget.
- Chapter 6 catalogues the extensive efforts and associated costs undertaken by the government that have failed to sustain, yet alone build, support for its carbon tax, which the Prime Minister had promised would not be imposed.

This report draws upon evidence obtained by the Joint Committee as well as information in the public domain and important insights gained during the Supplementary Budget estimates process of the week of 17 October 2011.

Recommendations of the Final Report

Recommendation 1

The committee recommends that the carbon tax be opposed by the Parliament.

Recommendation 2

The committee recommends that, should the government remain committed to proceeding with the carbon tax, before any vote the Senate should demand that:

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- the government release all of its modelling, including the actual models, datasets and specification used by the Treasury, to allow third party review; and
 - the government establish an Independent Expert Panel to review its modelling approach and framework.

Recommendation 3

The committee recommends that if the government proceeds with its carbon tax, that the relevant regulator be sufficiently resourced to minimise the risk of fraud or other undesirable activities that might undermine the integrity of the Australian carbon permits.

Recommendation 4

The committee recommends that the government carefully consider the risks and benefits from linking to foreign carbon markets and that comprehensive safeguards be put in place to minimise the risk to Australian purchasers of foreign carbon abatement units.

Recommendation 5

In the event that the government proceeds with the carbon tax, the committee recommends that clause 103 of the Clean Energy Bill 2011 be amended to ensure that a property right does not attach to permits and to make it clear that permits can be altered, repealed or revoked at any time without that amounting to an acquisition of property.

Recommendation 6

If the Clean Energy Future legislative package is passed by the Parliament, the committee recommends that the Senate review the conduct of relevant regulators.

Recommendation 7

If the Clean Energy Future legislative package is passed by the Parliament, the committee recommends that the Senate review the cost to the Budget of the Clean Energy Finance Corporation and the Australian Renewable Energy Agency given that between them they will be responsible for \$13 billion of expenditure.

Recommendation 8

The committee calls upon the government to carefully consider further expenditure on its so-called community education for the carbon tax and suspend further unnecessary advertising if the government's legislation passes the Parliament.

Recommendations of the Interim Report

Recommendation 1

It is the committee's view that the carbon tax should be opposed and the legislation defeated in the Parliament as:

- **there is no electoral mandate for the carbon tax;**
- **the modelling that supports it is based on a number of highly contestable assumptions;**
- **it is likely to undermine Australian businesses' ability to compete in the global economy;**
- **it will have significant adverse effects on particular sectors and regions, with a particularly disproportionate impact on regional Australia;**
- **the effect of the policy on the cost of living, and on jobs is likely to be higher than the government's current estimates indicate;**
- **there is considerable evidence that the carbon tax will not result in any real environmental gain, despite imposing a significant cost on the economy over the next thirty years.**

The committee recommends that the carbon tax be opposed by the Parliament.

Recommendation 2

The committee recommends, that if the Parliament believes that it should proceed with the carbon tax, any provisions in the legislation designed to bind future governments seeking to prevent them from amending or rescinding the scheme be removed.

Recommendation 3

The committee recommends that, if the Parliament believes that it should proceed with the carbon tax, it does so once current global economic circumstances have improved and there is a legally binding global agreement on tackling climate change.

Recommendation 4

The committee recommends that, should the government remain committed to proceeding with its carbon tax, before any vote the Senate should demand that the:

- **government release all of its modelling, including the actual models, datasets and specifications used by the Treasury, to allow third party review;**
- **government establish an Independent Expert Panel to review its modelling approach and framework;**

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- **Productivity Commission be asked to undertake a cost-benefit analysis of the proposed carbon tax;**
 - **legislation should be amended to ensure that any increase in the tax or lowering of the emissions cap be made a disallowable instrument and to ensure that carbon permits are not private property.**