

Senate Standing Committee on Finance and Public Administration
ANSWER TO QUESTION ON NOTICE
Prime Minister and Cabinet Portfolio
Department of Climate Change
Additional Budget Estimates Hearing—February 2009

Written question reference: CC23

Outcome/Output: Response to climate change

Topic: Carbon Pollution Reduction Scheme

Hansard Page: Not relevant for written QoN

Question: Senator Williams

(a) The CPRS proposes that passenger and truck transport emission costs will be offset for 3 and 1 years respectively, resulting in no cost increase to users. Since there is therefore no incentive to change, why will travel behaviour change to reduce transport emissions?

b) The Government proposes to exclude emissions intensive trade exposed industries, offset road transport emission charges and compensate households (so the CPRS should perhaps be more accurately called an Omissions Trading Scheme). Consequently, cost effective emission reductions will not occur in these sectors and must instead occur by less efficient abatement in other sectors. What then is the increased cost to business and the community of the CPRS due to the most efficient abatement not being used?

Answer:

a) The Government recognises that people have limited flexibility to respond quickly to changes in fuel prices but that, over time, transport choices are influenced by price changes. Including transport fuels in the CPRS will provide a strong signal that fuel users will need to factor carbon costs into future decisions that will affect their long term consumption of transport fuels. In effect, households are being given five years in which to adjust their vehicle fleet toward lower emissions vehicles.

b) The CPRS does not exclude emission-intensive trade-exposed industries (EITEs) as suggested in the question. Emissions from EITEs attract CPRS obligations. Furthermore, the way in which EITE assistance is delivered provides a significant incentive to reduce emissions as assistance is provided according to an industry baseline and tied to production. Treasury modelling indicated that the shielding of the EITE sector did not impose large costs on other sectors due to the way in which assistance is to be delivered and the role of international permits in capping CPRS costs.

The compensation to households does not reduce incentives to abate: households face the carbon costs in their purchases of carbon intensive products and will respond accordingly. Arrangement of road transport emissions are discussed above. Treasury modelling suggests the imposition of a carbon price on transport emissions result in a significant contribution of abatement from that sector over time.