

# **The Carbon Tax - Question and Answers**

## ***What is the Carbon Tax?***

The Carbon Tax is the Federal Government's platform for reducing carbon emissions. It essentially puts a 'fixed' price on the amount of pollution emitted.

## ***When was it announced?***

The Prime Minister announced the Government's intention to implement the Carbon Tax in February 2011. A detailed package outlining the carbon tax arrangements was subsequently released on 10 July 2011, confirming the carbon tax would be implemented from 1 July 2012.

The legislation introducing the Carbon Tax passed through parliament (the Senate) on 8 November 2011.

## ***Who pays the Carbon Tax?***

The Carbon Tax will be paid by around 500 facilities that emit more than 25,000 tonnes of carbon dioxide per year, or equivalent (CO<sub>2</sub>-e). But whilst the majority of Australia's 7.6 million registered businesses will not directly pay the Carbon Tax to the Government, the effects will flow through to manufacturers, suppliers and consumers.

## ***What is the Price for the Carbon Tax?***

The Carbon Tax will start at a price of \$23 per tonne CO<sub>2</sub>-e from July 2012. It will increase to \$24.15 in 2013/14 and \$25.40 in 2014/15.

## ***When does the Carbon Tax begin?***

Now that the Carbon Tax legislation has passed through parliament, the commencement date for the scheme has been confirmed as 1 July 2012. The tax will be charged and collected from this date.

## ***Will the Carbon Tax be in place indefinitely?***

No, the fixed price Carbon Tax will transition to an Emissions Trading Scheme (ETS) from 1 July 2015.

## ***What is the difference between a Carbon Tax and Emissions Trading Scheme?***

Under the Carbon Tax arrangements, around 500 facilities will pay a fixed price on their CO<sub>2</sub>-e, however, there is no limit on the amount of emissions. Under the ETS the Government will set a cap on the total amount of emissions that can be released. Emission trading certificates may be purchased by the heavy emitters to trade-off emissions above the set limit.

## ***What are the central features of the Carbon Tax?***

The Government's official carbon reduction target is for a 5% reduction in emissions below 2000 levels by the year 2020.

The Government estimates that the tax will increase the cost of living by 0.7% in 2012/13, dominated by a predicted increase of less than 0.5% increase in food prices. Electricity and gas prices are estimated to rise by 10% and 9% respectively.

### ***How will it be implemented – for companies and individuals?***

In terms of administration, the Carbon Tax will directly impact on around 500 companies, generally the largest emitters. Much of the impact will then flow through the manufacturing and supply lines to consumers in the form of higher prices. For example, coal fired electricity producers will pay a carbon tax directly to the Government for their carbon emissions. The additional production cost will in turn be recouped from downstream manufacturers, suppliers and consumers through higher electricity prices.

### ***So the Carbon Tax will not be paid directly by consumers?***

Not directly. But as the manufacturers and suppliers are charged higher electricity rates and face higher costs for their materials, the impact of the Carbon Tax will flow through in higher costs for consumers.

### ***How will the Carbon Tax affect the cost of a house and land package?***

The residential building industry will be affected significantly by the tax, through increased costs of materials and energy, which will flow through to the price of homes.

Based on the most recent detail supplied by the federal government, depending on the extent to which cost increases are passed on through the production phases and the extent of product substitution and offshore procurement, HIA estimates that the cost increase for an average new house due to the Carbon Tax will be in the range of 0.8% up to 1.7%.

### ***Will industries be compensated?***

In terms of businesses, the level of compensation varies significantly, with small and medium sized businesses receiving no compensation of substance.

Most building materials have high levels of carbon intensity – particularly bricks, tiles, concrete slabs, steel, timber and aluminium. The manufacturers and suppliers of these and other building inputs will be hit hard by the Carbon Tax. In some cases businesses will close and in other cases jobs will be lost.

There is compensation for some of these businesses – ranging from relatively generous (but not full) compensation for some producers to zero compensation for others. The compensation element is highly complex, and unfortunately there will be some major losers, most notably the smaller and medium-sized building product manufacturing and fabricating businesses.

### ***What are the concessions and compensation for various industries?***

High 'Emissions-Intensive, Trade-Exposed' (EITE) entities (eg aluminium, steel, flat glass, zinc, and pulp/paper producers) will receive a 94.5% concession in the first year, reducing by 1.3% per year.

Lower EITE entities (eg plastics and chemicals) will receive a 66% concession.

For small businesses with an annual turnover less than \$2m, the existing 'instant asset write off' has been extended from \$5,000 to \$6,500.

Non-EITE manufacturing businesses will receive no benefit or concession.

A \$9.2b 'Jobs and Competitiveness Program' is to broadly support EITE manufacturing, (including a \$300m steel transformation plan). Non-EITE businesses will receive no benefit from these measures.

A \$10 billion 'Clean Energy Finance Corporation' will be set up to administer commercial funding products for clean energy projects over the next 5 years.

***As the Carbon Tax will ensure it costs more for builders to construct a dwelling though increased manufacturing costs – will the builder pass on these costs?***

Unlike the GST, which applied a 10% tax immediately to every transaction on the same date, under the Carbon Tax the cost of building materials, products and assemblies will increase progressively as they pass through the various production phases – some faster than others.

HIA is advising members they should therefore factor in increases in the cost of inputs on projects expected to continue over the transitional period - around the 1 July 2012 implementation date – and beyond.

***What about fuel costs?***

The Carbon Tax will not affect fuel costs for households and trades, however many businesses that currently receive the fuel excise concession will lose an equivalent amount of that concession. For example, non-road transport such as earthmoving machinery will face an effective increase in the cost of diesel equivalent to 6.21 cents per litre.

***Does the HIA opposition to the Carbon Tax mean it doesn't believe in climate change?***

The HIA opposition to the Carbon Tax isn't because it doubts the science of global warming or doesn't believe that the building industry should play a role in reducing our collective environmental footprint.

The residential building industry and the HIA are leaders in promoting sustainable building practices and energy efficient housing.

However, the HIA does not believe that a policy that will increase costs, disadvantage local manufacturing and ultimately export Australian jobs is the answer. As jobs go overseas, so too will the associated carbon emissions and the environment will be no better off.

***So what has the residential building sector and HIA been doing about the environment?***

The flagship of the HIA environmental program is GreenSmart, which has been operating since 1999.

Part of the success of GreenSmart is that it is a market driven program, where builders, suppliers and consumers recognise the benefits they all can accrue from innovation and action on the environment, without the heavy handedness of additional regulation or taxes.

The success of this approach is reflected in there being over 4,000 GreenSmart accredited professionals.

Whether building or renovating, the GreenSmart program promotes building principles that improves efficiency and reduces waste in the construction phase and creates the legacy of a safer, sustainable and more energy efficient home for its occupants for the future.

The end result is a lower carbon footprint in the building of a home and then reduced energy use through its lifetime.

GreenSmart doesn't just apply to individual homes either, with entire estates embracing its principles of innovative and collective approaches to management of water, recycling and solar orientation of homes.

***Why is HIA part of the Australian Trade & Industry Alliance, which is opposing the tax?***

The HIA has joined the Australian Trade & Industry Alliance because it doesn't believe that the Carbon Tax is the right policy approach.

The Alliance is made up of a diverse group of organisations and industry groups, who will each advocate their own member's specific views. They all agree that Australia must get carbon policy right.

A carbon pricing scheme that fails to include measures to preserve the international competitiveness of Australia's export and import-competing industries during a period of uneven or limited international action will cost jobs, investment and increase the cost of living of all Australians.

As well, the Carbon Tax is unfairly discriminatory. Many highly efficient Australian businesses operating in a fiercely competitive local market will be fully taxed but are ineligible for compensation because their main threat is from product substitution rather than imports of comparable products. This is despite many having already invested in modern and more efficient plant. For example, the design of modern gas fired brick kilns allows for reduced energy to reach required firing temperatures, less brick waste and lower air emissions.