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Carbon tax or trading?

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A DEBATE is needed over whether a carbon tax or trading scheme is in Australia's best interests, according to a leading barrister and tax consultant.

David Russell QC last week called for discussion on whether a carbon tax or ETS would be a more effective policy.

He said a carbon tax has a number of advantages such as administration efficiencies.

The paper *Taxation and Climate Change – New Horizons for Tax Practitioners* was released at the Taxation Institute of Australia's National Convention late last week, with the Taxation Institute hoping it will lead to debate on the issue.

"One of the remarkable features of the discussion on greenhouse gas abatement measures in this country has been the apparent acceptance that there really is no debate as to the appropriateness of an ETS as the best policy instrument. It is otherwise elsewhere," Russell said upon releasing the document.

Although the Garnaut Review's Interim Report said it would examine carbon taxes in its final report to be released in September, it appears that the Review "favours an ETS model because of the gains from international trade in permits can significantly reduce abatement costs".

In the UK, the Stern Review also appears to favour an ETS because carbon taxes "do not automatically generate financial flows to developing countries in search of the most effective carbon reductions".

But Russell argues there are a number of advantages to a carbon tax. An ETS would require new institutions including a registry office, monitoring systems as well as enforcement and trading mechanisms. However, many of the institutions necessary to administer a carbon tax already exist.

The carbon tax could be administered by the Australian Taxation Office, Russell said.

Also, a carbon tax could be kept at a stable rate and can therefore provide business with more consistent carbon price signals. "A carbon tax would be stable - movements can be predictable, gradual and executed with relative simplicity," Russell said in the report.

This would be of importance to investors as "wild fluctuations" in market prices inhibits investment not only in greenhouse emission reduction projects but also in any emissions-intensive industry, the paper states.

Furthermore, the introduction of a carbon tax would lessen instability in energy prices. The price of permits under an ETS will rise and fall when emissions fluctuate, destabilising national energy prices beyond the normal movement in global energy prices.

Taxation Institute president Sue Williamson said issues raised in the paper indicate the need to have a thorough review and debate on whether climate change should be be addressed through an ETS or a tax-based regime.

“There are a number of pros and cons for both a carbon tax and carbon trading scheme,” Williamson said.

She said the Taxation Institute of Australia would seek to work with the Federal Government to help develop the most effective policy response to climate change in order to reach a 60% reduction in greenhouse emissions on 2000 levels by 2050.