Nonsense from Combet

As reported in today's paper— modelling undertaken by the Centre for International Economics on behalf of the Minerals Council shows that the high level at which the government has set the carbon price will cost the Australian economy billions of dollars in lost output.

To that, the Climate Change Minister, Greg Combet, gave this reply through a spokesman:

"…the initial fixed-price period would provide certainty before the transition to an emissions trading scheme, under which carbon prices would be determined by the market."

"The government was providing a multi-billion-dollar Jobs and Competitiveness Program to provide aid to firms that emitted a lot of pollution and faced strong competition from imports or on export markets" the spokesman said.

"It shields those industries from the full carbon price; in fact, the most emissions-intensive, trade-exposed industries will only face an initial effective carbon price of $1.30 a tonne once you take this assistance into account."

This is complete nonsense. To begin with, it is a strange kind of certainty that the government is providing – the certainty that our carbon price will be completely out of line with that internationally. That Combet makes no attempt to defend that speaks volumes – it is simply indefensible.

As for the $1.30, it is every bit as misleading as one expects, given Combet's ongoing struggle with the facts. In effect, the $1.30 is probably derived as follows. In the first year of the scheme, free allocation of permits are for 94.5 per cent of emissions, so only 5.5 per cent have to be paid for. 5.5 per cent of $23/t is $1.27, so that's the $1.30.

However, all this says is that those emitters will pay $1.30 on the average tonne emitted. But as every student learns in Economics 101, what counts is the price at the margin, as that is the price that influences production decisions. In other words, the crucial question for a producer is "what happens if I increase or reduce output, and hence emissions, by one unit?" And the answer to that is "If I increase emissions by one tonne, I pay $23 (and equally, if I reduce them by one tonne, I save $23), which is more than double the price even a producer in Europe would have to pay if it did the same (and obviously many times more than a producer in Brazil or China would have to pay)". As a result, it is that price at the margin that will affect how much less is produced here as a result of the tax – and therefore determine its economic cost (all of which is being incurred for no likely change in global emissions).

In short, what is relevant to assessing the impact on Australia's competitiveness is the marginal tax rate, not the average tax rate. Even Combet should know that – after all, it's discussed in both the Garnaut report and the Treasury modelling paper. Or maybe he hasn't read them after all.