

## **COMPETITION AND REGULATORY REFORM – POSSIBLE FORWARD REFORM AGENDA**

### **KEY MATTERS**

1. On 10 December 2010, Heads of Treasuries agreed to hold a workshop with the Productivity Commission, back-to-back with the next Heads of Treasuries meeting, to discuss a possible forward reform agenda on competition and regulatory reform.

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Pages 2 to 8 have been redacted under s 22.















## **D. CARBON PRICING**

### **Policy context**

45. In September 2010, the Australian Government established the Multi-Party Climate Change Committee (MPCCC) to explore options for the implementation of a carbon price and to help build community consensus on how Australia will tackle the challenge of climate change. Renewed efforts to establish a carbon price through the MPCCC have the potential to reinvigorate previous COAG efforts to streamline climate change policies.

### **Previous COAG commitments**

46. In December 2007, COAG agreed to develop a coherent and streamlined set of climate change measures across jurisdictions, to complement a national emissions trading scheme. Jurisdictions subsequently reviewed the complementarity of their own mitigation measures. A final summary report, outlining the actions each jurisdiction had taken in response to its own review, was released in March 2010 (the Commonwealth 'Wilkins Review', released in July 2008, was an input to the final summary report).
47. The response to these reviews has been mixed, with many of their key recommendations yet to be implemented across jurisdictions. Similarly, the Commonwealth maintains a number of measures not complementary to a carbon price.

### **Proposed actions and the benefits of reform**

48. In light of efforts through the MPCCC to establish a carbon price, there could be merit in jurisdictions re-examining these previous reviews, with a view to accelerating their implementation as soon as possible once a pathway to a national carbon price is assured.
49. Against the backdrop of the current tight fiscal environment and rising cost of living pressures, such a re-examination should focus on ensuring programs deliver outcomes at the least cost possible, noting that less efficient programs impose costs on the community. The States would expect that such a process would also involve the Commonwealth, to ensure that federal programs found to be non-complementary are also streamlined upon the introduction of a carbon pricing mechanism.
50. Removing poorly targeted and inefficient environmental programs will have the benefit of raising community welfare. This is because it would lower costs on business and remove distortions to market outcomes — which will likely result in lower prices for consumers and increased output and employment.

### **Implications of carbon pricing**

51. A carbon price addresses the negative environmental externality of carbon emissions directly and is the most efficient way to achieve economy-wide emissions reductions. A broad-based carbon pricing mechanism is thus the least cost method of reducing carbon emissions.
52. In the presence of a broad-based carbon price, other policies that are intended to produce abatement will instead only distort the allocation of resources (unless they are well designed to target legitimate non-price market failures). If additional abatement is desired, the most efficient method of achieving this is to alter the carbon pricing mechanism directly. Removing policies that do not complement a carbon price will increase the effectiveness of any national carbon pricing mechanism.

### **Current policies**

53. In the absence of a national carbon price, governments have introduced a number of interim schemes aimed at improving environmental outcomes. However, these generally impose higher costs on the community as they don't target the carbon externality directly.

***Feed-in tariffs***

54. For example, several jurisdictions have introduced some form of a feed-in tariff for the generation of electricity through solar panels. With cost estimates ranging from \$484 - \$1,500 per tonne of CO<sub>2</sub>-e<sup>1</sup>, feed-in tariffs offer some of the most expensive abatement available. Such tariffs can be highly regressive and also lead to significant increases in electricity prices. In addition, they are subject to policy duplication, given the considerable Federal assistance available to small-scale renewable technologies through the Renewable Energy Target. A review of feed-in tariffs based on the move to a national carbon price would help to assess what role, if any, feed-in tariffs should play in future.

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<sup>1</sup> See for example the ACT Government Discussion Paper 'National Capital to Solar Capital: Options for an Expanded ACT Electricity Feed-in Tariff Scheme' and Tasmania Department of Infrastructure, Energy and Resources 'Feed-in Tariffs Discussion Paper'.

Pages 11 to 14 have been redacted under s 22.





