



Citizens' Climate Lobby

Priorities for 2017-18 Budget

Citizens' Climate Lobby exists to create the political will for a liveable world and to empower citizens and governments to work together for fair and effective solutions to climate change.

We are a group of citizen volunteers who advocate for a simple but effective carbon price to address climate change in the most transparent and equitable way possible. We request that you consider our proposed solution in the upcoming budget.

Economic Context

The world economy is sluggish and Australia is struggling to maintain its impressive run of more than two recession-free decades. Revenues are falling and pressures for more spending continue to grow.

Increased costs are being imposed on the economy by drought, bushfire, changes in rainfall, frost and other patterns in our climate. Farmers are having to adapt rapidly to changing conditions. Insurance claims are growing rapidly. Health impacts and the costs of addressing them are also rising due to a changing climate.

The economic levers that past governments have used to maintain a healthy economy and balance the budget appear not to be working and it is increasingly difficult to find much support, let alone consensus for policy measures to keep the economy on track.

And Australia has committed to the Paris Agreement and is working with other countries to keep global warming below 2C and preferably close to 1.5C. This is made difficult due to the belief in some circles that addressing global warming cannot be achieved without slowing or damaging the economy.

Citizens' Climate Lobby advocates for a solution that promises to boost the economy, create many new jobs and increase government revenue while reducing expenditure. We are proposing a relatively simple and conservative measure, Carbon Fee and Dividend.

Carbon Fee and Dividend (CFD)

Fee and Dividend is a simple, transparent and efficient means to reduce carbon emissions, boost economic activity while ensuring that business and consumers/electors are not disadvantaged: -

- A steadily rising fee is placed on the carbon content of fossil fuels at source, i.e. the point where they enter the economy – port, well and mine
- The fee starts low – around \$15-20/ton and gradually increases at about \$10/year
- 100% of net revenue is returned to households as a monthly dividend
- Border adjustments are used to ensure Australian industries are not disadvantaged by trading with countries without a comparable carbon price

Likely consequences of Carbon Fee and Dividend

- The steadily-rising fee gives **certainty to business, industry, investors and consumers** and ensures that all have time to plan and adjust to the rising cost of carbon and shift steadily to carbon-free activities. Consumers, businesses and investors will naturally follow the price signals and choose zero-carbon sources of energy.

- The dividend **generates economic activity** and keeps money circulating in the economy by enabling citizens to pay the temporary increases in costs associated with the carbon fee. Most households (about 66 percent) are estimated in US-based modelling (see REMI Report <http://citizensclimatelobby.org/remi-report/>) to receive as much or more than they pay in increased costs. This protects the most vulnerable households as the most carbon-intensive households are likely to be relatively wealthy.
- The steadily-increasing dividend enables farmers, industry and small businesses to pass on the temporary increases in the cost of energy and keep their market share. Business will have a clear price signal to encourage them to become more **energy efficient** and transition to carbon-free sources of energy. Fossil-fuel industries will have a clear incentive to become renewable energy providers as some are already doing.
- These market forces will drive investment and innovation in clean-energy technology in all sectors of the economy and will create new business opportunities to develop, produce, install and service these products. This will **create many new jobs, stimulate the economy** and in turn **boost government revenues**, shown in modelling of the US economy by the REMI (Regional Economic Modelling Inc) Report <http://citizensclimatelobby.org/remi-report/>. (British Columbia's carbon tax is the closest equivalent to Fee and Dividend and has boosted its economy relative to other Canadian provinces.)
- The border adjustment mechanisms (tariffs on imports from, and rebates on exports to countries without a comparable carbon price) will **ensure our industries are not disadvantaged** and will give other countries an incentive to adopt a carbon price of their own. As more and more countries adopt carbon pricing the task of reducing emissions will be spread more evenly and make international consensus easier to achieve.
- Carbon **emissions will fall steadily**, driven by market forces, with very little intervention or regulation by government. Australia will easily exceed its Paris commitment at reduced cost and with wide electoral support.

Role of Government

The role of the Federal Government will be greatly simplified by the introduction of CFD. It will need to enact the following: -

- legislate the Fee and Dividend system - set the level of the fee and the rate at which it will rise
- empower the ATO to collect the fee and distribute the dividend
- direct DFAT and appropriate agencies to establish border adjustment facilities and calculate carbon price differentials with trading partners
- inform the electorate and industry how the system works, why it is needed and how it will benefit industry, environment and society, both short and long-term

It will be able to step back from: -

- setting renewable energy targets – the Fee and Dividend will drive a rapid transition to renewables and make targets redundant (in States and Territories as well)
- funding the Emissions Reduction Fund – Fee and Dividend will drive down fossil-fuel carbon emissions – we could retain some elements of the ERF to assist with carbon farming and other land-use mitigation strategies
- funding research and development as the carbon price will drive significant private investment in R and D – some funding of pure research or specialist areas of R and D should be retained however

- regulating the electricity industry to reduce its emissions as the price will drive emissions down and incentivise more efficient ways of distributing and storing energy – government will be able to focus on health and safety, efficiency and stability in the industry

Modelling

The Carbon Fee and Dividend has yet to be modelled in the Australian economy so much of the evidence for making this submission comes from the REMI modelling (<http://citizensclimatelobby.org/remi-report/>) of the US economy. Modelling of Fee and Dividend in the Australian economy is highly recommended.

Conclusion

Boosting the Australian economy, increasing revenues, reducing the health and social costs of carbon and meeting Paris commitments will all be greatly facilitated by the adoption of Carbon Fee and Dividend. It is a relatively simple, transparent and efficient way of achieving as smooth as possible a transition to a post-carbon economy. And it is probably the best way to get electoral and consumer support for tackling climate change.

Request

We request that Carbon Fee and Dividend be considered in Treasury's preparation for the 2017-18 Federal Budget.

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