Keeping Emission Credits Revenue Neutral

Shouts of horror are to be expected from the business community immediately any threat of extra costs to business occurs. This is quite natural. Company executives whose own well being depends on their achieving ‘good’ financial results, are focused on maximising profits for their shareholders and consequently trained to drive costs down. Their response is therefore entirely predictable and designed to eliminate, reduce, or at the very least, delay any threatened cost rise. Claims of ruin and the potential destruction of business and the broader economy are usual (and very audible). In the past this doom-laden tactic has worked well whenever business is facing additional costs that are in some way seen to be attributable to government action or inaction.

However, economic incentives both pro and con have worked well, historically, to encourage the business community to act in community desirable ways. There is every reason to suppose they will work equally well to encourage business to reduce its greenhouse gas emissions. The proposals will, of course, be stoutly resisted, this is to be expected. Neutralising the opposition therefore presents a challenge.

But not all business will be equally affected, and securing the support of the majority of the business community for a minor cost increase in return for a cost reduction may well be possible. Add to that, the public image benefits of supporting an environmental issue that already commands almost universal public support, and it could present an attractive proposition.

Market priced emission permits are one of the discussed mechanisms for greenhouse gas (GHG) reduction. What is capable of balancing out the cost of acquiring these permits? The answer is there is one option that is tricky but potentially attractive to business and that is – corporate tax reduction.

The corporate tax rate has been reducing steadily in recent years from 45% in the 80’s to 30% today. This is not because of any desire on the part of any government to reduce it, but because of a need to maintain parity with other countries. Today’s rate, while it was attractive when introduced, is far less so now. Continuing reductions in other countries has seen its position again fall below average and it is suggested that it will soon have to be reduced once more to stay with the trend. The tax level is not too far below the average but there is a feeling in the business community that is becoming increasingly apparent that ‘it is about time something was done’. So the opportunity exists for a “dollar spent dollar received” approach to be taken. This is particularly so in this case where the dollar spent can become a dollar saved (at least in part) by the taking of appropriate action to reduce GHG emissions and thereby avoiding having to purchase at least some emission permits.

Revenue neutrality is as attractive to business as it is to governments. So a trade-off may well be an offer that softens some (but not all) business opposition to priced emission permits as a means of GHG emission control. This is particularly so for those businesses that see commercial prospects in the energy we use, that the market will promote.

Is it supportable? Broadly the numbers suggest it is. The “permit” numbers may be related to an emission target of somewhere around 400 million units. Assuming 400 million anyway, such units priced at $US 10 potentially represent a revenue stream of approximately $A 5.2 billion, which, do doubt, business has already calculated and which is the reason why business is concerned.

Corporate tax collection is budgeted at $A 39 billion and cutting the rate to 26% would therefore reduce the take by $A 5.2 billion. So, <u>roughly speaking</u> every 100 emission permits at $ US 10 is equal to a 1% reduction in the corporate tax rate.

Since this tax reduction is already on the agenda because of continuing international reductions, the option outlined could well prove to be a successful coupe for government. It would present well to the overwhelming majority of business as revenue neutral emission management while still providing the economic incentive necessary to achieve reductions. At the same time it would be hailed as the “right” environmental decision to take.

Of course there are other taxes, cost and charges that <u>could</u> be reduced or even totally dispensed with in achieving revenue neutrality in respect of GHG emission control. Some of these might well be considered at a later time and/or in conjunction with the states all of whom seem determined to retain a range of charges and imposts that might well have been removed with the imposition of the GST. Nevertheless, it seems on the basis of our research that the above proposal is appropriately targeted to achieve the overall win-win result that would be to the best advantage of all parties.

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