WHAT US LAWMAKERS CAN LEARN FROM AUSTRALIA'S CARBON TAX

In the summer of 2009, U.S. and Australian climate politics had a similar look and feel. The lower houses of legislature in each country had passed climate bills and were waiting on their respective senates to act. While the U.S. House's wide-ranging cap-and-trade bill didn't stand much of a chance in the Senate, many believed at the time that conservatives in the Australian Senate were on the verge of giving the go-ahead to an equally ambitious plan. But after a leadership challenge in the opposition Liberal Party, conservatives reversed their official position on the climate plan, putting the country back on par with what was happening in Washington.

After twice failing on votes in the Senate, in 2010, Prime Minister Rudd ultimately backed away from the Carbon Pollution Reduction Scheme, an issue that was a core component of the Labor Party policy agenda. Many cite the move as leading to his demise as prime minister.

Two years later, a climate bill is again on the table in Australia after Prime Minister Julia Gillard Sunday outlined a plan to reduce the country's annual carbon emissions by 159 million tons 2020. "We are moving from the days of words to deeds," Gillard said, in a subtle reference to her former boss Kevin Rudd's failure to stick with the carbon reduction scheme in 2010.

As prime ministers go in Australia, Gillard is not exactly popular. To be precise, she is the most unpopular prime minister in 13 years. But Gillard and her Labor Party colleagues learned a few lessons the last time they pushed a climate bill and now are bringing forward a cautious yet ambitious plan emphasizing the qualities of *simplicity*, *certainty* and *viability*. And while the Obama administration has no intention of moving on a broad climate plan any time soon, U.S. lawmakers who hope to revisit the climate issue one day—along with state legislators—might consider taking a page from their Australian colleagues' playbooks.

Climate politics: Lessons in simplicity, certainty and viability

The nearly fifteen hundred-page American Clean Energy and Security Act of 2009, better known as the Waxman-Markey cap-and-trade bill, was anything but simple.

Economists love the idea of **simplicity** in taxation because it can have a more direct impact on behavior. Want people to smoke less? Tax cigarettes. Want companies to emit less carbon? Tax carbon. But too many taxes and too confusing a code can muck up a well-intentioned bill. Although it is officially being referred to as a fixed-price carbon trading scheme, for the first three years of the plan, the Australian plan will operate basically like a simple carbon tax. Under the plan, starting in 2012, facilities generating 25,000 tons of carbon dioxide equivalent per year, provided they are not in the excluded agricultural or forestry sectors, will pay a fixed price of roughly $25 per ton of carbon emitted. Simple.

And what carbon taxes have been lauded for by liberals and libertarians alike is their financial **certainty**. Businesses like knowing how much taxes are going to be and what regulations they must follow so they can plan and budget for the future. Talk to any industry likely to be hit hard by climate legislation in the U.S., the one thing they all clamor for is certainty. The fixed price will rise 2.5 percent over the two following years before switching to a market-based pricing system in 2015. Companies will still be able to trade pollution permits in the first phase of the program, but the real trading and market opportunities won't really take root until the government releases control of the carbon price. The fixed price at the outset of the Australian plan provides the kind of financial certainty that business interests are always asking for.

Putting all your eggs into a market basket with a free-floating price from the outset can be dangerous. Just ask the Europeans, or Matt Taibbi.

Recognizing that they have no chance of passing a bill in Australia without helping the constituencies likely to be hit hardest by it, the Labor Party made several changes to the plan to boost its political **viability**. First of all, it made the plan smaller. Some 500 companies are estimated to fall under the Gillard carbon reduction plan, roughly half the number of companies that would have been covered by the even more ambitious Rudd plan.

And what did Labor do to deal with the powerful agricultural interests that certainly killed the bill last time in the Australian Senate? It exempted agriculture from the new plan. And to score some support from the general public, more than half of the revenue raised by the scheme will be returned to lower and middle income Australians via tax credits and direct payments as a buffer against rising cost of energy and other commodities. Another $9 billion in funds will also be directed to help heavy polluting steel and aluminum industries and help the country's booming liquified natural gas industry adjust to the price increases. The danger, of course, is that sweetening the bill with so much viability can make it ineffective as policy. It can also backfire and turn off the very constituencies who supported the bill in the first place.

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