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NSW Treasury and Economic Society of NSW,
Distinguished Speaker Event, 52 Martin Place, Sydney, 27 August, 2025
27 August 2025

Now is the time for a price on carbon

Thank you for the invitation to speak today.

Why am I talking about a price on carbon? Do I not know that this and other potential governments will never implement a price on carbon? Let's put our emission reduction efforts elsewhere where we can make progress.

This is defeatist and damaging thinking.

We all know a carbon price is first best policy but that statement gets us nowhere.

The following arguments are why a carbon price is necessary and urgent. First, our current policies will not allow us to meet our climate targets and obligations unless further piecemeal, contentious and hideously costly steps are taken along these same paths. Second, current and likely future similar policies will damage our productivity. Third, policies without a carbon price provide no funds to compensate households for the cost of these policies. Fourth, current and likely future policies damage rather than contribute to necessary budget repair.

How many times have we heard companies say they would like to make or use more green products, but they cannot as they are more expensive?

Well of course they are. Green and black products compete without any allowance for the damage done to the environment from the use of fossil fuels. If green products were already competitive with black products there would be no need to encourage a transition; it would simply happen.

Some criticise companies which make such statements, but they should not. The fault lies with government. If a government proclaims that the use of fossil fuels damages the environment but then does not recognise this in the way advocated by economists for over 100 years, via carbon pricing, you cannot blame companies for not taking action that would harm their economic interests.

I will argue today as follows.

1. A carbon price would replace an array of current defective policies
2. The 2012–2014 carbon price clearly worked, but the political implications are contested.
3. We need to push for an easy to communicate carbon pricing approach, which clearly compensates all but the largest users of electricity
4. Carbon pricing best meets the Treasurer's three areas of focus at the recent Economic Roundtable
5. There is already significant carbon pricing in the world, and support is growing.

1. A carbon price would replace an array of current defective policies

Let's just focus on the two main carbon reduction policies being relied on now.

With the phasing out of the Renewable Energy Target there is no commercial incentive to invest in renewable energy. Indeed, when the wind blows and the sun shines prices are extremely low. In contrast, average wholesale prices for coal and gas-fired power are at historically high levels and much higher in real terms than when we had carbon pricing.

In response the Government introduced the expanded Capacity Investment Scheme (CIS) which, in essence, sees the Government largely underwrite the commercial viability of renewable generation and storage projects. From an array of applications, the Government selects the projects it prefers and so is deciding which projects proceed and where.

An area of the economy that should see the market deciding whether and where to invest, and in what, to achieve lowest cost and reliability against a carbon price that ensures lower emissions, sees decisions taken by government.

We rely on markets where there are competitive markets for a reason. Numerous players with the correct incentives will see only the best solutions succeed. Government decision making can never match this.

But what is worse, however, it seems that the CIS underwriting may not be sufficient for the investment required given that under the CIS projects still have some market exposure.

Project delays that see higher electricity costs and any reliability problems then lie with government, which brings huge potential political costs. Those rejecting a carbon price need to weigh these costs when rejecting the idea of a carbon price for political reasons.

Then we have the Safeguard Mechanism which requires continuing emission reduction from often arbitrary baselines for many carbon intensive sectors, but only covers around 30% of emissions. The Mechanism requires a fixed level of emission reduction from covered facilities each year with inadequate recognition of different capacities to reduce emissions, as would be facilitated better by a carbon price.

Further, many companies resort to buying carbon credits rather than actually reduce emissions in their own operations. There is a legitimate role for offsetting carbon emissions with credits from rigorously measured and accounted negative emissions from sequestration in soils, plants and geological structures. We have, however, more work to do on measurement and accounting. And when we have that right, we cannot allow arbitrary limits on the price of offsets below the social cost of carbon to provide a way out of obligations, as currently occurs under the Safeguard Mechanism.

There are other specific policies in place to reduce emissions, many of which have been found by the Productivity Commission to be extremely high cost per emission reduction. For example, exemptions from Fringe Benefit Tax and Luxury Vehicles import tax for electric vehicles on novated leases. The Productivity Commission estimates that the implied ("indirect") price of carbon abatement from the policy is between \$1000 and \$20,000/tonne.

Many mechanisms reduce emissions at unnecessarily high economic costs. And they are a drag on public budgets at a time when our budgets are under stress. Carbon pricing reduces emissions at lower cost while contributing positively to budget sustainability.

There is another point to make here. Current policies raise costs for consumers but do not raise any money from which to compensate them.

2. The 2012–2014 carbon price clearly worked, but the political implications are contested.

The carbon price Australia had from 1 July 2012 and 30 June 2014 clearly achieved its objectives. During the period of its existence I sat in on meetings with electricity generators. They were focussed on a range of creative ways to reduce emissions, starting with ways to reduce emissions from existing coal and gas plants to the eventual need to transition from that plant. When the carbon price was removed they were pleased that the costs they were to incur to reduce emissions would no longer be needed. No carbon price, no need to act.

The research into this period found results that were not surprising. ANU research, focusing on the National Electricity Market (NEM), found that electricity demand in the NEM declined by 3.8 per cent, the emissions intensity of electricity supply by 4.6 per cent, and overall emissions by 8.2 per cent, compared to the two-year period before the carbon price. (CCEP Working Paper 1411 17 July 2014, Marianna O’Gorman and Frank Jotzo, Centre for Climate Economics and Policy, Crawford School of Public Policy).

Markets worked to systematically encourage lower-emissions over higher-emissions sources of power. Black coal power expanded relative to brown coal. Gas power expanded relative to coal. Renewables expanded relative to gas.

The political implications are, however, contested. Some of today’s leading ALP politicians conclude that introducing a carbon price is political death.

Others argue that rotating Prime Ministers Rudd/Gillard/Rudd, plus other missteps, were the key reason the ALP lost the 2014 election.

Ross Garnaut, in his Dog Days book (pp254–5), points out that exit polls at the 2013 election found only 3% of Coalition voters thought “scrapping the carbon tax was the most important issue that the Coalition had put to voters”.

I think we need to judge the politics of today, not as they were or perceived to be in 2014. Further, the Government’s current climate policies without a carbon price create significant political risks, as just described.

It is interesting to observe that those opposed to carbon pricing are companies and/or people who would normally support market-based solutions. The reality is, however, that those opposed to carbon pricing very likely reject the science behind support for climate action and oppose all measures to reduce emissions. That is, the political debate on carbon pricing is between those who support it and those who oppose any action to reduce emissions.

Not using the most efficient mechanism to reduce emissions because there will be opposition from those who oppose all action to reduce emissions is counterproductive. Those wanting climate action have been forced to fight on weaker ground defending inefficient measures.

3. We need to push for an easy to communicate carbon pricing approach, which clearly compensates all but the largest users of electricity

In February 2024, at the National Press Club, Ross Garnaut and I suggested the introduction of a Carbon Solutions Levy (CSL). It was to be levied only on 108 sites of fossil fuel production, such as gas and coal, and on petroleum imports, at the rate of the European Union's carbon price. It was also to be levied on the emissions from these products no matter where they were released, including destination countries for exports, albeit the levy would not be applied if the receiving country had its own carbon price or equivalent.

It was, therefore, easy to understand, and clearly targeting fossil fuels.

Putting a levy on the overseas emissions of exported products, with allowance for local carbon prices or the equivalent, was controversial, albeit it addressed a clear issue for government.

In particular, our proposal responded to constant calls for the government to consider the implications for climate change when approving new coal and gas projects. But how to do this?

Our proposal would see the carbon emissions of new projects paying the European carbon price on all their emissions, and so paying for the damage to the environment that their projects would cause. If they still decided to proceed then they were paying their way; if not, then the project should not proceed.

Carbon pricing addresses another much discussed issue. Many seek an end to the Fuel Tax Credit which sees mining and agriculture not pay excise on the diesel they consume in their mines and on their farms. But the logic for not paying the excise is compelling; the excise is effectively calculated as a road user charge and mining and agriculture are using diesel off-road.

I think the real debate is about carbon pricing. Those seeking mining and agriculture to pay the excise for non-road use are really seeking payment for the use of a fossil fuel. Indeed, Fortescue, which is seeking green alternatives to diesel in their mining operations at a higher cost, understandably complains that their mining competitors are still using diesel without any recognition of damage to the environment.

The proposal Ross Garnaut and I outlined in our National Press Club address would see a carbon price on fuel which is lower than the current fuel excise which would be abolished, plus a road user charge on all vehicles. Electric vehicles would pay the road user charge; internal combustion engine cars would pay the road user charge plus the carbon price; and off road users would pay only the carbon price which would be much lower than the current fuel excise.

As already explained, the current array of emissions reduction initiatives to reach our domestic targets raise many issues around their cost, effectiveness and efficiency. Australia has seen significant emission reductions from reduced land clearing, some reduction in emissions from electricity generation largely driven by the Renewable Energy Target incentives, which are now being run down, and often increases in emissions from other sectors.

We need to up the pace of emission reduction by 25% from where we are now to meet our 2030 target, and much more than this if we are to meet the required stronger targets in the years ahead.

If the Carbon Solutions Levy was only to be applied to domestic emissions at the European carbon price it would raise around \$20 billion per annum, more than enough to generously compensate households for higher electricity, gas, petrol and diesel prices. Indeed, there may be merit in full compensation followed by an undertaking that, say, any electricity generation price rises after that would not flow on to households.

There would be money left over for budget repair or to pay the cost of supporting the industries of the future where Australia has a comparative advantage in producing energy intensive green exports due to our world's best solar, wind and biomass resources. Without a world carbon price such exports are not price competitive with fossil fuels and so require initial financial support from government.

I say "initial", because either the world will take climate change seriously as the EU is doing and introduce a carbon price, or we will not see green iron, transport fuels and chemicals, products that are at the heart of our economies.

It makes sense for our fossil fuel projects, which are damaging the environment, to help fund this initial support until carbon pricing becomes widespread. Indeed, only a minor impost on the overseas emissions of our fossil fuel production would be required to support this.

4. Carbon pricing best meets the Treasurer's three areas of focus at the recent Economic Roundtable

It is difficult, perhaps impossible, to think of a policy that better addresses the three objectives of the Treasurer's recent Economic Roundtable than the introduction of a carbon price into the Australian economy.

A carbon price would significantly improve productivity by replacing ad hoc energy transition measures with what all economists agree is a much more efficient and market-driven means of reducing Australian emissions.

It would build economic resilience by better positioning Australia to embrace its comparative advantage in producing transport fuel, fertiliser, polysilicon and other products in Australia.

And a carbon price is likely the most efficient measure Australia can take to contribute to budget repair and allow broader reform of Australia's tax system.

5. Support is growing for carbon pricing.

As of 2025, we now have 80 carbon pricing instruments operating worldwide, representing a considerable expansion from just a handful two decades ago. These systems now cover approximately 28% of global greenhouse gas emissions, operating across jurisdictions that represent nearly two-thirds of global economic output.

We are seeing significant momentum among China and major emerging economies, with Brazil, India, Chile, Colombia, and Turkey all making progress in implementing their own carbon pricing systems.

Looking ahead, the next few years will see several major expansions that could significantly increase global coverage. The EU's Carbon Border Adjustment Mechanism will begin requiring payments in 2026, phasing up to full European carbon pricing in the early 2030s. This will create ripple effects as other countries implement similar policies to maintain competitiveness into the European market. The aviation sector is implementing its global CORSIA system, while the International Maritime Organization plans to launch shipping-specific carbon pricing by 2027.

Of course, the move to international carbon prices has a long way to go. For example, only a small percentage of global emissions are covered by carbon prices high enough to meet the Paris Agreement's temperature targets.

But nonetheless the world is moving on carbon pricing.

The logic for carbon pricing is clear, as everyone in this room knows. Yes there will be a political backlash from the introduction of a carbon price, but only from those who are already heavily criticising the Government for all of its many climate policies.

Let's put a price on carbon in Australia so effective climate action can be taken, so our targets can be met, and so we can more than fully compensate households for the price effects.

And all of this while strengthening rather than weakening our public budgets at a time when they are under stress.

Thank you for your time today.

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About the Superpower Institute

The Superpower Institute's purpose is to help Australia seize the immense economic opportunities of the post-carbon world. With unparalleled renewable energy resources and our 'clever country' scientific and engineering capabilities, Australia is perfectly positioned to be a green export superpower in the world of net zero emissions.

The Institute specialises in the policy settings and market incentives needed to make Australia an economic superpower and provides practical knowledge to governments and industry to realise this opportunity.

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