The Case for Pricing Pollution

Reducing emissions, strengthening the economy, and delivering a fair share for Australians

REPORT FACT SHEET

Australia's current policy mix is falling short on both climate and the economy.

We are not on track to meet our emissions reductions targets or net zero by 2050. Emissions are falling slowly and at high cost. Outside the land-use sector, emissions have barely decreased since 2005, while transport, industry and stationary energy emissions have risen.

Australia's public finances are weighed down by sustained structural deficits. And stagnant productivity is a threat to long-term prosperity, with productivity growth below a quarter of Australia's 60-year average.

The Case for a Price on Pollution sets out a way forward that would deliver faster emissions reductions and economic renewal – a package that is fair, efficient and politically durable. It puts two ideas at the centre:

Polluter Pays Levy

Making polluters pay for climate damage

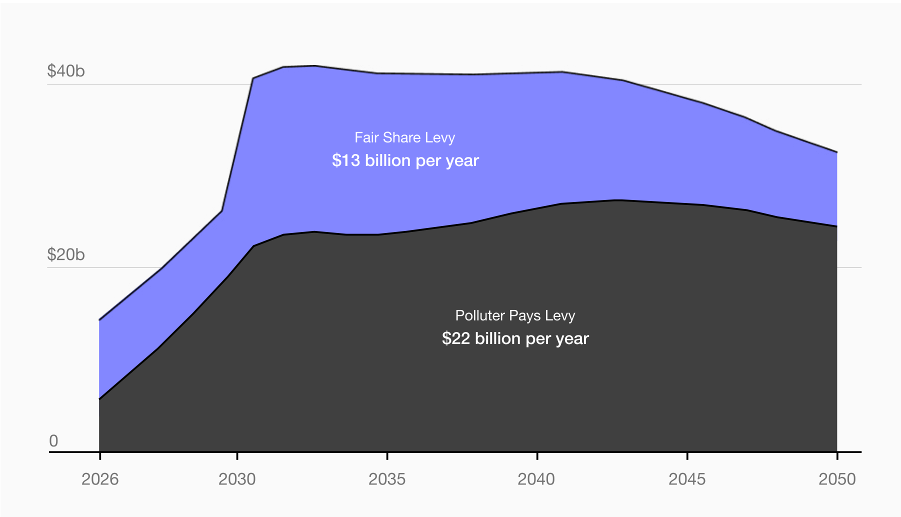
A simple 'polluter pays' mechanism that charges companies for the carbon pollution associated with fossil fuels extracted or imported for use in Australia, with a generous proportion of revenue returned to households and small businesses.

Fair Share Levy

Getting a fair share of Australia's gas resources

A Norway-style levy on the very large profits earned from Australia's gas resources, largely from exports, ensuring Australians receive a fair return – without affecting investment, jobs, or gas prices.

Taken together, **the two levies raise an average of $35.6 billion each year to 2050**, enough to fully compensate households for higher energy costs, strengthen the budget, and fund the public investments that underpin Australia's future export industries and long-term productivity.



Policy proposal 1

Polluter Pays Levy

Making polluters pay for climate damage

▶ **WATCH**
3-minute explainer
by Ingrid Burfurd

Mechanism

A levy on the carbon content of fossil fuels, charged at the point of extraction or import.

Coverage

The PPL **covers ~80% of emissions** by targeting just ~140 Australian sites (fewer than 60 companies), plus imports.

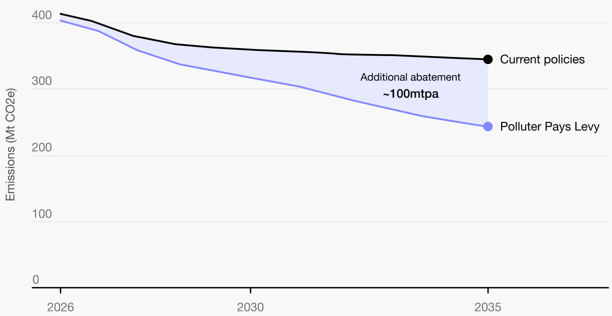
Impact

Cuts pollution faster – reaching around **100 million tonnes of additional annual abatement** in 2036, compared with current policies

Increases efficiency by simplifying a patchwork of inefficient schemes

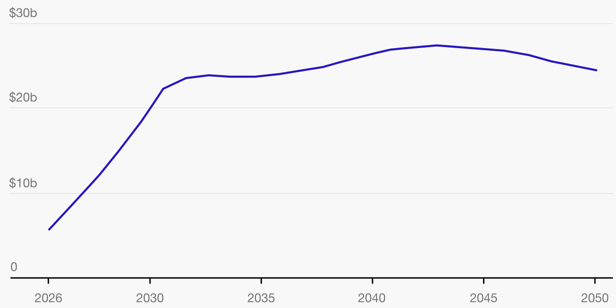
Raises substantial public revenue

A PPL achieves deeper emissions reductions than current policies



Revenue

A PPL raises an average of $22.6 billion per year (2026–2050)

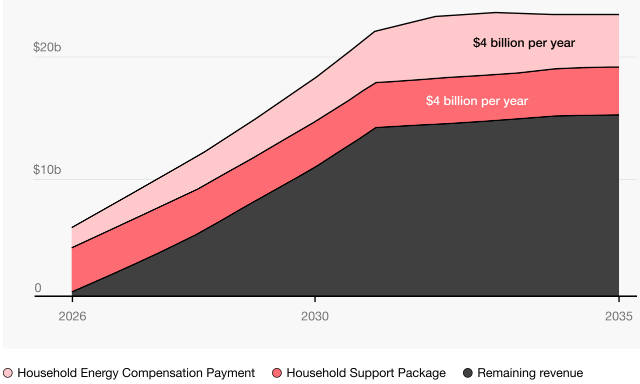


Compensation

~50% of revenue to be returned to the public in the first 10 years, including:

- **Household Energy Compensation Payment (average $4.1bn/year):** A universal quarterly payment to all households designed to fully cover conservative estimates of energy bill increases. Payments will average $330 per year through to 2050.
- **Household Support Package ($4bn/year):** Targeted funding for the first decade to assist those most exposed to general price pressures, including low-income earners and the ~60% of households facing barriers to electrification (such as renters). Payments would range from $490 to $1,300 per year depending on targeting.
- **Small Business Energy Compensation Payment ($325m/year):** Extends current energy bill relief with a $325 annual payment to roughly 1 million small businesses. Value to be reviewed after 5 years.

About half of PPL revenue should be returned to the public in the first decade



Polluter Pays Levy

Support for 'polluter pays' policies

Rio Tinto

"Carbon pricing is the most effective incentive for business to reduce emissions."

– Rio Tinto, Climate Position and Advocacy.

Productivity Comission

"A single national carbon price would be the most efficient and lowest cost way to reduce emissions – particularly if it had bipartisan support to ensure its longevity."

– Danielle Wood, Productivity Commission Chair, in *Growth Mindset: How to Fix Our Productivity Problem* (National Press Club address)

Grattan Institute

"… there is a strong imperative to find a way to pay for the damage wrought by the physical consequences of climate change. Since the 2019-20 bushfires, natural disasters have cost the federal government alone $13.6 billion. There is a high cost to adapting to climate change – and an even higher cost of failing to adapt, and neither are captured in the forward spending estimates right now. If not a carbon tax that raises revenue, or a greater share of the tremendous profits being made now on fossil fuels, how will we pay this mounting bill?"

– Aruna Sathanapally, CEO, Grattan Institute, *"A Better Tax System"*

Public opinion

Redbridge Community Sentiment Study

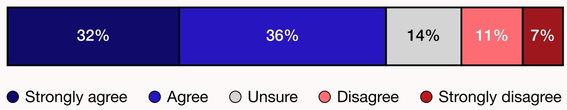
In October 2025, The Superpower Institute commissioned independent national research by Redbridge Group to understand how Australians think about pricing pollution. The study explored voter attitudes to fairness, responsibility, and cost-of-living impacts, and tested public support for different levy designs and framings.

When presented with the statement that

"The Australian Government should introduce a Pollution Levy on the country's 100 biggest polluting companies, which collectively account for around 80 per cent of Australia's emissions,"

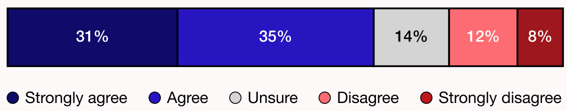
68 per cent of all voters agree or strongly agree.

All Voters



Support remains high among regional voters in NSW, Victoria and Queensland, where **66 per cent agree or strongly agree**, demonstrating that backing for a polluter pays mechanism extends well beyond metropolitan areas.

Regional, NSW, VIC and QLD



Read a summary of the study findings

Polluter Pays Levy

FAQ

What is the PPL?

The Polluter Pays Levy is a levy on carbon pollution from fossil fuels extracted or imported for use in Australia. It applies where fossil fuels are produced or imported, rather than at the point of consumption.

Who will pay the PPL?

The levy applies to around 140 coal, oil and gas extraction sites, operated by fewer than 60 companies, as well as importers of oil, petrol and diesel.

Won't costs simply be passed to consumers?

In all likelihood, companies that will have to pay for the pollution they cause will pass on some of the levy costs to consumers. But a key recommendation of implementing the PPL is that approximately 50% of the revenue be returned to households in the first 10 years. This would not only cover any increased electricity costs that are passed on, but also provide additional support to low income households. So most Australian households will be significantly better off from the imposition of the PPL.

How much of Australia's emissions does the PPL cover?

The PPL would cover more than 80% of Australia's emissions, including emissions from electricity, transport, stationary energy and fugitive emissions from extraction. This is significantly broader than the Safeguard Mechanism, which currently covers around 30%.

How much pollution does the PPL reduce?

Modelling shows the PPL would deliver deeper emissions reductions over time, reaching around 100 million tonnes of additional annual abatement in 2036, compared with current policies.

How much is the Polluter Pays Levy?

The levy is modelled to start at $17 per tonne of CO_2-equivalent in 2026, rising gradually until it reaches the level of the EU carbon price from 2034.

How much revenue does the Polluter Pays Levy raise?

The PPL generates an average of $22.6 billion per year, beginning at around $6 billion and peaking at $27 billion in the early 2040s, before declining as further price increases are more than offset by the falling quantity of emissions.

How are households compensated?

The PPL is explicitly designed so that households are more than compensated for higher energy and fuel costs. Indeed, most Australian households will be significantly better off from the imposition of the PPL.

We propose returning a portion of PPL revenue to households through:

- **Household Energy Compensation Payment:** A direct payment to cover conservative estimates of higher household energy bills during the transition. Totalling ~$4.1 billion per year on average from 2026-2050, equivalent to around $330 per household per year, peaking at $500 per household in 2033, when exposure to energy price increases is highest.
- **Household Support Package:** A support package targeting all but the wealthiest households. Totalling an average of $4 billion each year for the first decade of the PPL, with the value reviewed in 2030.

How are small businesses protected from higher energy costs?

We propose extending energy bill support for small businesses using PPL revenue, consistent with the Energy Bill Relief Fund (EBRF). Totalling $325 per year per eligible small business (approx. one million businesses)

Does compensation reduce the effectiveness of the Polluter Pays Levy?

No, pricing pollution changes relative prices and incentives across the economy, encouraging cleaner choices over time. Compensation ensures households and small businesses are protected without weakening the emissions signal.

What happens to the remaining revenue?

After household compensation, the Polluter Pays Levy still raises an average of nearly $18.5 billion per year to 2050. This revenue can be used to: extend the Small Business Energy Compensation Payment ($325m/year), introduce TSI's proposed Household Support Package, strengthen the federal budget, fund tax reform and essential services such as health, housing and education, and support investment in clean industries.

Is this just a "carbon tax"?

The Polluter Pays Levy is a price on pollution, but it differs from past approaches by targeting the source of fossil fuels, at the point of extraction and import, which is much simpler as only around 60 Australian companies, plus importers, will need to pay the levy.

Why a PPL and not a conventional carbon tax or emissions trading scheme?

The PPL has two main advantages:

1. **Simplicity:** The PPL is levied on a small number of upstream polluting businesses – around 60 fossil fuel producers, plus importers. This limits administrative and compliance costs, while still delivering economy-wide coverage.
2. **Transparency:** The PPL applies a per tonne charge to pollution without company-specific arrangements, such as free permit arrangements, which can accompany an ETS. This makes the tax base and payers clear to the public.

Why not use existing policies such as the Safeguard Mechanism?

The Safeguard Mechanism covers a much smaller share of emissions, would become increasingly complex if it was expanded, and does not raise revenue that can be returned to households or support public priorities.

The Government could introduce the PPL now, or use the upcoming Safeguard Mechanism Review as an opportunity to transition from the Safeguard Mechanism to the PPL.

The public has said it doesn't want a carbon tax? Why suggest this?

On the contrary, the public supports putting a price on pollution. Independent research commissioned by The Superpower Institute and conducted by Redbridge Group found that 68% of Australians agree or strongly agree with introducing a polluter levy on Australia's biggest emitters of greenhouse gases, with only 18% opposed.

Policy proposal 2

Fair Share Levy

Getting a fair share of Australia's gas resources

▶ WATCH
2-minute explainer
by Reuben Finighan

Mechanism

A Norway-style levy on the large profits earned from Australia's gas resources.

Coverage

A small number of highly profitable gas producers and exporters. Because the gas industry's profits are overwhelmingly exported to foreign shareholders, the tax burden of the FSL is primarily borne offshore rather than by Australian businesses.

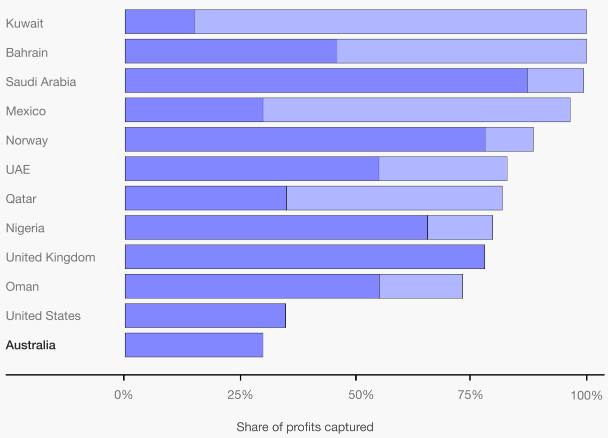
Impact

Brings Australia into line with international best practice for taxing fossil fuel profits

Raises substantial public revenue without affecting future investment incentives, jobs, or increasing gas prices

Fixes the failure of the PRRT, which has been poorly suited to LNG and failed to capture expected revenues. These faults are widely recognised.

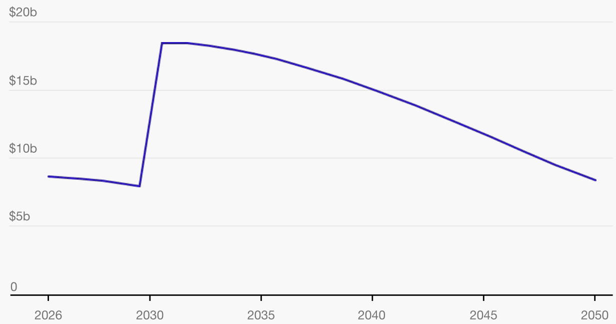
Australia captures a small share of fossil fuel revenues



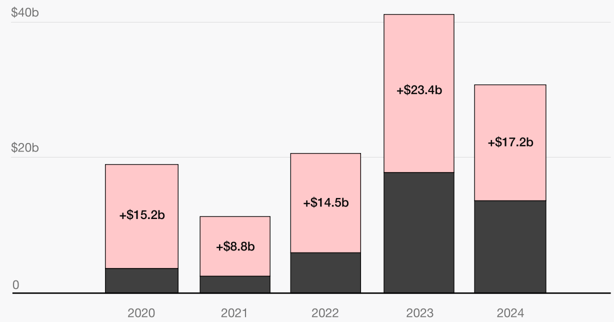
● Tax rate ● Including state ownership

Revenue

An FSL raises an average of $13 billion per year (2026–2050)



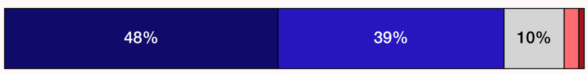
An FSL would have raised nearly $80 billion between 2020 and 2024



● Estimated government revenue ● Fair Share Levy

Public opinion

A survey of 3,003 voters conducted by Redbridge Group found that **87% of Australians agree or strongly agree that Australia should receive a better return from the sale of gas exports**, with only 3% disagreeing.



● Strongly agree ● Agree ● Unsure ● Disagree ● Strongly disagree

Fair Share Levy

FAQ

What is the FSL?

The Fair Share Levy is a levy on large profits earned from the extraction and sale of Australia's gas resources. It is designed to ensure Australians receive a fair return from publicly owned gas, consistent with international best practice.

Who will pay the FSL?

The levy applies to a small number of highly profitable gas producers and exporters operating in Australia. It targets profits, not production, and applies only once companies have recovered their costs.

Is this a cash flow tax?

Yes, the FSL is a cashflow tax, based on profits or losses within each tax year. This means that a company's losses in previous years aren't carried forward and uplifted through time to create 'tax shields.'

How much is the levy?

TSI has modelled a Fair Share Levy of 40%, which would bring Australia's effective tax rate on gas up from 30% in recent years to around 58%. This would lift Australia's overall tax take on gas closer to the lower end of international norms.

How much revenue does the Fair Share Levy raise?

The Fair Share Levy would raise around $13 billion per year on average between 2026 and 2050.

How is the FSL different to current taxes on resource rents?

Resource taxes include royalties, largely levied by states. Offshore oil and gas companies pay the federal government's Petroleum Resource Rent Tax (PRRT). Together with corporate taxes, our estimates suggest existing taxes have collected only 30 per cent of gas companies' profits over the last four years compared to 75-90% in most other jurisdictions.

Unlike other taxes, the FSL doesn't affect the rate of return on future investments or shape production decisions. This is because it is a 'two way' tax on cashflows: the government simply taxes a fixed share of profits or losses each year, from the point of implementation. Losses typically occur during the investment phase of a project, but these projects are very profitable through time. The FSL effectively collects a share of overall profits for the public.

Will this affect domestic gas supply or increase gas prices?

No. The Fair Share Levy is economically neutral. Because it is a tax on net cashflow the returns on investment for new projects are unchanged. It does not increase the cost of supplying gas to the domestic market and does not put upward pressure on gas prices.

Won't companies produce less gas because of this or say that Australia isn't a good place to invest?

That's what the gas companies will say, but that is purely rhetoric. Norway uses the same design, with a higher effective rate of 78%, and studies show that this design has no impact on investment or supply. Australia has an effective rate of tax well below half of the international norm, so Australians don't get the same benefits as people in other resource rich countries. Gas companies have a duty to their shareholders, but they do not represent Australians' best interests when opposing this policy.

How many jobs does Australia's gas industry employ?

The gas industry employs around 30,000 people in Australia or about 0.2% of the workforce. This includes the jobs related to gas extraction and LNG processing.

This is about the same size as the film, television and video production sector, the pharmaceutical manufacturing sector or the commercial fishing and aquaculture sector.

It is around 75 times smaller than the health and social assistance care sector (2.3 million jobs), or about 45 times smaller than the construction sector (1.3 million) or the retail trade sector (1.3 million).

Will the FSL result in less investment and fewer jobs in the gas industry?

No. As a cashflow-based levy, the Fair Share Levy does not discourage new investment or reduce employment. Projects that are commercially viable before tax remain viable after the levy is applied. If gas companies say sharing their profits will deter investment in profitable projects, they are effectively contradicting overseas experience.

How does the FSL compare internationally?

Countries such as Norway and the United Kingdom have combined corporate and cashflow tax rates of nearly 80 per cent By contrast, we estimate Australia has captured only around 30 per cent of profits from fossil fuel companies in recent years.

Will the FSL affect Australia's trading relationships?

The Fair Share Levy is specifically designed to avoid the trade and geopolitical risks associated with taxing fossil fuel exports. Because it taxes economic rents, which are profits above normal levels, rather than output, it does not raise export prices or encourage trading partners to switch from Australian gas to other suppliers.

Is there public support for a Fair Share Levy on gas profits?

Yes. National research by Redbridge Group found overwhelming public support for ensuring Australians receive a fair return from fossil fuel exports. 87% per cent of voters agree or strongly agree that Australians deserve a better return from the sale of our gas exports, with just 3% disagreeing.

Reuben Finighan
Research Lead, Economic Pathways, TSI

Reuben holds a PhD in Political Economy from the London School of Economics and a Masters of Public Policy from the Harvard Kennedy School, as a Fulbright, Frank Knox, John Monash, and Leverhulme scholar. He has co-authored papers with Harvard Professor Robert Putnam, Ross Garnaut AC, and Lord Nicholas Stern, and previously worked at the University of Melbourne in applied economics and as Chief Economist for the Universal Commons.

Ingrid Burfurd
Carbon Pricing and Policy Lead, TSI

Dr Ingrid Burfurd has worked as a Senior Economist in the Victorian Public Service, a Senior Expert Advisor on UNFCCC review of the Clean Development Mechanism, a postdoc at University of Melbourne, a lecturer at RMIT University, and as a Senior Associate at Grattan Institute. Her research is focussed on the economic foundations of policy – identifying market failures and the policies to correct them.

About The Superpower Institute

Founded in 2023 by economist Ross Garnaut and public policy expert Rod Sims, The Superpower Institute is a not-for-profit organisation dedicated to helping Australia seize the extraordinary economic opportunities of the post-carbon world.

The Institute's focus is on developing the policy settings, market incentives and practical knowledge necessary for Australia to become a major exporter of renewable energy and green industrial products. By leveraging the nation's comparative advantage, the Institute aims to elevate Australia's economic and climate ambition and secure its place as a leader in a decarbonised global economy

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For further information

This summary of *The Case for Pricing Pollution* sets out the case for pricing carbon pollution and securing a fair public return from Australia's gas resources.

The full report provides detailed economic modelling, policy design, and analysis of how a Polluter Pays Levy and Fair Share Levy can cut emissions, protect households, and strengthen Australia's economy for the benefit of all Australians.

superpowerinstitute.com.au/work/the-case-for-pricing-pollution