The Superpower Institute

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Economic Reform Roundtable

Submission to roundtable process

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Summary

It is difficult, perhaps impossible, to think of a policy that better addresses the three objectives of the Roundtable than the introduction of a carbon price into the Australian economy. It 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, polysilicon and other products in Australia. And it is likely the most efficient measure Australia could take to contribute to budget repair, enabling broader reform of Australia's tax system.

Introduction

TSI welcomes the opportunity to contribute to the Economic Reform Roundtable. In addition to this submission we would welcome the opportunity to participate in any roundtable discussions.

We have also made a submission to the Productivity Commission (PC) productivity inquiry: Investing in the net zero transformation. We note the guidance that submissions to the PC inquiries will be considered in the roundtable process.

This submission focuses on the case for Australia pricing carbon efficiently. Doing this would meet all three objectives of proposals being sought by in the roundtable process, in that it would:

1. Enhance productivity
2. Build economic resilience
3. Strengthen budget sustainability

TSI's proposal would clearly be in the national interest.

In the coming months TSI will publish research and analysis that will add more insight on the issues covered here. This submission foreshadows some results from that work.

Why a carbon price?

Carbon emissions are a negative externality imposing large costs on society. Currently most emitters can release carbon for free, harming other businesses and people and creating a major market failure. Carbon pricing is essential to allow zero or low-carbon technologies to compete on a level playing field, and so attract investment. Alternatively put, a carbon price is essential to allowing the market economy to work as it should and so allocate resources efficiently.

Australia has committed to an emissions pathway consistent with keeping global warming below 2 degrees Celsius, and that gives a chance of limiting warming to 1.5 degrees. To realise this commitment, substantial mitigation is required by the end of the decade. The lowest-cost pathway for achieving 1.5 degrees requires global emissions to fall more than 40 per cent on 2019 levels by 2030.

To achieve this, energy systems and industrial processes need to decarbonise quickly.

If the international community does not contain global warming, damage to the environment will threaten societies, the international economy, and international stability. This is already occurring. People will endure more frequent and extreme storms, floods, and fires; food and water supplies will be threatened; and there will be

large relocation of populations. Average global temperatures will continue to increase until the world achieves net zero greenhouse gas emissions.

Policies based on domestic and international commitments will determine whether the international community decarbonises production quickly enough to avoid the worst effects of climate change.

Australia's existing policies to promote decarbonisation and address climate change do not have us on track to meet our net zero goals. According to the Climate Change Authority:

> *Australia is not yet on track to meet its 2030 targets. Ambition and momentum in the form of targets and policies must translate quickly into action and emissions reductions.*[1]

Moreover, carbon pricing and a connected Carbon Border Adjustment Mechanism represents the most valuable productivity-increasing tax reforms available to Australia. Carbon pricing can be in the form of a carbon levy, or an emissions trading system with sale of emissions permits at market-determined prices. It has all the economic advantages of a general increase in indirect taxation, with additional large resource allocation advantages.

Implementing a carbon pricing mechanism would raise revenue at a time when the federal budget is facing increasing challenges to fiscal sustainability, and can promote a stronger budget position over the next several decades. Revenue from a carbon price can meaningfully contribute to reforms of other taxes. Carbon pricing reduces demands on the budget from other mechanisms for encouraging zero-emissions industries in which we enjoy a comparative advantage, such as the CIS or tax credits. Revenue potential from a carbon price is detailed later in this submission.

Carbon pricing policies are strongly supported by economists[2] and, contrary to much commentary, the public generally.[3]

Increasingly, industry groups and companies are also supportive of moves to economy-wide carbon prices. For example, Rio Tinto's position is:

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[1] 2023 Annual Progress Advice Report, Climate Change Authority, p.4, 1 July 2025
[2] Economic Society of Australia, https://esacentral.org.au/polls-item/53224/reintroduction-of-the-carbon-price/
[3] 'Climate of the Nation' 2024, The Australia Institute, https://australiainstitute.org.au/report/climate-of-the-nation-2024/

> *A market-based price on carbon is the most effective way to incentivise the private sector to make low-carbon investments and drive down emissions.*[4]

We expect other submissions to the roundtable process to also express support for carbon pricing.

At a time when much needed reform is necessary it is likely that such a move would have broad support.

The remainder of this submission focuses on the three areas of interest of the roundtable: productivity, economic resilience and budget sustainability.

1. Productivity

Governments increase national productivity by setting rules and correcting market failures so that resources flow to their most valuable uses. Climate change mitigation is no exception: by efficiently pricing the costs of carbon pollution, governments can drive investment towards low-emissions technologies, reduce long-term damage, and improve economic performance. Sound policy choices in this domain have the potential to boost productivity, while poor choices can drag on growth and strain public budgets.

Climate change is the biggest economic, social and environmental challenge we are likely to face in our lifetimes. But it is not the only challenge. Australia must confront it while also tackling other difficult public policy challenges. Housing affordability, the intergenerational wealth gap, the rise of artificial intelligence, international trade disruptions and government budget sustainability are some examples.

Designing policy that addresses a broad front of challenges, often involving trade-offs, is not easy. But the task is made easier when a mix of coherent and optimal policy options are designed and implemented. It is well established in economics that the most efficient way to address an externality is to price it. In climate policy, this means putting a price on carbon. As the Productivity Commission has put it:

> *More consistent and efficient emissions signals would help us reach net zero cheaper, supporting growth in productivity and the economy.*[5]

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[4] Rio Tinto, https://www.riotinto.com/en/sustainability/climate-change/climate-position

[5] Productivity Commission, 'Investing in cheaper, cleaner energy and the net zero transformation', https://engage.pc.gov.au/projects/energy-transformation/page/carbon-target-costs

Carbon pricing is a first-best policy instrument. In contrast, adoption of second, third and fourth best alternatives creates inefficiency and is a drain on productivity. Pursuing suboptimal approaches across a range of policy fronts multiplies and amplifies these inefficiencies. This comes at great cost: forgoing the most efficient policies means reduced capacity elsewhere.

Productivity is already being damaged by the effects of climate change. We see this in direct costs such as the clean up, repair and rebuilding following increasingly frequent and severe weather events. There are also indirect costs such as higher insurance premiums and investment distortions in response to the greater risks we face.

To date, Australia's attempts to implement such pricing have been short-lived or unsuccessful. This has left a more limited and inferior set of policy instruments to do the heavy lifting. The Renewable Energy Target, the Capacity Investment Scheme, the Safeguard Mechanism and various subsidies to incentivise green methods of energy and industrial production are examples of such policies. While these policies have reduced emissions in some sectors, they are narrow, more expensive, and insufficient to put us on a credible path to net zero.

Implementing a carbon price would be one of the most productivity-enhancing measures the Australian government could undertake.

2. Economic resilience

Coal and gas are two of Australia's three largest export industries, currently generating around $120 billion in export revenue each year. Yet most major economies have committed to achieving net-zero between 2045 and 2070. The timeline and trajectory of global decarbonisation may be uncertain, but the direction is clear: fossil fuel demand will contract in the coming decades. Investing today in industries where Australia enjoys a comparative advantage is the most prudent way to safeguard national income and employment.

A specific example of a threat to Australia's economic resilience, is the availability of liquid fuels such as petrol and diesel, which are combusted in transportation and other industries in Australia. Almost all of Australia's current liquid fuel supply is imported. This means significant exposure to risks in times of international supply chain disruption during wars or trade conflicts.

Australia's exceptional capacity to produce renewable energy and biomass, however, makes it a clear standout location to produce low carbon liquid fuels. Developing this industry would not only strengthen Australia's export profile, but also enhance our energy security and economic resilience.

Implementing carbon pricing would help shift demand to low carbon products domestically in Australia, while adoption of carbon prices internationally will provide an avenue for Australia to take a significant share of the global market for low carbon fuels.[6]

3. Budget sustainability

The Federal Budget is forecast to add nearly $180b to gross debt over the forward estimates, at a rate of between $27b and $47b per year.[7] Many proposals put forward to the Roundtable will have negligible impact on the annual forecast deficit or the overall position.

TSI's analysis reveals that, depending on the model of carbon pricing adopted, very substantial revenues could be generated for the federal budget. These are detailed in Table 1.

Table 1 - revenue potential from various forms of carbon pricing

Type of carbon price	Annual average revenue	Estimate total revenue to 2030	Estimated total revenue to 2040
Emissions Trading Scheme Economy-wide applied at the prevailing EU carbon price	$24b	$107b	$361b
Carbon Solutions Levy (domestic) Applied only to fossil fuels extracted for domestic consumption	$18b	$51b	$262b
Carbon Solutions Levy (export) Applied to fossil fuels extracted in Australia and exported	$28b	$122b	$420b
Fossil cash flow tax Applied to fossil fuel	$23b	$107b	$340b

[6] Finighan, R., *The New Energy Trade*, 2024, Executive Summary, p.27
[7] Budget 2025-26, p6.

Type of carbon price	Annual average revenue	Estimate total revenue to 2030	Estimated total revenue to 2040
producing companies, operating as a tax on cash flow			

Source: TSI analysis, forthcoming publication

A CBAM operating in conjunction with a carbon price would generate additional revenues on the order of $1-2b per year, declining as trade partners adopted carbon pricing at levels equivalent to Australia.

TSI's analysis clearly demonstrates the very significant effect a carbon price could have on budget repair and directing spending to important measures.

Forthcoming work to be published by TSI will present modelling of the macroeconomic effects of various carbon pricing policies and put forward the case for a model that will serve Australia's economic and climate objectives.

Conclusion

The time is right for Australia to adopt a first best set of policies to address climate change, economic resilience and budget repair. Doing so will enhance productivity and assist the strength of the national budget.

Implementing a broad-based carbon price in Australia will:

1. Contribute substantially, well beyond current policies, to lowering Australia's emissions as we attempt to reach net zero by 2050, at lower cost than sector-specific policies.
2. Contribute to a more sustainable and positive national budget position. Forthcoming work by TSI will demonstrate that carbon pricing, depending on the form adopted, can generate revenues for the federal budget of between about $18b and $46b per year between now and 2050.
3. Provide the fiscal position for government to undertake other forms of tax reform, payments to assist with cost-of-living pressures, and to invest in the industries of the future where Australia enjoys a comparative advantage.

Table 2, below, summarises the advantages of carbon pricing over existing policies in respect of productivity, economic resilience and budget sustainability.

Further Information

Please contact TSI's CEO, Baethan Mullen via info@superpowerinstitute.com.au

Table 2: summary of positions on three areas of focus for the Roundtable

	Existing policies[8]	Carbon pricing[9]
Productivity	A complex matrix of discretionary policies creates inefficiencies in administration and investment uncertainty. Government driven, not market driven. Inefficiently addressing emissions reduction creates trade offs that hurt productivity in other areas. Effects of climate change reduce productivity.	Simplicity and predictability of a carbon pricing mechanism is administratively simpler and efficient, and can create the right market signals for investment which can be productivity enhancing. Most efficient way to decarbonise and for Australia to play its role in limiting the effects of climate change.
Economic resilience	Fall short of creating the right market incentives to transition Australia's economy away from fossil-fuel reliance to sustainable zero carbon industries.	Sends an efficient signal so markets can develop and investments can occur in zero carbon industries which can be a future source of economic prosperity,
Budget sustainability	At best, budget neutral (e.g. the safeguard mechanism) and at worst budget negative (e.g. CIS, necessary support for green industries).	Can generate substantial and sustained revenues worth between $18-46b per year annually.

[8] Existing policies refers to a combination of policies including the Renewable Energy Target, the Capacity Investment Scheme, the Safeguard Mechanism and various subsidies for green industrial processes like aluminium and iron/steel.

[9] Carbon pricing may include one of a number of forms of carbon prices such as a tax/levy or an emissions trading system, and may be combined with a form of carbon border adjustment mechanism.

About The Superpower Institute.

The Superpower Institute's (TSI's) mission is to help Australia seize the extraordinary economic opportunities of the post-carbon world.

A net zero Australian economy will reduce global emissions by just over 1 per cent. But if Australia successfully seizes the economic advantage in exporting zero emissions goods, this can create an opportunity for full employment with rising incomes for a growing population sustained over more than a generation, and reduce global emissions by up to 10 per cent.

Renowned economist Ross Garnaut and economic public policy expert Rod Sims have joined forces through The Superpower Institute, to focus on practical research and policy to unlock this opportunity. 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.

TSI works across the building blocks of the superpower economy including: renewable energy, green hydrogen, land carbon and minerals processing; the potential zero carbon export products including green iron and green aluminium; and the enablers of this economy including economic and fiscal policy, trade policy and regional development.

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