Gillard puts future on the line with radical plan for Australian carbon tax

Emission-cutting scheme to target country's 500 worst polluting companies

The Australian government has unveiled one of the world's most ambitious schemes to tackle climate change, a plan to tax carbon emissions from the country's worst polluters.

After a bruising political battle to win support for the measure, the prime minister, Julia Gillard, said on Sunday that from July next year, 500 companies would pay $23 (£15) a tonne for their carbon emissions in the largest emissions trading scheme outside Europe.

The government predicts that by 2029 the plan will lead to a reduction in emissions equivalent to taking 45m cars off the road. The government will fix the tax for three years, before moving to a market-set price in 2015.

Australia generates more carbon pollution per head than any other developed country, thanks to its heavy reliance on coal-fired power stations. With a population of 22 million, Australia is responsible for 1.5% of global greenhouse gas emissions. By comparison, Britain, with nearly three times the population, produces just 1.7%.

The package is expected to pass votes in both houses of parliament before the end of the year, but Gillard faces a furious backlash over the scheme, which 60% of the population opposes. Her government is the most unpopular in 40 years, and analysts say her political future depends on her ability to sell the tax to voters.

"We've got to price carbon pollution to drive investment in innovation and to provide the incentive for energy efficiency," she said. "Failing to do so means that we would be passing on lower living standards to our children and grandchildren."

The scheme provides for a $10bn clean energy fund, money for a biodiversity fund, and – crucially for Gillard's political survival – compensation for voters.

The average Australian household will see its bills increase by around $10 a week, and critics of the plan say ordinary voters will be unfairly burdened by higher costs passed on to them by the big polluters.

But Gillard said 50% of the scheme's revenue would be returned to households in the form of tax cuts and compensation worth more than $15bn. Two-thirds of all households would receive enough assistance to cover the entire financial impact of the tax, Gillard said.

"This is pitched at low-income families because we know their budgets are tight," she said. "I want people to understand that we are seizing a clean energy future."

Before last year's election Gillard explicitly ruled out a carbon tax, in an attempt to distance herself from her predecessor, Kevin Rudd, who failed to get an emissions trading scheme through parliament. But she changed tack after the election returned a hung parliament and she had to build an alliance with the Green party.

The leader of the opposition, Tony Abbott, has denounced the tax as "socialism masquerading as environmentalism" and called for an election which he said would be a referendum on the scheme.

"It's a package which is all economic pain for no environmental gain," he said on Sunday.

Australia's parliament has twice rejected attempts to introduce a carbon emissions trading scheme. A high-profile campaign against the tax could further undermine the government, which faces elections in 2013.

"I think this package is going to compound the trust issue which has dogged the Prime Minister ever since she assassinated Kevin Rudd and has dogged her since she was deceptive about the carbon tax before the last election," said Abbott.

Australia is the world's biggest exporter of coal and iron ore, and its powerful resources sector is the bedrock of the buoyant economy.

The tax package includes compensation for many trade-exposed industries, including steel and aluminium, with up to 94.5% of their permits granted for free. Moderate emitting exporters will get 66% of permits for free.

But the Minerals Council of Australia says the resources sector will suffer a $25bn hit by 2020, with around 20,000 job losses.

"This is taking a baseball bat to the Australian economy to raise another tax which will be a dead loss to the economy without any benefit to the environment," said the council's chief executive, Mitch Hooke.

The Greens have been central in months of negotiations over the tax. Gillard relies on them to govern and, as of last week, they also control the balance of power in the upper house.

The Greens' deputy leader, Christine Milne, said: "This is the moment where Australia turns its back on the fossil fuel age, and turns its face towards the greatest challenge of the 21st century, and that is addressing global warming."

As Australia unveils a radical plan to tax carbon emissions, how do China, the US, Europe and India measure up?

In China plans have been announced for emissions trading systems to be rolled out in six regions by 2013 and nationwide by 2015. China's ambitious strategy to see a 40%-45% cut by 2020 in "carbon emissions intensity" - that is, carbon emissions per unit of GDP - has been praised by those who claim the commitment from the world's biggest source of CO_2 emissions shows up the US's indecision on carbon caps. But there are worries that the true impact of China's increasing number of coal-fired power stations is being masked by the cooling effects of these plants' sulphur emissions.

The US, despite being the second biggest CO_2 total emitter after China, has no national carbon tax policy. A bill to introduce a carbon cap was abandoned a year ago by Democrats when it met with opposition from both sides.

The European Union emissions trading scheme (ETS) is the largest multinational emissions trading scheme in the world and obliges large emitters to produce no more than their particular European unit allowance. Otherwise, they must buy surplus units from other emitters or face severe penalties.

Six years after its launch, the ETS faces criticism for failing to reduce carbon emissions in some cases, failing to spur non-EU countries to adopt cap-and-trade systems, and encouraging fraud and profiteering. As EU members debate the parameters of the next phase, from 2013 to 2020, campaigners are calling for fundamental reforms, or for it to be scrapped in favour of potentially more effective measures, such as carbon taxes. But the system has resulted in overall carbon emission reduction, and the EU has been praised for establishing a wide-ranging climate initiative.

India sets emission levels for 563 of the country's biggest polluters, such as power and, steel mills and cement plants, allowing businesses who use more energy to buy carbon certificates from those who use less. Trading will start in 2014.

Nationwide, it has a carbon tax (1 July 2010) of 50 rupees/tonne ($1.07/tonne) of coal produced in and imported to India.

In comparison to many other of its Asian counterparts, India's carbon pricing schemes are ambitious. They reflect an urgent need to curb emission rates from a country that – with four times the population of the US, an economy growing 8-9 per cent a year, and surging energy demand – makes it the country with the third highest carbon emissions.

Although it has refused to accept legally binding targets, India has pledged to reduce "carbon emissions intensity" - that is, carbon emissions per unit of GDP - by 20-25% from 2005 levels by 2020. But there are concerns about how both carbon initiatives will evolve because of a lack of data and trained manpower as well as weak penalties for firms that refuse to comply. Nonetheless, India's tax on coal is one of the first carbon taxes enacted at the national level by any major economy in the world.

QUESTIONS:

1. Please summarize the text, mentioning the main points.

2. Can you suggest other measures that might contribute to reduce carbon emissions in the world? Please explain your scheme and its potential application.