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A Carbon Tax by Any Other Name

By **KATE GALBRAITH**

SAN FRANCISCO — The headlines last week were dramatic: Australia abandons its carbon tax. The move seemed to confirm suspicions that putting a price on carbon dioxide emissions is politically toxic.

The reality, experts say, is more nuanced. Australia has not abandoned its commitment to reducing climate-warming emissions. And carbon tax systems, while rare and rife with controversy, retain a firm foothold in a number of advanced economies.

In Australia, the government's decision entails a change of methodology. By next July, the country will shift from its controversial carbon tax system to a [cap-and-trade](#) system, which is a different way of limiting greenhouse gas emissions. Australia had already planned to make the shift in July 2015 and will now accelerate the changeover by a year, bowing to the touchy politics of what constitutes a "tax."

"Calling a policy a 'tax' certainly makes it difficult to sell it to the community," David Pannell, director of the Center for Environmental Economics and Policy at the University of Western Australia, said in an e-mail.

Carbon taxes control emissions by establishing a fixed price that polluters must pay. High prices discourage pollution. By contrast, cap-and-trade systems limit amounts of carbon emissions, leaving the market to determine the price for polluting.

Economists and policy makers like to argue over which method is best. But both seek the same goal. In fact, the two may be somewhat similar in practice, given the tweaks and nuances that often accompany their implementation.

Carbon taxes, with their fixed prices, are easier to implement than cap-and-trade systems, noted Janet Milne, director of the Environmental Tax Policy Institute at Vermont Law School. That is why Australia started with the tax in 2012 and then planned to change over.

Australia's move is "really just a one-year acceleration of what they had planned in any event," she said in a phone interview.

But critics of Australia's announcement, who include the country's Green Party, have a point. Switching to the cap-and-trade system will allow Australian industries to pay less to reduce pollution. That is because the trading system, unlike the tax, will link into a similar system in Europe. In Europe, abundant pollution permits have dramatically reduced the market price of carbon emissions. So Australian industries will be able to take advantage of those low prices to access the pollution credits more cheaply, and ahead of schedule.

"In effect they're lowering the cost that Australians can expect to pay," Thomas Heller, the executive director of the Climate Policy Initiative, which analyzes climate and energy policies around the world, said by phone.

That means, of course, that it is easier and cheaper for Australian industries to pollute. Christine Milne, leader of the Australian Greens, who is not related to Janet Milne, described Europe's carbon prices as "far too low to drive pollution cuts or clean-energy growth."

For Australia, the key question now becomes whether Europe will "fix the significant problems that they've had with oversupply of emissions permits," said Mr. Pannell, of the University of Western Australia.

Europe is trying, a bit weakly: This month, the European Parliament approved a measure intended to remove some of the excess permits that have been keeping carbon prices low. However, whether the move by itself will do much to drive up carbon prices is doubtful.

Another key question raised by Australia's situation is whether the concept of a carbon tax is too politically treacherous for nations seeking to combat [climate change](#).

Climate experts say there is still an appetite for carbon taxes in parts of the world. Janet Milne, of Vermont Law School, points out that Ireland's carbon tax — born partly of the need for additional government revenue — is relatively new. So are carbon taxes in Japan. Switzerland recently announced that it would increase its carbon tax next year, and South Africa plans to introduce a carbon tax system in 2015, after delays and protests from mining companies.

But even in climate-conscious Europe, where taxes on heating fuels and transportation exist alongside the better-known emissions-trading system, expanding carbon taxes can be a tough sell. Lithuania, which recently assumed the presidency of the Council of the European Union, has said it plans to revive discussion of a stalled 2011 proposal to harmonize energy taxation across the Continent. However, approving tax measures requires a unanimous

vote, according to Stefan Speck, an environmental economics expert with the European Environment Agency, and several E.U. members are blocking it.

Michael Mehling, president of the nonprofit Ecologic Institute in Washington, D.C., said in an e-mail that, "Given the current diversity of views on future E.U. climate policy among member states, I would be surprised to see any movement towards significantly higher energy taxes."

Avoiding the term "carbon tax" may make such policies a bit easier.

In Australia now, "it will be possible for the government to say that it has removed a 'tax,' and avoid the unpopularity of that word," Mr. Pannell said. "The opposition is arguing that the new system will still be effectively a tax by another name. But the political effect of their arguments is diminished."