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Distributional impacts of an Australian emissions trading scheme on low-income households

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Summary

- Our approach
- Distributional impacts of the Carbon Pollution Reduction Scheme
 - NIEIR Research
- Solutions – energy efficiency
 - Importance of auction revenue

Addressing Climate Change

- We need ambitious emission reduction targets to avoid dangerous climate change
 - Low income and disadvantaged households will be hit hard by climate change impacts
 - They are more vulnerable and have less capacity to adapt to a changing climate;
 - Examples:
 - Substandard housing
 - Low rates of insurance
 - Reduced mobility (eg. housing availability)
 - Employment (eg. Agriculture)



Impacts of climate change mitigation

- Climate change mitigation strategies can have negative and disproportionate impacts on low income households
 - Examples:
 - Impacts of price rises in energy, and other goods/services after an ETS
 - Potential employment loss from industry shifts
 - Design is important

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Brotherhood's work

- Reducing the vulnerability to price rises
- Enabling people to adapt to changing circumstances
- Making low income households part of the solution
- Seizing the opportunities from climate change such as new jobs and training

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Carbon Pollution Reduction Scheme (CPRS)

- Large polluters have to buy and surrender emission permits
- (Many of the) costs will be passed through to consumers
- Key areas - direct
 - Electricity prices
 - Transport (offset by fuel excise)
- Indirect
 - Food and other goods and services

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Projected price effects by commodity, 2010–11

Indicative carbon price \$20/t CO ₂ -e	
Commodity	Price impact
Electricity	16 per cent
Gas and other household fuels	9 per cent
All groups consumer price index (CPI)	0.9 per cent
<i>Source:</i> Australian Government internal analysis.	

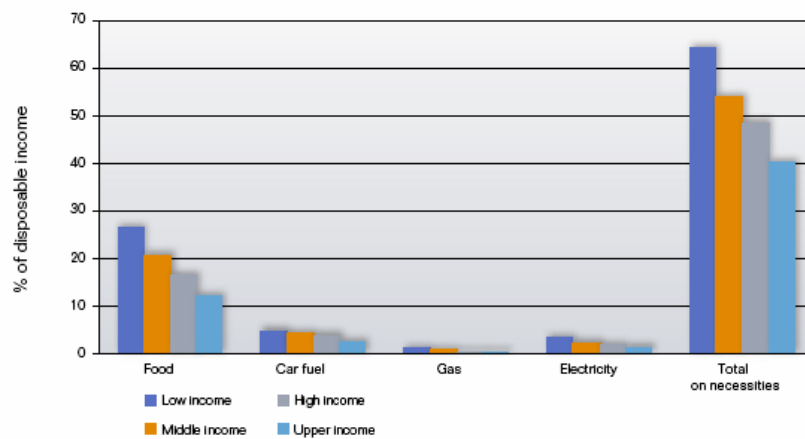
Carbon Pollution Reduction Scheme Green Paper p.282

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Low-income Household Spending

- Low-income households spend a greater proportion of their income on:
 - basic necessities – electricity, petrol and food
 - goods and services with a high carbon content
 - even though they use less carbon overall

Expenditure on basic goods as a share of disposable income



Source: Garnaut Climate Change Review Draft Report, p.475

Regressive impact of carbon price (2001 figures for Australia)

Household Type	% Popn.	Utility adjusted carbon costs additional annual expenditure (2006 \$AUD)		Utility adjusted carbon costs % of annual expenditure	
		\$25	\$50	\$25	\$50
Working age social security dependent family (type 1)	8.7	571.70	1,143.30	2.2	4.3
<i>Poor family households</i>	6.6	557.70	1,115.40	2.3	4.6
Age pension households	24.9	303.00	606.00	0.8	1.6
Low skilled working households	46.0	366.80	733.60	1.0	1.9
High income tertiary educated households	7.4	368.70	737.40	0.4	0.7
Average		351.10	702.30	0.7	1.4

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Emissions Pricing is Regressive

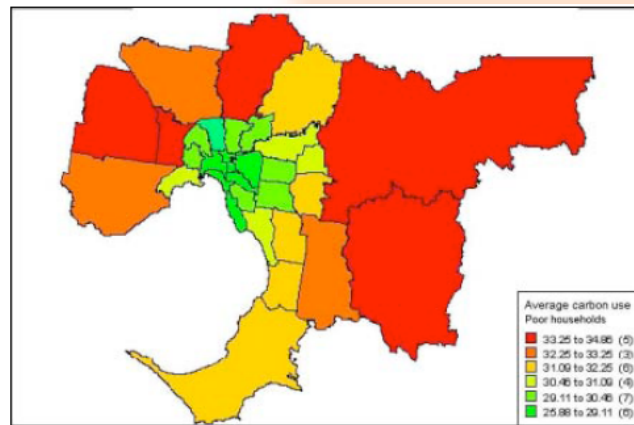
- Professor Garnaut acknowledged the disproportionate impact of an ETS on low-income households
 - Unintended consequence of the policy it is not the goal of the ETS and therefore should be addressed
- Green paper – Treasury modeling – also found – ‘mildly regressive’ impacts

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Transport

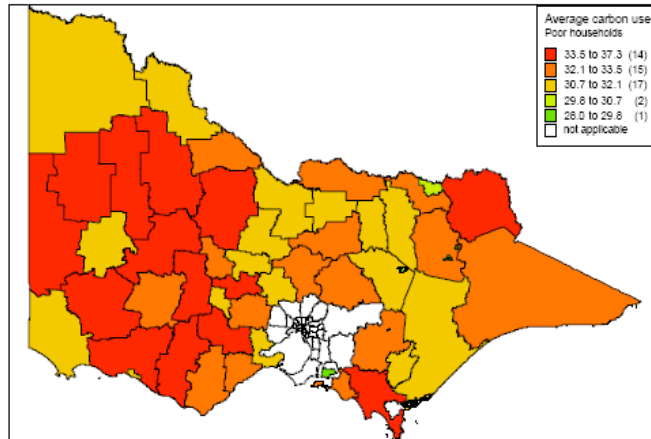
- Higher transport costs disadvantage rural or outer-suburban dwellers
 - Urban fringes, often lower incomes
 - In many cases limited access to adequate public transport

Average annual use of CO₂ (tonnes) by poor households for LGAs in Greater Melbourne 2006



Sourced: Unkles and Stanley, 2008

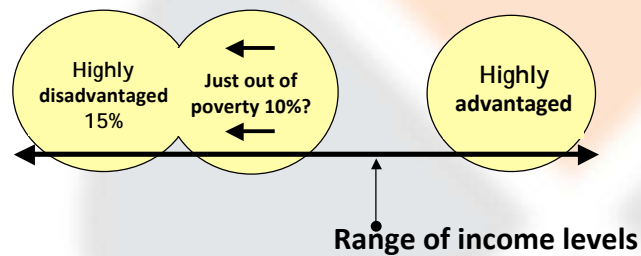
Average annual use of CO2 (tonnes) by poor households in Victorian LGAs 2006



Sourced: Unkles and Stanley, 2008

New poor

There is a risk that new groups of disadvantaged Australians will be created



Capacity to respond to the price signal

- Argument: that is what an ETS does – it increases prices. Low income households should respond by:
 - Using less energy
 - Changing their purchasing habits- buy efficient products etc.
- However it is necessary to:
 1. Reduce disproportionate impact
 2. Enable low income households to respond
 3. Recognise constraints on many disadvantaged households

Compensation Assistance

- Direct financial compensation
 - Tax and transfer system
 - Support for energy efficiency and similar programs

Green Paper - CPRS

- Government committed to compensation/ assistance for low-income households:
 - Increase payments to people in receipt of pensioner, carer, senior and allowance benefits
 - Increase assistance to other low-income households through the tax and payment system
 - Provide assistance to middle-income households
 - Review annually in the Budget context the adequacy of payments to beneficiaries and recipients of family assistance with the overall impacts of the scheme
 - **Introduce energy efficiency measures and consumer information**

CPRS - proposed design

- However, no specific figures on the funds to be allocated to households indicated
- Garnaut recommended that 50% of revenue generated (with 100% auctioning) be dedicated to the lower 50% of households in the income distribution scale to prevent regressive social impacts
- Large allocations of 'Free' permits will reduce the revenue available

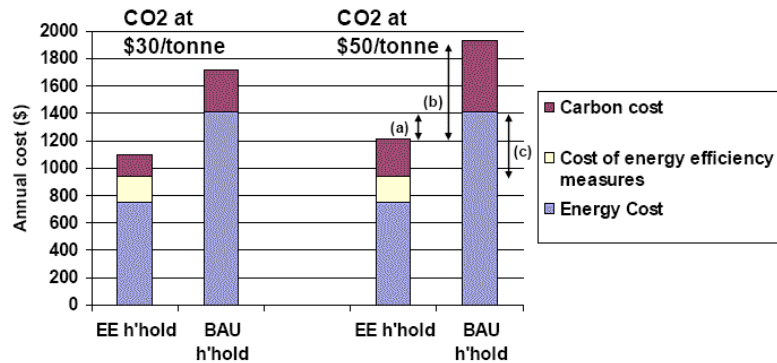
Solutions – Residential Energy

- Improve Household Energy Efficiency
 - Reduce vulnerability to price rises and reduce ghg's (tf. reduce the burden on the ETS)
 - Wide variety of household efficiency measures available, eg:
 - Insulation
 - Switch from day rate electricity to gas or solar
 - Double glazing
- All households need to be involved but we need to target additional support to low income and vulnerable households

Solutions – must address the barriers

- Low income households - barriers magnified to improving energy efficiency
 - Less income
 - Require increased support for purchasing energy efficiency products / retrofits etc.
 - Residual end of the housing market - Often live in lower quality housing
 - Split incentives between landlords and tenants
 - High proportion of low income renters
 - Need to target landlords
 - Information barriers for all households

Household energy savings for an efficient 'average' household per annum: using less energy offsets higher price/unit



Source: Alan Pears 2008

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Current research project with KPMG & ECOS

- Process:
 1. Estimating the cost impact of the ETS on different household types
 2. Developing options for large scale roll out of cost effective energy efficiency measures
 3. Looking at mechanisms for delivery (at scale)
- Proposing alternatives to government

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A couple of issues

- Targeting
 - Prioritise large households
 - Pensioners
 - Spend substantial time at home; but generally don't use a lot of energy
 - High energy users
 - Biggest benefit – bills and greenhouse
- How do we account for other benefits?
 - Livability
 - Health – eg. Insulation in heatwaves

ETS – Revenue for Energy Efficiency

- All households should be part of the solution
- Increased support should be provided to low income and disadvantaged households
- Money should come from ETS revenue
 - The more revenue forfeited by allocating free permits, the less money available for assistance to low-income households
- Actions should occur prior to the start of the ETS



Equity in Response to Climate Change program

• **Contacts**

- Damian Sullivan
 - dsullivan@bsl.org.au
- Josie Lee
 - jmlee@bsl.org.au

www.bsl.org.au

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