

28 October 2008

AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

AFTSubmissions@treasury.gov.au

Dear Sir/Madam

Re: Australia's Future Tax System

The Clean Energy Council thanks the Australian Government for the opportunity the review of Australia's tax system.

The Clean Energy Council (the Council) is the peak body representing Australia's clean energy industry. The Council is a member-based industry association representing businesses ready to innovate, invest and act to meet Australia's energy needs safely and reliably while lowering greenhouse emissions. Our member organisations cover a quarter of Australia's total electricity production and are involved in renewable energy, gas, energy efficiency, and distributed generation.

As Nicholas Stern said, "Climate change risks are a consequence of the greatest example of market failure we have ever seen". Australia is one of the world's biggest per capita greenhouse gas emitters. As a result we require substantial reform of our energy markets and the potential for seismic shifts in our industrial base, household and consumer activity and the design and operation of our cities. The Garnaut Report highlighted that Australia will be one of the countries most affected by climate change, but also has the opportunity to adapt and is unique in its wealth and breadth of clean energy resources. Australia can and should become a clean technology superpower supported with the right policy framework to release this potential. Reform of Australia's tax system is one crucial step in this process.

A suite of government policies will be needed to drive this change. The keystone to the new policy will be the Carbon Pollution Reduction Scheme, but many other measures are required to move Australia's economy quickly and securely to a low carbon future. These complementary measures include:

- a renewable energy target;
- nationally consistent feed-in tariffs for grid connected solar PV;

- nationally consistent and coordinated energy efficiency targets and regulations;
- a strong Clean Energy Innovation Fund to support Research Development and Demonstration; and
- the removal of any systemic barriers, to improve access to clean power.

Many of the technologies that will be needed to drive the required deep cuts in our carbon emissions are still in their infancy and need accelerated development to bring them quickly to maturity and deliver the competitive costs that this maturity will bring. This will require not only funding for research and development, but also a financial environment to offset the inherent risks of accelerated technology development and to encourage and facilitate venture capital into the market.

It will also require changes to the taxation system to remove existing barriers and to encourage further development of new, cleaner technologies. This will include changes such as accelerated depreciation, tax deductibility and the removal of tariffs.

What major challenges facing Australia need to be addressed through the tax-transfer system?

- The Australian economy needs to evolve quickly to meet the challenges of climate change; this will require the investment of billions of dollars. The tax-transfer system must be adapted to facilitate this climate change mitigation and adaptation through mass deployment of appropriate goods and services in both renewable energy and energy efficiency areas. It must ensure that the risk / reward mix is correct to encourage investors to enter this market and develop the emerging technologies that will be needed.

What features should the system have in order to respond to these challenges?

- Currently there are duties that apply to the import of the components of clean technology components. The removal of duties will assist in the advancement of the industry and in particular would aid the development of Australian manufacturing and assembly. To quote President George W. Bush at the Washington International Renewable Energy Conference 2008 (WIREC)

'...And if people are truly interested in solving the problem, if you're interested in expanding alternative energy, then we need to come together to eliminate tariffs and other trade barriers to enable clean technologies to move duty-free around the world.'

- The current taxation rulings on tax deductibility discriminate against businesses wishing to upgrade to more energy efficient equipment.

Replacing a failed or worn item (eg electric motor) with 'like for like' is given an immediate 100% tax deduction as a 'cost of doing business' but replacing it with a more efficient option was deemed by the tax department to be an investment, eligible only for depreciation over time. Energy efficient upgrades should be encouraged, and given full tax and immediate deductibility.

- To overcome the split incentives between landlords and renters, the tax office should allow disallow landlords to claim the significant extra expenditure of building improvements which lead to savings in energy consumption such as replacing an electric water heater with a solar water heater.
- Accelerated depreciation or tax credits are used in many parts of the world to encourage investment in new clean technologies. This is particularly critical for businesses investing in the early projects of emerging technologies. Accelerated depreciation will encourage investment in demonstration plant required for emerging technologies to rapidly accelerate their development and overcome the hurdles and reach full commercialization. This would also play a critical role in encouraging the installation of commercial and industrial solar PV systems by allowing the systems to be written off over a short period rather than the nominal twenty years based on today's taxation rulings. The growth of the solar PV industry into the commercial and industrial will deliver the industry size that is required to drive down the costs of the technology.
- As an alternative to accelerated depreciation, the US has recently extended its successful 30% tax credit ruling to solar PV in both the residential and commercial sector. This policy has been responsible for driving uptake of solar PV across the US and has been supplemented / strengthened by additional measures introduced by various State Governments. Such a tax credit model could be adopted in Australia across a range of clean technologies.

What are the problems with the current system?

The challenge of addressing the threat of dangerous climate change is unique. Given the likelihood of a "soft start" to the Australian Carbon Pollution Reduction Scheme (CPRS) all steps should be taken to remove any impediment in the development and affordability of clean energy technologies. Currently the tax system does not recognize this unique status and is inadvertently creating barriers and hurdles which should be removed.

The Clean Energy Council is exploring more detailed information on the major opportunities for reform and will report back with more detailed analysis as soon as possible.

What reforms do we need to address these problems?

- The Australian Government is implementing a wide range of measures to drive Australia towards a low carbon economy and the taxation

system needs to adapt to support these changes. These need to be implemented as a matter of urgency.

- Key among the current government policies are:
 - Carbon Pollution Reduction Scheme;
 - Renewable Energy Target;
 - Energy Efficiency measures and targets
 - R&D funding
- As described above there are a number of taxation changes that will be required to drive the most efficient outcomes for the country while the Government's climate change policies are implemented, including:
 - removal of duties on clean technology;
 - accelerated depreciation of expenditure on clean energy and energy efficiency projects;
 - tax credits for clean energy and energy efficiency projects; and
 - tax deductibility of environmental goods and services including voluntary purchases of GreenPower energy to encourage people to go beyond the governments commitments to climate change mitigation.

If you are seeking clarification on any of the issues raised in this paper or answers to any questions that arise, please do not hesitate to contact me or the Council's General Manager Policy, Mr Rob Jackson on ph. (03) 9929 4100 or email rjackson@cleanenergycouncil.org.au.

Yours sincerely

Matthew Warren
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