

MYTH

A price on pollution will just churn money through the economy and will not do anything to help the environment.

FACT

A price on pollution will make new cleaner energy technologies relatively cheaper than older dirtier sources. As products and services made from cleaner energy sources become cheaper, businesses and households will change their investment and purchasing decisions to save money, meaning the Australian economy will increasingly rely on cleaner energy sources like gas, solar and wind. Over time, this will decrease the amount of carbon pollution Australia produces. Combined with the action of other countries this can help avoid accelerating climate change.

All major economies are already implementing policies to reduce pollution.

If the world had been doing nothing, by the end of the century global temperatures would rise by around 7°C above pre-industrial levels. Currently, projected actions in countries are doing enough to keep that increase to around 3-4°C. This still falls short of what's needed to avoid significant impacts on our way of life but it shows what can be achieved by nations working together.

Australia can choose to continue to try and free ride on these efforts, or can join these nations by taking action and doing our fair share. Doing so will also enable Australia to capture some of the benefits of the burgeoning global clean energy market (see the *Pricing Pollution: A Step In Line with Major Economies* fact sheet).

We all have a role to play no matter how large or small our proportion of total emissions. Relative to our size, Australia is one of the world's top polluting nations (See the *Australia: One of the World's Biggest Polluters* fact sheet).

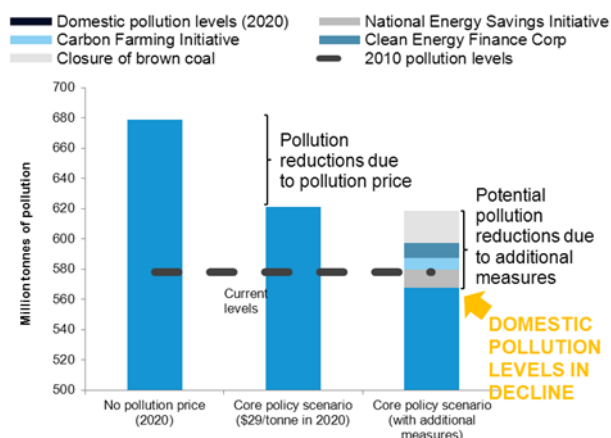
As our economy continues to grow, over time pollution pricing and other announced policies will reduce the level of emissions from Australia (see *Figure 1*).

Also, allowing companies to meet a proportion of their liabilities through international trading makes economic sense and supports clean energy financing at a global level. Under the Clean Energy Future Package, from 2015 Australia's largest polluters will be able to buy

credible international pollution permits up to 50 per cent of their overall liability. This is designed to give companies some flexibility in how they take responsibility for the pollution they cause.

Removing this flexibility would likely rule out meeting the full range of agreed pollution targets and make it more difficult and more costly for Australian industry to adjust to a low pollution economy.

Figure 1: This figure shows domestic pollution levels in 2020 without a pollution price, with a weak pollution price, and with a pollution price combined with some of the additional policy measures that have been announced. These additional policies include the \$10 billion Clean Energy Finance Corporation and a commitment to a national approach to energy efficiency. These numbers do not include the additional global pollution reductions that would occur as a result of businesses investing in clean energy development in poor nations.



Around 80 per cent of Australia’s emissions come from industry. A pollution price will make business more responsible for the pollution it causes. It will also make pollution intensive goods and services more expensive, meaning cleaner options become relatively cheaper. This will then change the way investors, businesses and individuals make decisions about how to spend their money.

The pollution price is designed to get our heaviest polluters to choose cleaner ways of mining or making things such as electricity, steel, aluminium, cement, coal and gas. Because most companies want to avoid paying the additional price, they will look for cleaner ways to do business.

For example, a company building a new multi-billion dollar power station has to choose how it will generate electricity - with coal, gas or clean energy. If the company chooses to use pollution-free clean energy it will not have to pay the pollution price.

This gives companies a very strong incentive to clean up their processes and invest in technologies that don't produce pollution. It will also attract billions of dollars in clean energy investment (*see Figure 2*).

Figure 2: Based on the Treasury’s forecasts this graph shows Australia’s electricity mix today and with two possible future pollution price scenarios. Today, nearly 90 per cent of our electricity is generated by traditional fossil fuels – primarily coal. This is why Australia has one of the most pollution intensive electricity sectors in the world. Through time a pollution price will substantially change the generation mix and by 2050 over 70 per cent of our electricity is projected to be generated by existing renewable energy sources like wind power and advanced new technologies such as large-scale solar and fossil fuels with near zero emissions.

