

## AIB Policy on the Carbon Pricing Mechanism

### Summary

While the Australian Institute of Building (AIB) generally supports Government policies and legislation that benefit the environment, these should be tailored in a manner so as not to be harmful to existing essential industries, such as the building and construction industry. Measures have already been put in place by Federal and State Governments to reduce carbon emissions in building and construction, and emissions from the industry have more than halved in recent years. The Carbon Pricing Mechanism (commonly known as “the carbon tax”) has added significant costs to building and construction, and even if these costs can be passed on to clients, the tax would then have an adverse effect on demand. Consumers and Australian industry are also negatively affected by the increasing use of cheaper imported materials which are not be affected by the carbon price.

### Detail of Policy

AIB raises the following issues in relation to the Carbon Pricing Mechanism, the effect of which is still being assessed on builders:

- The states and territories already have effective energy efficiency measures for the building and construction industry (see below).
- The emission intensity of building and construction has fallen from 26 tonnes of CO<sup>2</sup>e per \$m output in 1996-7 to 11 tonnes of CO<sup>2</sup>e per \$m output in 2007-8, and continues to fall. The energy efficiency of new buildings is being improved without the carbon tax, and the National Construction Code is modified every year to improve the energy efficiency of buildings.
- The upward price impact of the Carbon Tax on building materials is three fold:
  - 1.) electricity prices, 2.) raw materials (cement, steel, aluminium, glass and bricks which make up around 20% of industry costs) and 3.) domestic shipping and transport fuels. The Allen Consulting Group estimated that the carbon tax would add \$3,821 to its model two storey brick veneer 200m<sup>2</sup> house. Queensland Master Builders Association estimated that a typical 200m<sup>2</sup> slab-on-the-ground home would increase in price by approximately \$7000-\$9000. The Centre for International Economics estimated a 5% increase in building and construction costs, while Master Builders Association Victoria estimated that 2% would be added to the cost of building and construction. The building and construction industry is one of the industries most affected by a carbon price, despite initial compensation to manufactures of building materials exposed to non-affected international competition. The

increased costs affect both the supply and demand sides, in terms of increased costs and reduced investment activity.

- Unless the contracts contain a specific clause, existing contracts signed before the carbon tax was announced cannot be altered to take into account price rises due to the tax.
- Builders may be prosecuted by the ACCC if they cannot exactly account for a price rise due to the carbon tax, and pass on a rough figure to their customers.
- The building and construction industry is already overtaxed.
- The viability of some manufacturers and builders may be threatened, leading to potential job losses.
- Many builders may use cheap, imported products, which will be unaffected by the carbon price, in an attempt keep prices down and maintain business, but this could have disastrous outcomes for consumers and Australian manufacturers.

## Background

After the Rudd Labor Government came to power in October 2007, Australia signed the Kyoto Protocol and pledged to make serious efforts to reduce emissions of greenhouse gases. The Rudd Government tried twice to pass legislation for an emissions trading scheme through the Australian Parliament, but was frustrated in the Senate by the Coalition and the Greens, the latter at the time wanting tougher legislation. After Julia Gillard became Prime Minister in mid-2010, and the Labour Government retained government after an election later that year due to support from the Greens, fresh efforts were made to introduce economy-wide carbon reduction legislation, and this time the Greens had a more conciliatory attitude. The Carbon Pricing Package was announced in mid-2011 and the legislation was passed through both houses of parliament several months later.

However, legislation already existed to reduce carbon emissions in the building and construction industry:

Residential buildings: Every state and territory has star ratings systems for new residential buildings, with slight differences in various states. That is, the stars in Queensland are different to Victoria based on their different climates. The states and territories also have set different minimum, mandatory star systems (i.e. in Victoria it is six stars, but it could be five in another state).

Commercial buildings: All commercial buildings must comply with Section J of the national building code's energy efficiency standards. A voluntary green star system also operates across Australia.

## Action

- The AIB will emphasise to its members that the safety of any new construction work must not be compromised in an attempt to off-set the extra costs of the new tax.