

DO WE NEED AN AUSTRALIAN INFLATION REDUCTION ACT?

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Image: <https://www.flickr.com/photos/jedavilabel/5077410064>



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Two key elements of the IRA



1. Encouraging onshoring via domestic content requirements
2. Tax credits for green production

#1 is not a good way to go for Australia – an open trading economy with specific comparative advantages

Broad tax credits/subsidies are also best avoided

We do however need to be ambitious in attracting investment in clean energy in Australia

Onshoring?



Many IRA measures include domestic content requirements

Onshoring efforts are less desirable for a mid-sized economy such as Australia:

- Australia only accounts for 1.6% of world GDP
- The US accounts for 25.3%

Australia is also a trading nation:

- Trade-to-GDP ratio: 46%
- For the US, this is 25%

We benefit from regional economic integration and an open international trading system

Protectionist aspects of the IRA could be subject to challenge at the World Trade Organization (WTO)



Subsidies?



Australia's main role here is as a commodity exporter to the Asia-Pacific

The key is for Asia-Pacific partners to have ambitious low-carbon targets and policy settings

... and for Australia to be a facilitative, reliable, and safe partner for investment and trade

This can be done without across-the-board Australian subsidies for clean production

Fortunately, earlier this month the Treasurer called for a uniquely Australian approach

The way to go includes ...



Image: <https://www.metrotrekker.com/australia-perth-hiking-rocky-pool-walk>

- Focus on common-user infrastructure such as electricity transmission grids and ports
- Adopt a strengthened carbon price and encourage neighbours to do likewise
- Mechanism for achieving renewable electricity adoption target
- Targeted co-investments via the Clean Energy Finance Corporation (CEFC)
- Corporate income tax reform
 - One option is the ‘allowance for corporate equity (ACE)’ approach ([Burke 2023](#))
- Work closely with Asia-Pacific partners and the private sector

Thank you



Image: <https://www.pexels.com/photo/wemen-solar-farm-in-victoria-australia-11678747>

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