

18 April 2008

Submission to ETS Discussion Paper
Garnaut Climate Change Review Secretariat
Level 2, 1 Treasury Place
East Melbourne Victoria 3002

Dear Professor Garnaut

- The proposal to auction permits for nearly all emissions is crucial, as any uncovered areas will make deep emission cuts impossible
- There are no moral or legal grounds for compensation to existing emitters, and permit revenue is badly needed elsewhere
- As you said last year, the initial impact will largely be borne by households, and assistance to them will be essential for the changes to be acceptable
- The transitional arrangements for trade-exposed emissions-intensive industries are very complex, and it is hard to identify any major industry which the public will regard as needing assistance
- Estimates of the financial and physical consequences of the recommendations are needed to help voters, businesses and governments
- Achievement of even the 60% reductions promised by the Prime Minister on 3/12/07 will be extremely difficult
- Early reductions are even more valuable than later reductions, as they help avoid irreversible climate changes, and provide leadership to other countries
- Linear reduction from 2010 to the target level is simple and sensible
- Very large sums are likely to result from permit revenues (perhaps \$20b in 2010, rising to as much as \$60b pa with full coverage)
- The proposals for hoarding and lending are complex, and it would be preferable for all permits to be datestamped with a period for use
- Forward permit prices rising over time in line with interest rates may correspond poorly to the marginal emission prices needed to stimulate physical investments
- Having highly rated financial institutions as the main holders of permits may be politically unacceptable, a source of unwarranted profits to these institutions, and an impediment to the supervision of emitters

Yours sincerely

Richard Cumpston