Garnaut
CLIMATE CHANGE
REVIEW

SUBMISSION COVERSHEET

Submissions may address any key issues related to the Review and/or in specific response to the topics raised in various issues/discussion papers.

Please complete and submit this form with your submission. Where possible, the Garnaut Review requests submissions are submitted electronically. Contact us:

Via email	**Via post**
Write 'Submission' in subject field of the email and send to: contactus@garnautreview.org.au	Address your submission to: Submissions Garnaut Climate Change Review Level 2, 1 Treasury Place Melbourne VIC 3002

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Submission title: **Submission Relating to ETS Discussion Paper**
Author(s): **Richard McNeall**
No. of pages: **3**
Date: **April 18, 2008**

Please indicate if your submission:

☑ contains NO confidential material
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Please indicate which of the following your submission covers:

☐ Issues Paper 3 – Climate Change: What is the science telling us?
☐ Issues Paper 4 – Research and Development: Low Emissions Energy Trading
☐ Issues Paper 5 - Transport and Urban Planning
☑ Issues Paper 6 - Emissions Trading Scheme Discussion Paper

AND/OR

☐ General (Includes information on the following areas)

☐ Role of Government/Business	☐ Climate Change Science
☐ Economic modelling	☐ Transport and urban planning
☐ Adaptation	☐ International issues
☐ Climate change mitigation	☐ Research and development
☐ Emissions trading	☐ Other, please state:

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Garnaut Review Submission

Relating to the Emissions Trading Scheme (ETS) discussion paper.

Submitted by: Richard McNeall, Cheltenham NSW

The Target should be a 98% reduction in greenhouse emissions.

According to the Stern Review, the Earth can absorb only 5Gt/y of CO_2e. With a world population of over 6 billion, this is less than one tonne per person per year. World population may stablilise at around 10 billion, making the target 0.5 tonnes per person per year. Australia's current greenhouse emissions of 27 tonnes per person per are over 50 times this figure, making the target a 98% reduction.

We should be direct with the public about being 50x over the sustainable level, and that Australia's true target is 98% to be achieved in the shortest humanly possible time frame – perhaps 2050.

Australia should lead not lag.

Australian's pride themselves on being good global citizens. We should therefore be an example of dynamic progress.

In practical terms this means that we should have one of the world's highest carbon prices, perhaps we should aim for THE highest. This will:

- Strongly encourage abatement
- Make Australia the most attractive location for renewable energy development

As part of this we should not allow credits purchased from overseas to be counted towards our emissions reductions. Given Australia's current poor greenhouse performance, we need to get to work at home.

Linking to external trading systems is not necessarily important.

If we do succeed in having one of the world's highest carbon prices, we will not have a great external demand for our permits.

If we do not allow overseas abatement to be counted towards our emissions reductions, then we will not be buying many overseas permits.

Therefore a high-achieving local system does not need much in the way of international connection, and we can be free to set about delivering the best possible system in Australia so we can lead by example.

We do need a carbon price floor.

Achieving the required cuts will be a long and sustained challenge, and we cannot afford a slackening of effort.

Markets can and do fluctuate for a variety of reasons. If we do not have a floor price, then any period of low carbon pricing, or even the risk of a period of low carbon pricing will mean a lesser abatement response even to the average pricing level. Businesses are risk sensitive, and the absence of a floor price will add risk to any investment decision.

We cannot take comfort that limiting the quantity of permits will correct a poor abatement response. There will be a price ceiling regardless (see below).

There will be a carbon price ceiling, so we should manage it.

Regardless of any trading system, there will be practical limits on the price of carbon.

Economically, at some threshold, growth will be significantly affected, creating a large range of issues.

Politically, there is great sensitivity to fuel and power pricing. There will be a pricing point at which governments will put the short term outcry ahead of long term abatement, and a great deal of good work may be reversed. Logically, a compensation system would counter this, but politics is not always logical.

We should plan in advance, by pacing a cap at a level that will allow strong abatement, but prevent a disastrous reversal in support for the whole process.

If we are serious, the floor should be close to the ceiling and we will have a carbon tax.

Given that we need to achieve 98% emissions reduction in the shortest humanly possible time frame, it can be argued that having the floor level appreciably below the ceiling level represents lost opportunity for abatement.

Perhaps we should use our modelling capability to establish the ceiling and institute a carbon tax at that level.

Pro's and cons of carbon tax.

<u>Pro's:</u>

- Pricing certainty for investment
- Quicker implementation than trading
- Easier to compensate a known pricing level through tax reductions and the like

- More easily understood
- Requires less complexity to function properly, and therefore more likely to function properly in the real world

Con's of carbon tax:

- Tax is not a popular word.
    - Mitigate this by not using the word "tax". Perhaps call it a fixed price permit system.
- The pricing level is arbitrary.
    - Carbon tax pricing is based on economic modelling. Emissions trading is similarly arbitrary, with the number of permits over time being based on modelling that includes the pricing effect.
- Emissions reductions are not guaranteed.
    - As noted above, there is a real price ceiling which will constrain any system, regardless of fixed or legislated targets. The tax model does acknowledge this reality.
- Trickier to link to international systems.
    - As noted above, international linkage is not of value if we set out to achieve leadership (including high pricing) and do not accept overseas credits as part of our claimed abatement.

What level of pricing ?

The modelling required to set pricing levels is well beyond the scope of this submission, and the following is very much a broad-brush analysis:

Looking at the IPCC's report, a starting level of $50/tonne would give a valuable abatement kick-off. Revenue from this would be roughly $28 billion ($50/t x 27t/person x 21,000,000). This would be less than the GST, which itself was introduced without disastrous effects.

Perhaps we should start straight away with an emissions trading floor level (or perhaps a tax) of $50/t, and escalate as guided by modelling from there to reach 98% as soon as possible.

In conclusion ...

Australia needs to achieve 98% emissions reduction in the shortest humanly possible time frame.

If we wish to be leaders we should be aiming for consistently high carbon pricing levels in world terms, without exceeding the thresholds of economic damage and political reversal.

Pricing floors and ceilings have much to recommend them in achieving this, and, if we wish to lead, the most effective option will be a carbon tax.
