

To the Treasurer, the Hon. Wayne Swan MP,

I read with alarm that there was talk of reviewing whether a Carbon Tax is a more effective method of Carbon Pricing than an Emissions Trading Scheme.

Another review? Please tell me that we didn't just commission leading experts to produce a report merely for us to wipe our freckles with.

Simply put, a limited resource must be *rationed*. The capping concept is correct, and will effectively ration a limited commodity via permits. It is far superior to a carbon tax which would likely make things more expensive but with no guarantee of a reduction in overall emissions, because the rich will simply pay the extra dollars and keep emitting, as long as the unit revenue exceeds the unit cost. The auction component is also correct, and a clever way of setting the price and redistributing permits according to need.

However, the proposed Carbon Pollution Reduction Scheme has four fatal flaws:

1. The increase in costs will be passed to the consumer, who do not control improvements in production efficiency.
2. The "cap" on emission levels is also a "floor".
3. Without a cap on supply, the global greenhouse gas levels will not change.
4. The 5% target flies in the face of the science, and is based on an impossible assumption regarding population growth.

In more detail,

1. The entities responsible for and with the power to change wasteful production processes will simply pass on the added cost of permits to the consumers, instead of it being an incentive to improve efficiency. In the end, John and Mary Citizen will pay the cost, unable to pass the cost on to anyone else. It will be particularly hard for the low-income families who spend a high percentage of their income on essentials such as electricity, water, food and travelling to work. This will not be popular, and the public outcry will likely result in the abolishment of the proposal. The problem is somewhat alleviated by passing on to families all revenue from the sale of permits, but it does not address the need to provide incentives to change. Psychologically, people will feel more ownership of the scheme if they receive a regular *dividend*, rather than rebates or one-off offset payments. To avoid encouraging larger families or empty houses, ideally this dividend should be paid per household. Excess revenue must be poured into infrastructure and community initiatives that support the transition away from fossil fuels.
2. Any reduction in consumption will simply mean that other entities can continue to use more. For example, if every household takes steps to reduce energy use, such that a generator can be decommissioned, the energy company will on-sell its permit to another industry which allows them to pollute even more. The net effect of the households' actions is zero. The scheme needs to include the ability for energy reduction activities to reduce the number of current permits.
3. If our coal is not being burned in our local power generators, it will be exported overseas and burned there. We need to be reducing *global* emissions, not just at a national level. It is the global emissions that affect Australia via increased drought and ocean acidification. Our greatest influence over global emissions is by capping and reducing the supply of carbon to the world. It is far simpler

and effective to apply a carbon price at the point where carbon *enters* the economy, rather than upon emissions. Rather than subsidising the industry, we need a tax on carbon mining and imports.

4. The scientific community calculate that countries must reduce emissions by 25-40% from 1990 levels. Indeed, recent observations show that the IPCC predictions are grossly underestimated, and there is now greater understanding of positive feedback mechanisms, such as the reduction of ice causing less reflection and more absorption of infrared light, and the increase in drought causing more bushfires and so more carbon emissions and less carbon sinks. The 25-40% target is therefore too low. In the announced target of a 5-15% reduction on 2000 levels, the rationalisation was that this was based on an estimated population increase of 45%. Australia does not have enough water to sustain the current population while keeping healthy waterways, so a 45% population increase is not possible. It also sends the wrong message to other countries. Imagine if the U.S.A. adopted the same argument, considering their growing population and increasing per-capita emissions! Note also that a strong target is required to encourage developing nations to come on board. Our *liability* to the world is the accumulated emissions of hundreds of years of industrialisation, not simply the 1990 emission levels. Developing countries consider that their current emissions are simply making up for lost time. We need a much more aggressive target closer to 40% from 1990 levels, clearly indexed to the parts per million levels.

I request that we avoid another detailed review of carbon pricing, other than to fix the fundamental flaws.

Please forward a copy of this email to the Minister for Climate Change and Water, Senator the Hon. Penny Wong.

Yours Sincerely,

Gary Ellett