Overall, the White Paper is an improvement on the Green Paper, but offers considerable scope for further changes to deliver better economic and environmental outcomes that are fairer to all Australians. AIGN's concern is that the White Paper has been conceived in 'the good times', but is not robust for times of economic downturn, whether now or at some future date.

The following summarises the areas needing further significant improvement:

- AIGN endorses the White Paper test for setting Australia's emission budget at a level that is commensurate with "advanced economies taking on reductions comparable to Australia". However, both the -5% and the -15% targets the Government intends committing Australia to — representing a 25% to 35% reduction in emissions relative to expected trends and a 34% to 41% reduction from 1990 per capita emission levels — are stronger than other wealthier countries including the EU, the USA and the UK. Further, Treasury modelling estimates that these targets mean that Australians could incur wealth losses 3 to 4 times higher than the losses that Europeans and Americans bear by 2020. AIGN advocates that Australian's shoulder a fair share of the global burden, no more and no less.
- The White Paper emission trading design leaves the level of economic impact on the Australian economy to be determined by the global price of emissions as driven by the Clean Development Mechanism (CDM). This would be acceptable if the CDM was efficient and Australia negotiated an appropriate emission budget to compensate for the expected impacts on the economy. However, neither of these conditions is evident in the White Paper. AIGN notes that the Treasury modelling report does not model any scenarios for CDM permit prices and, hence, possible Australian permit price scenarios. The only effective means of limiting the economic impact of the emissions trading scheme is to adopt a 'safety valve' price cap. AIGN also notes that the Treasury modelling report does not model the economic implications of a $40/tCO2 'safety valve' price (rising at 5% real per annum) as proposed by the White Paper.
- The White Paper proposes an improved program of permit allocations to emission intensive trade-exposed industry and Climate Change Action Fund (CCAF) grants for other industry. The proposed program, however, does not offset the competitive disadvantage of trade-exposed businesses, and losses of jobs and investment will be inevitable, for minimal environmental gain under the -5% unilateral target. Within the coverage of the proposed emissions trading scheme, and leaving aside agriculture, 45% of Australia's emissions are associated with potentially trade-exposed businesses. However, the White Paper asserts that just 25% of permits will be sufficient to ensure no loss of competitiveness, investment and jobs from these businesses.
- A key mischief promoted in this debate is that transitional assistance to trade-exposed businesses is a gift of taxpayers' money to 'rent seekers'. The White Paper estimates that at a price of $25/tCO2 the emission permits in the trading scheme will be valued at about $11.5 billion in 2010-11. This $11.5 billion is not a magic pudding of taxpayers' money created (from nothing). Rather it derives from the increased costs of living for consumers and the lost profits of businesses. In particular, most trade-exposed businesses are unable to pass-on any emission costs and no trade-exposed business will be able to recover all emissions costs. The result of the White Paper is that in 2010 the Government may impose over $5 billion in costs on existing trade-exposed businesses, but is proposing to provide just $3 billion in relief declining at a rate of 1.3% per annum for existing businesses – this is nothing more than a productivity tax.
- AIGN estimates, assuming a historical growth rate in trade-exposed industries of 1.5% per annum excluding agriculture, that there is between $25 and $30 billion worth of permits unallocated by 2020. Clearly there are sufficient permits to deliver a better outcome for all trade-exposed businesses without

reducing the compensation to households proposed in the White Paper.

- Importantly, the White Paper proposes to allocate permits to coal-fired electricity generators that will suffer considerable asset value loss under the emissions trading scheme. However, the level of compensation offered is just $3.7 billion, whereas modelling published in the White Paper shows losses around $10 billion at a permit price of $25/tCO2. In addition, there maybe other non-trade exposed industries that could suffer significant asset value loss. A fairer outcome is needed.
- AIGN has a number of concerns around issues of governance and rights of appeal proposed in the White Paper. These are associated with the definition of 'activity' for the purposes permit allocation; the 5 year review of the emission intensive trade-exposed program by an expert panel; industry impact reviews to be undertaken by the Productivity Commission; and the general delineation of powers, and subsequent avenues for appeal, between the Minister and the regulator.
- AIGN has a number of concerns around the detail of regulations yet to be drafted across all areas of the scheme including permit allocation and acquittal, coverage, emission methodologies, auctioning, and taxation.

AIGN has other key areas of concern associated with the CPRS:

- It is not yet clear how the Government will use its R&D funds to assist the large scale demonstration of new technologies before they become commercially viable under the emissions trading scheme. AIGN supports funding of innovative elements of these projects on 'public good' grounds.
- The Government has proposed the 60,000GWh Renewable Energy Target (RET) scheme notwithstanding that it is displaced on policy grounds by the emissions trading scheme. The RET does not meet the COAG principles for climate change mitigation measures that are complementary to the CPRS. Every independent review undertaken, including by Professor Garnaut, the Productivity Commission and the Treasury, has recommended that the current MRET scheme should not be expanded and should be phased out. AIGN also notes that the policy was to produce 20% of electricity from renewable sources by 2020, and that with the CPRS scheme and the resulting reduction in electricity demand, the result of the 45,000GWh target in the draft legislation released by the Government late last year will be a much tougher and more costly target of almost 25%.
- It is likely that the Federal Government decisions to retain and adopt new measures that do not meet COAG principles, as represented by the RET, will be influential on State and Territory governments. The proliferation of overlapping and costly policies will continue, removing any claims to economic efficiency that might remain for the proposed emissions trading scheme.