

To all Australian Governments

It is now widely accepted that the concentration of greenhouse gases in the atmosphere has increased significantly since the industrial revolution as a result of human activities. There is a growing consensus that these higher greenhouse gas concentration levels will alter the planet's climate system, resulting in significant environmental and economic damage.

While it now seems clear that the future cost of doing nothing to reduce greenhouse gas emissions is substantial, neither the impact of various lower levels of emissions, nor the cost of meeting specific targets, are known with any real precision.

As a consequence, any system designed to reduce greenhouse emissions over time must include the following features:

- it must be flexible enough to deal with new information over time on the impact of different levels of greenhouse gas emission;
- the initial costs to consumers and business of introducing the system must not be excessive; and
- it must carry inbuilt price incentives for both business and consumers to change their behaviour over time in such a way as to reduce the future costs of reducing emissions.

A system based on tradeable emission permits, underpinned by greenhouse gas emission targets can, if carefully designed, provide all of these features. The emissions trading scheme can be designed in such a way as to provide flexibility over time in adjusting the emission targets. It would also have the added advantage - as against for example a carbon tax system - of establishing tradeable property rights with respect to permits, thereby building up a support base for maintaining the system going forward within the corporate sector.

We acknowledge that reducing emissions of greenhouse gases will entail an initial cost to the economy. As business economists we are well aware of the difficulty of accurately forecasting such costs, even over short periods of time. However, the economy has in the past demonstrated the ability to adapt to relative price shocks with less disruption and cost than originally anticipated. Its capacity to do so has been enhanced by ongoing structural changes, including notably the fostering of greater scope for the operation of market-based price signals. Adjustment by economies to the recent large increases in oil prices is a good example.

A market-based emission reduction system provides the most efficient means to substantially reduce the costs of emission reduction over time, by encouraging industry to develop and implement low emissions technology and by facilitating changes in consumer preferences.

Any price-based emission reduction system will, by its very nature, have a non-uniform impact across different households and companies, especially in Australia given the importance in our economy of a number of emission-intensive industries. However, any decision to offset some of these distributional effects should be made and implemented quite separately from the emission control system itself. This would ensure that incentives to invest in more environmentally friendly technology or to change consumer preferences would not be diluted.

On balance, we believe the risk that climate change will result in substantial long term damage to the Australian economy makes it imperative that government takes urgent action to reduce Australia's greenhouse gas emissions. Many countries and states already have programs to reduce greenhouse gases underway, resulting in a restructuring of their industries towards a low emissions future. Delayed action by Australia would increase the cost and degree of change required to achieve emissions reductions in the future and would restrict the opportunity to participate in development of low emissions technology and emissions trading.

Early action would give Australian industries an advantage in confronting climate change. Early action would also raise the weight of Australia's voice in international deliberations on the most efficient global response to this substantial challenge to the future prospects for world welfare.



Paul Brennan

Managing Director, Co-Head, Economic & Market Analysis,
Australia and New Zealand for Citigroup



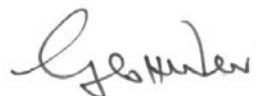
Richard Gibbs

Head of Economics, Division Director,
Macquarie Bank Limited



Alex Erskine

Managing Director, Erskinomics Consulting Pty Ltd



Geoff Weir

Managing Director
Financial Sector Services Pty Ltd



Saul Eslake

Chief Economist, ANZ Banking Group Ltd

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