

21 December 2006

The Secretariat  
National Emissions Trading Taskforce  
The Cabinet Office  
GPO Box 5341  
Sydney NSW 2001

Dear Secretary,

Thank you for the opportunity to participate in the National Emissions Trading Taskforce consultation process.

ICLEI-A/NZ is encouraged by progress to date on developing a national emissions trading scheme. A well designed emissions trading scheme is internationally recognised as an economically efficient means of achieving reductions in greenhouse gas emissions.

Australian local governments participating in the Cities for Climate Protection (CCP) Campaign have been actively implementing greenhouse gas reduction measures for the past seven years and have recently reported to ICLEI-A/NZ abatement of 2.88 million tonnes CO<sub>2</sub>e for the 2005-06 year.

The ongoing success of the CCP Campaign demonstrates the importance of engaging communities in greenhouse gas abatement action. ICLEI's November 2005 submission to the Emissions Trading Taskforce consultation process highlighted the need for the design of the proposed national emissions trading scheme to include a mechanism to encourage downstream energy efficiency.

We are disappointed that the currently proposed design does not include an explicit mechanism to promote end-use energy efficiency, but instead relies on electricity price increases that are anticipated to be relatively minor in the near future.

A well designed emissions trading scheme should lead to improved energy efficiency, both upstream and downstream, so that the economic benefits of such a scheme accrue to all sectors of the community.

The issue of upstream greenhouse gas abatement costs being passed on to low income households is of paramount importance. Allowing those households to be involved in an emissions trading scheme, through the inclusion of explicit demand side provisions, would encourage improved energy efficiency and therefore offset any potential increase in the cost of energy on a per unit basis.

We are also concerned that the following elements of the proposed design will reduce the effectiveness of an emissions trading scheme in Australia:

1. Allowing the unlimited use of offsets from biosequestration and Certified Emission Reductions from Clean Development Mechanism (CDM) projects. Recent experience has shown that the delivery of emissions reductions from either of these sources is far from certain. Further, the lower cost of abatement from these project types effectively places a cap on the price of emissions in the market. If this price is below the unit price of energy efficiency improvements

in Australia, then the trading scheme is unlikely to achieve the intended improvement in the efficiency of Australia's stationary energy system.

We encourage the Taskforce to consider a strict limit on the allowable contribution of offsets from these sources.

2. The free allocation of permits to existing generators but not to new, more efficient generators will merely preserve the rate of return on ageing infrastructure and so discourage its replacement. The free allocation of permits has been identified as a key failure of the EU Emissions Trading Scheme, due to it providing windfall profits to existing electricity generators. While the proposed Australian design seeks to prevent this through allocating only sufficient permits to offset any reduction in profits, free allocation is likely to significantly delay improvements in the efficiency of existing generators and discourage investment in more efficient generation.

We encourage the Taskforce to assess alternative methods of permit allocation that are currently being considered for use in the second phase of the EU ETS, which are intended to encourage the early replacement of existing generation infrastructure.

ICLEI-A/NZ supports the consultation work being undertaken by the Taskforce and urges it to ensure that the design of a national emissions trading scheme does more to encourage the efficient use of energy in Australia.

We would be pleased to further assist the Taskforce in any way it deemed desirable.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Wayne Wescott', with a stylized flourish at the end.

Wayne Wescott  
Chief Executive Officer  
ICLEI-A/NZ