Ai Group submission on carbon price design – key points

Note that Ai Group continues to reserve judgment on whether to support, oppose or seek amendments to any climate policy, including government and opposition proposals, pending availability of full detail and discussion with our National Executive, Branch Councils and broader membership. This submission was released publicly on 30 May 2011 after being presented to the Government and other stakeholders on 18 May.

Issue	Options
EITE Several important issues remained unresolved or unsatisfactory under CPRS	• Maintain **allocations** at least at CPRS levels (94.5% and 66%) • Halt any **decay** at 90% and 60%, then vary only on activity-by-activity basis where PC can assess shadow carbon prices in relevant countries. • Remove 100% **allocation cap**, or otherwise improve to preserve abatement incentives.
Less intensive trade exposed Key Ai Group issue. CPRS inadequate, especially given new pressure from dollar.	• Introduce a new **EITE tier 3** level for activities with intensity between 300 and 1000 tonnes per $m revenue. Would assist some foundries, upstream food processors, some plastics and chemicals sectors, etc. • **Climate Change Action Fund** (CCAF) – improved from CPRS version. Information provision and on-site assistance to help businesses understand liabilities and opportunities. Capital funding (grants, Low Carbon Australia investment or possibly automatic matched funding for defined kinds of investment) for efficiency/emissions reduction measures. $2b over 5 years. • **Transitional Electricity Cost Assistance Program** (TECAP) – improved from CPRS version. Pays 50% of increased electricity cost associated with carbon price for 3 years to manufacturers and many mining businesses with annual usage over 300MWh. We think cost is $1.5b over 3 years.
Cost control	• **Full international linking** in floating price period, no quantitative restrictions on credible international credits. • **Default price path** in event of deferred transition should be defined up front. • **Start price** should be low ($10) and rise modestly until trading. • Use of Kyoto compliant **domestic offsets** should be allowed from scheme commencement.
Architecture & review	• **Transition** to floating price – to avoid creating damaging uncertainty, this should be automatic. Only criterion for deferral should be possible absence of sufficiently deep international carbon markets to meet Australia's needs. • **Coverage and phasing** – less of a concern if trade exposure measures are good. • **Fuel** – CPRS approach (include but reduce excise) was very expensive, untargeted and reduced incentives. Either include and bump up household assistance somewhat, or exclude for 3 years and then include fully without excise reduction. • **Governance** – PC work on carbon prices should continue and be central to future decisions on EITE and targets/caps. Independent regulator should make key decisions (subject to Parliamentary override) on possible deferral; caps; and changes to EITE.
Associated issues	• Lower-emission **Research, Development &Deployment** needs support, but this should come from outside carbon price revenue at least for the first several years. • **Rationalising other climate policies** – extremely important. More than 550 existing measures nationally should be pruned aggressively if carbon is priced. • Non-Kyoto compliant **domestic offsets** – government/regulator could purchase modest quantities using carbon price revenue – perhaps 1% of revenue in first year, reaching 2% by 2020.