

Scrutiny of New Taxes Committee

Inquiry into a Carbon Tax
Response to Question on Notice

16 September 2011

Question No: 1

Topic: Implicit carbon price - China

Question:

Senator BOSWELL: Chair, I have an email here of what the department did say—which was FOI'd—and I would like permission to read it out.

CHAIR: Please, Senator Boswell.

Senator BOSWELL: The crucial email from the department said:

I said the figure for the dominant Chinese scheme was overestimated at \$7.58 per tonne. When it had been costed in the basis of a comparable Australian scheme, the price would be \$1.28. I would like to query this approach says the email from an unidentified public servant to the Climate Institute's Erwin Jackson—before providing a second calculation confirming the lower figure. As a sanity check, the cost of the policy is \$354 billion which is applied to the total emissions from the electricity sector, all 277 billion tonnes, also works out at \$1.28 per tonne of carbon dioxide. That is an email from your own department. Does that refresh your memory?

Senator THISTLETHWAITE: Hang on a second. Who is the email from?

Senator BOSWELL: From the Department of Climate Change.

Senator THISTLETHWAITE: But who specifically? They cannot answer a question about—

Senator BOSWELL: It is from an unidentified public servant. It was FOI'd.

CHAIR: Senator Thistlethwaite, it was FOI'd so the name was clearly removed.

Senator THISTLETHWAITE: I thought you guys would have learned your lesson about unidentified public servants' emails.

CHAIR: There is still a question as to whether that has refreshed your memory.

Ms Wilkinson: As I said, during the process of developing the work we were asked to comment on the work by the Climate Institute and there were a number of technical discussions that we had with the Climate Institute about different ways in which average costs of abatement, marginal costs of abatement and shadow carbon prices can be estimated and these are technical issues which can lead to different estimates.

Senator BOSWELL: Was it \$1.28 per tonne? Did you receive that advice?

Ms Wilkinson: We advised that there were a range of different estimates that different technical assumptions would lead to.

Senator BOSWELL: When did you advise the minister's department that there was an error in the Vivid Economics report? The report came out and said it was x amount and one of your public servants challenged that and said it was \$1.28 and that it was overestimated at \$7.58. When did you advise the minister that the report was wrong?

Dr Kennedy: Senator, you are searching for a very specific date which I will take on notice. What I can advise you is that the best estimates of the implicit carbon price for China the department would regard at the moment are those contained in the Productivity Commission report. They represent the most thorough and recent analysis that has been undertaken.

Senator BOSWELL: What are they?

Dr Kennedy: They are the ones that Ms Wilkinson just outlined, and they range from \$8 to \$57 a tonne.

Senator BOSWELL: Will you take that on notice?

Dr Kennedy: Yes.

Answer:

Through the Climate Institute, the Department was given the opportunity to comment on a draft of the Vivid Economics report on implicit carbon prices in key economies. While the report was in draft form, the Department engaged in a technical discussion with the Climate Institute over the methodology and results in the draft report. Vivid Economics responded to the Department's comments, explaining the reasoning for their approach.

Following these discussions, the Department advised the Minister on 19 October 2010 that the methodology for comparing different policies is still developing and the carbon prices reported should be taken as indicative, as different methodological approaches would give rise to different carbon prices. Notwithstanding this, the Department further advised that the broad conclusion that other countries are taking actions that give rise to implied carbon prices that are at least equivalent to, if not greater than, that currently applying to Australia's electricity sector, is valid.

Scrutiny of New Taxes Committee

Inquiry into a Carbon Tax
Response to Question on Notice

16 September 2011

Question No: 2

Topic: Analysis of Direct Action Plan

Question:

Senator CAMERON: Dr Kennedy, there are two competing policies in the political arena at the moment. One is the legislative approach the government is taking to a carbon price based on a market system, and the other is what is called direct action. Are you aware of the direct action approach?

Dr Kennedy: I am aware of it, Senator, yes.

Senator CAMERON: Have you done any analysis of direct action with the department?

Dr Kennedy: The department has done some analysis of the opposition's policies in the past.

Senator CAMERON: I read that the direct action policy would either not deliver the five per cent reduction by 2020 or the cost to reach a five per cent reduction under direct action would be extremely high. Do you have any information you can give us on that?

Dr Kennedy: We do. I will pass over to Ms Wilkinson for a little more of the detail, but I understand that analysis has been released. From memory the assessment was that, with the best intent of assuming how things would work, it would generate about 40 megatonnes of abatement, from the memory. As to the cost, I will pass to Ms Wilkinson.

Ms Wilkinson: The analysis that was undertaken by the department was provided to the Senate in response to a question which was raised at Senate estimates in February 2010. Dr Kennedy is correct. This analysis found that the direct action plan would be unlikely to achieve more than about 40 megatonnes of abatement in 2020. The average cost of that abatement in that advice was estimated to be around \$50 per ton in 2020.

Senator CAMERON: There was also a figure in terms of the cost to taxpayers of the policy. Do you have that?

Ms Wilkinson: I do not have that with me. In estimating the cost to taxpayers, one needs to take into account both the actual cost of the direct action program and the additional cost which would be associated with presumably purchasing international offsets to meet the 160 megatonnes of abatement that would be required. Both of those would be needed to be added together. I can take that question on notice.

Answer:

Analysis by the Department in 2011¹ estimated that the cost of the direct action policy could be more than \$30 billion over the 10 years to 2020.

The Department found that the direct action plan would be unlikely to deliver more than 40 megatonnes of carbon dioxide-equivalent (Mt CO₂-e) of abatement in 2020. This is approximately 25 per cent of the abatement required to meet Australia's unconditional 2020 target of a 5 per cent reduction from 2000 levels. Thus, a significant volume of additional abatement – around 120 Mt CO₂-e in 2020 – would be required to be purchased from international markets. The purchase of additional abatement over the period to 2020 was estimated to cost around \$20 billion. Adding the total cost of the direct action plan – assumed to average \$1.2 billion to 2020 – the total cost could be more than \$30 billion to 2020.

¹ www.climatechange.gov.au/minister/greg-combet/2011/media-releases/March/mr20110302.aspx

Scrutiny of New Taxes Committee

Inquiry into a Carbon Tax
Response to Question on Notice

16 September 2011

Question No: 3

Topic: Australian Alliance advertising campaign

Question:

Senator CAMERON: Have you seen some ads on the television by a group of companies and employer organisations, including the Minerals Council—I think it is called the Australian alliance?

Dr Kennedy: I have seen some ads on television—I am not sure of the source of the ads—saying they are having concerns about the carbon price.

Senator CAMERON: Has the department checked the veracity of the information that has been promoted in those ads?

Dr Kennedy: We have not been asked to provide advice on the veracity of the information in those ads.

Senator CAMERON: Could I ask you now, for the purposes of this committee, to check the claims that were made in those ads. Would that be an appropriate thing to ask?

Dr Kennedy: I am happy to take that on notice.

...

Dr Kennedy: Senator, excuse me, I just need to correct the record. Ms Wilkinson has just drawn to my attention that the department has provided briefing on the advertising you were referring to earlier. I was not aware of it. I will take on notice the provision of that briefing to the committee.

Answer:

The Department has provided advice to the Minister regarding the claims made by the Australian Trade and Industry Alliance (ATIA).

Comparisons made by the ATIA between the revenue collected during the first two phases of the European Union (EU) Emissions Trading Scheme (ETS) (2005-11) and the proposed Australian carbon pricing mechanism do not provide an accurate comparison of those schemes.

The ATIA analysis accounts for revenue under the EU ETS and the Australian scheme inconsistently. For example, permits allocated for free under the EU ETS were excluded from the EU revenue figures; however, permits that would be allocated for free were included in the Australian revenue figures.

When compared on a like for like basis, the Department estimates that the equivalent market size of the EU scheme for the three years 2013-15 would be around \$145 billion compared to \$27 billion in Australia.

Scrutiny of New Taxes Committee

Inquiry into a Carbon Tax
Response to Question on Notice

16 September 2011

Question No: 4

Topic: Carbon price advice to ASX

Question:

Senator CAMERON: Is the department aware of any major company that has advised the Australian Stock Exchange that the carbon price will force their closure or will have a significant effect on the operation of the company?

Dr Kennedy: I am not aware of one, Senator, but I will take it on notice to check for you.

Answer:

The Department is not aware of major company advice to the Australian Securities Exchange in relation to the carbon price having a significant effect on the operation of a company, including closure.

Scrutiny of New Taxes Committee

Inquiry into a Carbon Tax
Response to Question on Notice

16 September 2011

Question No: 5

Topic: Coalition's Direct Action Plan

Question:

Senator FIFIELD: Senator Cameron asked questions of you about the costings on the coalition's direct action plan. In undertaking the work that you did, did you at any time talk to the shadow minister, Mr Hunt?

Ms Wilkinson: I am not aware of any conversations with Mr Hunt. But I can take that on notice. I was not directly involved in that meeting. But I do not think so.

Answer:

The Department drew solely on material in the public domain in preparing its analysis. In particular, the Department consulted documents published by the Coalition which detailed the direct action plan and comments on the public record by Coalition spokespersons.

Scrutiny of New Taxes Committee

Inquiry into a Carbon Tax
Response to Question on Notice

16 September 2011

Question No: 6

Topic: Secondment of Staff from OBPR

Question:

Senator FIFIELD: I am sure that statement will be a source of great comfort for business. As I say it does strike me as odd that with something of this magnitude we are still relying on 2008 work. In terms of the preparation of the regulatory impact statements, were any staff seconded to the department of climate change from other departments or agencies to do that work?

Dr Kennedy: Yes, from the department of finance, from OBPR itself.

Senator FIFIELD: Okay from that office. How many staff were seconded?

Dr Kennedy: One.

Senator FIFIELD: Is it a common practice for staff to be seconded from that office to other departments?

Dr Kennedy: It certainly happens. I do not know how common it is, but for larger policies I understand it is not uncommon, but I should check that as it is a recollection and something I cannot attest to.

Answer:

As part of its role in assisting departments and agencies in complying with the Government's Best Practice Regulation requirements, the Office of Best Practice Regulation (OBPR) has provided staff on secondment to departments and agencies to assist them in preparing Regulation Impact Statements (RIS).

OBPR seconded one officer at the request of the Department of Climate Change to assist with the RIS for the Carbon Pollution Reduction Scheme and seconded one officer at the request of the Department of Climate Change and Energy Efficiency to assist with the RIS for the Clean Energy Future plan.

Scrutiny of New Taxes Committee

Inquiry into a Carbon Tax
Response to Question on Notice

16 September 2011

Question No: 7

Topic: Regulatory Impact Statement

Question:

Senator FIFIELD: When did the regulatory impact statement go to cabinet?

Dr Kennedy: I cannot answer that question—I will just check with my colleagues. I will have to take that on notice as I am not certain.

Senator FIFIELD: Okay, I would be interested as to whether that was before or after the government's announcement on 24 February that they were going to introduce a carbon tax.

Dr Kennedy: I am quite certain it was before, but as to the precise date, I will take it on notice. What date did you say?

Senator FIFIELD: 24 February.

Dr Kennedy: I will have to take that on notice.

Answer:

The Department was advised by the Office of Best Practice Regulation (OBPR) that a Regulation Impact Statement was not required for the matters set out in the Government's announcement of 24 February 2011.

Regulation Impact Statements were prepared, and assessed as adequate by the OBPR, for the Cabinet's consideration of policy issues over the period March to June 2011. A final Regulation Impact Statement was prepared, and assessed as adequate by the OBPR, before the Cabinet's consideration of the final Clean Energy Future package in July 2011.

Scrutiny of New Taxes Committee

Inquiry into a Carbon Tax
Response to Question on Notice

16 September 2011

Question No: 8

Topic: Clean Energy Future website

Question:

Senator BOSWELL: I refer you to the last committee meeting on 10 August where I read out a statement: 'According to international energy in the last 20 years China' and so forth—Senator Thistlethwaite checked that and it had been removed after I made that statement. Senator Thistlethwaite came up and questioned the statement and said it was no longer there—it had changed. The chair then said, 'I ask to table a copy of the website exact.' That statement was dated 10 August. The question was asked and put on notice by the chair—what time was that statement taken down and what date. You have replied to that but you have not given us a time and date.

Dr Kennedy: I do not have the time and date with me, I apologise.

Senator BOSWELL: Hang on a minute, we put a question on notice, you then put an obfuscation out not giving the time and date. You must have known you were going to be asked.

Senator CAMERON: Point of order. Obfuscation is quite a charge against the department and that is not correct. The department is entitled—

Senator BOSWELL: Well, you were not there—

CHAIR: Senator Cameron, I remember the question and I have to say I share Senator Boswell's frustration given that there was a specific question asked on 10 August. It was taken on notice, no answer was provided to the question that was asked. Here we are now on 16 September and the officials are still not able to answer the question.

Senator BOSWELL: You make a claim. I read that claim out, challenge it, then between the time I read it out and by the time I go to lunch Senator Thistlethwaite has read it and comes back and says virtually that I was wrong. I want to know when that statement was pulled down and what time it was pulled down.

Dr Kennedy: We have provided a reply to the question on notice.

Senator BOSWELL: Can you point me to where it says the time and the date it was pulled down?

Dr Kennedy: I understand now that you are seeking that additional information and I will—

Senator BOSWELL: I am not seeking additional information, I am seeking the information that I asked for on 10 August and you have not supplied.

Dr Kennedy: I understand from this question that there were two sources of this information—one was in a fact sheet and one was in an article that was related to that fact sheet.

CHAIR: No, this was in relation to something that was on your website.

Senator BOSWELL: It was something on your website.

CHAIR: It was in the body of your website and was changed as the committee proceeded, and the impression was created that Senator Boswell misquoted what was said and, as it turns out, the more likely scenario is that the website was changed after Senator Boswell quoted from it. We want to know exactly what day and at what time the website was changed. I am somewhat intrigued as to why, since 10 August, you have not been able to provide that information.

Dr Kennedy: I am happy to follow up on these issues. As I understand it, the information to which Senator Thistlethwaite referred to was contained in a fact sheet, the information to which Senator Boswell referred to was an article. That is what is in question.

Answer:

As answered in the response to Question on Notice number 5 from 10 August 2011, the statement in question was not intentionally removed from the website on 10 August 2011. However, technical problems with back-end web servers meant that at times published web pages did not consistently appear on the website. This technical problem affected content across the Clean Energy Future website and was not restricted to the particular statement as contained in the news article or fact sheet in question. The technical problem has since been resolved.

With respect to the news article on China on the Clean Energy Future website, the Department regrets that the article incorrectly paraphrased the language in the associated fact sheet. It was corrected on 19 August 2011. It is worth noting that the fact sheet available on the website, *China's Action on Climate Change*, has always correctly stated the fact in question: 'In the past 20 years, China has reduced the amount of carbon pollution per unit of GDP faster than any other major economy'.

Scrutiny of New Taxes Committee

Inquiry into a Carbon Tax
Response to Question on Notice

16 September 2011

Question No: 9

Topic: Vivid Economics Report

Question:

Senator BOSWELL: Okay, the date and the time, because I was made to look like I was not reading out the right information, and I was. But let's not dwell on that. Let's go back to this Vivid Economics report, in which they said there was one person from your department who sent an email to the Climate Institute's Deputy Chief, Erwin Jackson, and said that 'a sanity check, the cost of policy is 3.54 billion which when applied to the total emissions from the electricity sector, 2.77 million tonnes also works out at \$1.28 a tonne.' So on two calculations he said \$1.28 a tonne. Obviously you would have reported this to the minister that he had a report that was incorrect and you would have advised him of that. At what time and date did you advise him.

Dr Kennedy: I cannot confirm whether we advised the minister or not, so I would have to take that on notice.

Answer:

Through the Climate Institute, the Department was given the opportunity to comment on a draft of the Vivid Economics report on implicit carbon prices in key economies. While the report was in draft format, the Department engaged in a technical discussion with the Climate Institute over the methodology and results in the draft report. Vivid Economics responded to the Department's comments, explaining the reasoning for their approach.

Following these discussions, the Department advised the Minister on 19 October 2010 that the methodology for comparing different policies is still developing and the carbon prices reported should be taken as indicative, as different methodological approaches would give rise to different carbon prices. Notwithstanding this, the Department further advised that the broad conclusion that other countries are taking actions that give rise to implied carbon prices that are at least equivalent to, if not greater than, that currently applying to Australia's electricity sector, is valid.

Scrutiny of New Taxes Committee

Inquiry into a Carbon Tax
Response to Question on Notice

16 September 2011

Question No: 10

Topic: Carbon price legislation

Question:

Senator BOSWELL: In particular, have you received any advice about the liability of a government which removed the carbon legislations thus removing any value of it in a carbon unit? So, we come into power and we say: 'No, we are not having this.' What happens to that carbon unit?

Mr Sakellaris: I do not recall the details, we would have to take that on notice.

Senator BOSWELL: When did you ask for advice, when did you receive the advice on this particular issue? What did that advice say? Has the department evaluated what the size of any potential future liability will be?

Dr Kennedy: For the last part of the question I can say that the department has not done any analysis around the possible repeal of the system and what the cost would be. As to all the previous questions about when advice was taken, we have not brought our legal advisors with us but we are very happy to take all those questions on notice and provide you with an answer.

Senator BOSWELL: I will read them out again. When did you ask for that advice and when did you receive it? What did the advice say? Has the department evaluated what the size of any potential future liability will be?

Dr Kennedy: We had a person for the Australian Government Solicitor working throughout the pulling together of the legislation. So, if you like, we were receiving advice on an ongoing basis, but we also sought additional—

Senator BOSWELL: You cannot give me what I am asking now, you are prepared to take that on notice.

Answer:

The Department has received legal advice on the effect of section 51(xxxi) of the Constitution, relating to the acquisition of property on just terms, on repeal of the legislation. The advice was requested on 16 September 2011 in view of the interest in this issue in the Parliament and in the media, and draft advice was received on 21 September 2011.

Legal advice is subject to legal professional privilege.

The Department has not evaluated the size of any potential future liability of a government that removed the clean energy package of legislation.

Scrutiny of New Taxes Committee

Inquiry into a Carbon Tax
Response to Question on Notice

16 September 2011

Question No: 11

Topic: Soil carbon accounting

Question:

Senator THISTLETHWAITE: There was discussion earlier about soil carbon. How is soil carbon treated internationally in terms of its contribution to emission reductions?

Dr Banerjee: The accounting rules around soil carbon are very complex. There are certain categories of land use change activities that are able to be counted under current accounting rules under the Kyoto protocol. There are certain others that are not Kyoto compliant in the language. The technical details of that are really very arcane. We can provide some of that on notice, if you would like.

Senator THISTLETHWAITE: Yes, if you could. The Liberal Party's website says that their direct action policy aims to achieve 85 million tonnes of abatement by 2020 through soil carbon. Have you done any analysis of whether that is a realistic achievement?

Answer:

First question

Currently, changes in soil carbon on agricultural lands do not count towards Australia's accounting for its Kyoto Protocol target (2008-12).

For the land sector, countries can choose whether or not emissions from some sources count towards their Kyoto Protocol targets.

Actions to change soil carbon stocks in agricultural lands fall within the additional land-based activities that were not mandatory. Australia elected not to account for these activities (known as cropland and grazing land management) because the Kyoto accounting rules require countries to also account for emissions from natural events like bushfires.

Consequently, this means that neither actions to increase or to decrease soil carbon in agricultural lands sit within the accounting framework for Australia's Kyoto target.

The accounting rules to govern future international commitments are currently under negotiation. The Australian Government is working with other countries to develop rules that will create improved incentives for countries to account for emissions from the land sector more broadly.

Second question

The Department analysed the Opposition's direct action policy in 2010. It concluded that an 85 million tonnes of carbon dioxide-equivalent (Mt CO₂-e) abatement from soil carbon estimate was well above other estimates at the time.

A 2009 CSIRO study (Eady et al., 2009) estimated the combined national potential for building soil carbon and mitigation of soil nitrous oxide emissions for cropped land was about 25 Mt CO₂-e per year. This was an estimate of the maximum possible amount of such abatement. As this value is a combination of both soil carbon sequestration and reduction in soil nitrous oxide emissions, the abatement due to soil carbon alone can be expected to be less.

In April 2011, the Department released its preliminary estimates of abatement achievable by 2020 through soil carbon sequestration and other measures proposed under the Carbon Farming Initiative (CFI). These estimates were based on both scientific and economic considerations, drawing upon previous work by CSIRO and the likely effect of the CFI on soil carbon projects.

This work estimated that by 2020, soil carbon sequestration on cropped land is expected to be 0.3 Mt CO₂-e under its Low scenario, and 0.5 Mt CO₂-e under its High scenario (see Department of Climate Change and Energy Efficiency, 2011) assuming prices ranging from \$3 per tonne to \$5 per tonne in the voluntary market.

The Department's 2011 estimates reflect attainable abatement by 2020, not technical potential, unlike other studies that quote higher figures for soil carbon.

Australia's potential to increase soil carbon levels permanently is highly uncertain. Long-term carbon retention by soil is dependent on both rainfall and soil composition, with low rainfall, variable climate and sandy soils making retention more difficult.

Many non-government estimates of soil carbon sequestration currently in circulation are based on overseas work, which does not take account of different Australian conditions, in particular our friable soils and low rainfall.

Sources:

CSIRO: Eady, S., Grundy, M., Battaglia, M. and Keating, B., *An Analysis of Greenhouse Gas Mitigation and Carbon Sequestration Opportunities from Rural Land Use* (August 2009)

CSIRO: Sanderman, J., R. Farquharson and J. Baldock, *Soil Carbon Sequestration Potential: A Review for Australian Agriculture* (July 2010).

Department of Climate Change and Energy Efficiency: *Carbon Farming Initiative Preliminary Estimates of Abatement* (April 2011)

www.climatechange.gov.au/~media/publications/carbon-farming-initiative/CFI-Preliminary-estimates-of-abatement.pdf