

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

4 – 6 June 2013

Question: BET 37

Topic: Carbon Permits Revenue

Hansard Page: Wednesday 5 June 2013, Page 25 & 35

Senator CORMANN & Senator BIRMINGHAM asked:

Senator CORMANN: Are your revenue estimates from the carbon price in 2013-2014 based in any way on revenue from the advanced sales of carbon permits for 2016-2017?

Dr Gruen: The box actually goes to that question. It says:

These advance auctions in the Budget forecast years are based upon average EU-ETS market futures prices for 2013-14 and 2014-15.

Senator CORMANN: So what prices for 2015-16 and 2016-17 are you basing your revenue expectations for 2013-14 and 2014-15 on from the advance sales of permits?

Dr Gruen: Sorry, for the advance sales it is based on average market futures prices.

Senator CORMANN: So what is that? Can you give us dollar figures?

Dr Gruen: I do not have that information with me. I am happy to take it on notice. I do not have it with me.

Senator CORMANN: Okay, so—

Senator Wong: Senator—

Senator CORMANN: No, no. Minister, please. We have had a very good morning, so let us—

Senator Wong: Yes, but I was jumping in because you looked like you were doing what you often do, which is to follow-up a question taken on notice with the same question.

Senator CORMANN: No, no, I am not following it up with the same question.

Senator Wong: Oh, that is good. I am pleased that we are learning.

Senator CORMANN: I am just volunteering the fact that I happen to have the data here on what the international price is.

Senator Wong: That is very nice for you, Senator. I am very pleased.

Senator CORMANN: And, in fact, I have got the data in terms of carbon price futures, which indicates that for 2015-2016—well, the futures price at the moment is 4.53 euros, which is about A\$6. So is that about in the ballpark of what you are—

Senator Wong: Senator, you are doing precisely what I asked you not to do. The officer has taken it on notice. He is entitled to and you are asking the question a different way.

...

Senator BIRMINGHAM: If I can move on. I will follow-up on questions around the risk to revenue. For that, I turn to table 9, page 5-26 at Budget Paper No. 1. Dr Gruen, in the predicated year, 2015-16 where revenue is predicted to be \$4.09 billion, answers received from the department of climate change last week said that 338 million permits will be auctioned for that vintage year. Is that also Treasury's understanding?

Dr Gruen: This is definitely a question for Revenue Group, is it not?

Ms McCulloch: It is. You are correct. The department of climate change did actually use the figure of 338 million.

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Senator BIRMINGHAM: In terms of the risk to revenue of the Treasury modelling, the price there is modelled at \$12.10, 338 million permits gets you your \$4.09 billion. For every \$1 that the modelling is out, that would be a \$338 million hit to that revenue forecast, would it not?

Mr Ray: I think we took the question on notice from Senator Cormann along these lines.

Ms McCulloch: Yes, we did.

Mr Ray: It is not as simple as that sort of linear arithmetic. We have taken it on notice.

Senator BIRMINGHAM: Why is it not as simple as that arithmetic?

Senator Wong: He has taken it on notice. He is entitled to do that. In fact, the question was put by Senator Cormann previously.

Senator BIRMINGHAM: I have brought information from the other committee, which Ms McCulloch has confirmed—

Senator Wong: And we are still taking it on notice.

Senator BIRMINGHAM: that there is 338 million permits in the market. Surely, that is a very simple equation, Mr Ray.

Senator Wong: He has taken the question on notice.

Answer:

(a) Carbon prices for the forecast years 2013-14 and 2014-15 are based upon average EU-ETS market futures prices for those years. Advance auctions for emissions liabilities for 2015-16 and 2016-17 are based on the carbon price parameters in each of the forecast years in which they are auctioned.

At the 2013-14 Budget, the price parameters were \$12.10 in 2015-16 and \$18.60 in 2016-17. There is no information publicly available to respond to this question for other years.

(b) The revenue estimates for the carbon pricing mechanism are based on the total volume of permits expected to be surrendered (including free permits) for a particular vintage year and the price they are worth at the time of surrender. In the floating price period this is equal to the assumed scheme cap. In 2015-16 the assumed scheme cap at Budget was approximately 338 million permits.

Auctions in a particular year include units from multiple vintages as specified in the Clean Energy (Auction of Carbon Units) Determination 2013; therefore, it does not include all 338 million units from 2015-16.