

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 2012

15 – 17 February 2012

Question: AET 1277-1278

Topic: What proportion of the clean energy package will be linked to the price of carbon and what proportion will be fixed irrespective of the price

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Senator Cormann asked:

I have a lot of questions to go, through so I will go through them quickly. Can you provide this for us if you have not got it handy: beyond the period of the forward estimates, once we go beyond the fixed-price period, what proportion of the government's clean energy package will be linked to the price of carbon and what proportion will be fixed irrespective of what the price of carbon is? *[Question one]*

Ms McCulloch: I will take that on notice.

Senator Cormann: Thank you. If the world carbon price remains below the \$15 carbon floor price in 2015-16, do you know what the impact on the budget would be expected to be? *[Question two]*

Ms McCulloch: The 2015-16 financial year will first be presented in the 2012-13 budget. We have not completed those estimates yet and they will be published with the budget.

Senator Cormann: So at this point in time you do not know what the impact will be?

Ms McCulloch: No.

Senator Cormann: Has Treasury undertaken any—

Senator Wong: Ms McCulloch said that 2015-16 will be included in this year's budget.

Senator Cormann: I understand that, but obviously there are some medium-to long-term estimates, projections and forecasts that I am sure that they worked on. I am asking whether there is any understanding now of what the implications would be if the carbon price remains below 15 per cent. It was taken on notice.

Senator Wong: I am telling you now that the answer will be just as it was when you were in government—obviously it was different years when you were in government. The 2015-16 figures will be included in the 2012-13 budget.

Senator Cormann: And we will talk about it in May; that is great. Has Treasury undertaken any analysis of the sensitivity of the underlying cash balance to changes in the carbon price?

Ms McCulloch: No.

Senator Cormann: Can you confirm that the government expects to be selling around 335 million to 340 million tonnes of CO₂ equivalent permits each year? *[Question three]*

Ms McCulloch: That is not a figure I am familiar with.

Senator Cormann: Looking at the revenue divided over the three years of the fixed-price period, if you take the revenue figure divided by the price, that is the figure that we would come up with.

Senator Wong: I do not think inviting officers to confirm your arithmetic is sensible. We will take it on notice to see if we can assist. You put those figures to Mr Comley—perhaps it was not you; oh, it was you, Senator Birmingham—in the climate estimates.

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Senator Cormann: What is your expectation on how many CO2 equivalent permits you would be selling each year over the three-year fixed-price period, which is over the current forward estimates?

Ms McCulloch: I will take that on notice. I do not have the answer here with me.

Senator Cormann: So you do not know—

Senator Wong: She has taken it on notice, Senator.

Senator Cormann: It makes it very difficult when asking a series of questions.

Senator Wong: She is entitled to take it on notice.

Answer:

Question one:

Assistance under the Jobs and Competitiveness Program (JCP) and permit based assistance under the Energy Security Fund (ESF) will move in line with the carbon price. Household assistance is permanent and will not be reduced, with further tax cuts being provided from 2015-16.

Question two:

The 2012-13 Budget includes for the first time carbon price estimates for the 2015-16 projection year, when the scheme will transition to a flexible price and be linked to the international market.

The receipt estimates incorporate a carbon price for 2015-16 of \$29, based on Treasury modelling in *Strong Growth, Low Pollution*. Budget projection year parameters generally rely on longer-term factors such as those captured in the *Strong Growth, Low Pollution* modelling.

Over the four years to July 2011, daily international carbon prices traded in the range of \$14 to \$50. Trading in the futures markets, however, is thin and sporadic for contracts as far out as 2015. More recently, traded international prices have fallen, in part due to the downturn in Europe. The unsettled global economic outlook is contributing to uncertainty around the future path of carbon prices.

Potential policy and regulatory change, particularly in the European Union Emissions Trading Scheme (EU ETS), has added uncertainty around future carbon prices at this time.

Any change in international carbon prices would have an impact on the estimates of the *Clean Energy Future* package included in the Budget. As well as affecting carbon price receipts, a different carbon price would also affect the cost of assistance provided under the *Clean Energy Future* package. Assistance under the Jobs and Competitiveness Program and permit-based assistance under the Energy Security Fund will move in line with the carbon price. Household assistance is permanent and will not be reduced.

In 2015-16, the budget would be firmly in surplus even if the price floor of \$15 were to bind.

Further information about the effect of the carbon price on the Budget is contained on page 3-13 of Budget Paper No.1 of the 2012-13 Budget.

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Question three:

The number of units that the government will be able to sell will differ between the fixed and floating period. During the fixed price period it will be determined by emission liabilities. In the floating period the scheme cap is assumed to be consistent with meeting Australia's unconditional emissions reduction target of reducing emissions by five per cent below 2000 levels by 2020. For example, in 2015-16, it is expected that the government will sell around 148 million permits. The Government will announce the first five years of caps in the 2014-15 Budget, based on recommendations made by the Climate Change Authority.