

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates, 2 June – 4 June 2009

Question: bet 164

Topic: Employment Impacts of the CPRS

Hansard Page: E114

Senator Xenophon asked:

Senator XENOPHON—If I could just ask the minister, given that the New South Wales government commissioned a report on the regional impacts of the CPRS, will the government be doing that, and given that one state government has already looked specifically and done some economic modelling on the regional impacts of the CPRS, if not, why not?

Senator ABETZ—There was a question directly for the minister.

Senator Conroy—I am sorry, Senator Xenophon, I was just reading about how your states is quarantining Victorians when we come to visit you now.

CHAIR—Should have done it years ago. Go ahead, Senator Xenophon.

Senator XENOPHON—If I could take you away from swine flu.

Senator ABETZ—Press the rewind, Senator.

Senator XENOPHON—The New South Wales government commissioned a report on the regional employment impacts of the CPRS in terms of some detailed economic modelling. Why will this government not do the same thing?

Senator Conroy—We did not say we would not; we said we had not got any plans at this stage. I took it on notice to raise with the Treasurer if there were any other issues or any other information he would like to provide. We said that we were not aware of anything at this stage but we would take it on notice.

Senator XENOPHON—Given that we are due to debate these bills in a couple of weeks time, do you think that there will be some economic modelling on the regional impacts of the CPRS?

Senator Conroy—I would have to take that on notice and seek the Treasurer's views. I am not in a position to do anything other than that.

Answer:

The Government has undertaken the largest and most detailed modelling project in Australia in order to assess the economic implications of climate change mitigation policy. The Government's *Australia's Low Pollution Future: The Economics of Climate Change Mitigation (ALPF)* report considers that economic modelling down to state region level data is the lowest level at which robust results are available.

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates, 2 June – 4 June 2009

No economic modelling tools are currently available in Australia to adequately capture the full dynamic adjustment of sub-state regional (a lower level than state) Australia to the introduction of the Carbon Pollution Reduction Scheme (CPRS).

The sub-state regional component of the Monash Multi-Regional Forecasting (MMRF) model used by the Treasury for the ALPF report was not considered robust enough by Treasury to use in their analysis.

- The sub-state regional module in MMRF is a simple top-down regional disaggregation reporting mechanism. It does not undertake detailed modelling of regional economic structures such as abatement opportunities and substitution between factors of production. Instead it simply uses historical shares to apportion state results at a sub-state regional level.
- This methodology will not capture issues such as the likely location of new forms of renewable energy generation (wind farms, for example) that might expand substantially under the CPRS, nor other substitution possibilities. As a consequence, it is likely to result in biased estimates that are not robust.
- In addition, the Australian Bureau of Statistics does not provide nor support state level or sub-state regional level input-output tables due to concerns about small sample sizes and poor statistical accuracy.

There was a brief discussion of sub-state regional results in the *Garnaut Climate Change Review* final report. However, the review made substantial 'off-model' adjustments to the sub-state regional results to take into account possible substitution issues, which are not captured in the MMRF model.