

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates, 2 June – 4 June 2009

**Question:** bet 89

**Topic:** Allocation of Permits – Emissions Trading Scheme

**Hansard Page:** E112, 120

**Senator Xenophon asked:**

**Senator XENOPHON**—The scheme design will not make much difference from that point of view in the sense that the Garnaut review referred to four schemes but predominantly studied the cap and trade scheme. Once you get a different result, depending on the design, in terms of the economic impact you may get the same environmental outcome but you would have a different economic impact, wouldn't you?

**Ms Quinn**—There are elements that would change the carbon price and therefore the economic implications, yes, such as coverage and the international linking assumptions, for example. Those two in particular would affect the carbon price. Some allocation methods may also affect carbon price if they change the abatement incentive in the economic models.

**Senator XENOPHON**—In terms of the modelling, do they make assumptions about investment in other sectors of the economy, because there is an argument that depending on the approach used you will get a different outcome in terms of the investment signals with respect to renewables—

**Ms Quinn**—Is this in relation to the allocation of permits, for example?

**Senator XENOPHON**—It is in relation to the allocation of permits and also the way the scheme is designed. Again, if it is an output based allocation rather than a pure cap and trade.

**Ms Quinn**—The key is whether the allocation changes abatement incentives or not. Assuming that the same abatement incentives are maintained under different allocation of permits, then the allocation of permits primarily in the economic models shifts the distribution of which industries and which sectors of the economy bear the costs. Distribution implications can affect aggregate economic costs as well, but the main implication would, yes.

**Senator XENOPHON**—Given that there have been relatively recent changes announced to the allocations of free permits, as recently as a bit over four weeks ago, has there been any supplementary modelling done to take that into account?

**Ms Quinn**—We have not updated the economic modelling for the announcements recently, no.

**Senator XENOPHON**—Given that there have been quite appreciable changes to the allocation of free permits, is that something that you think prudently ought to be done in terms of measuring the economic impact of the scheme by your modelling?

**Ms Quinn**—It is a matter for the government.

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**Senator XENOPHON**—But from a modelling perspective, we are not getting the full picture given the changes in respect of allocations.

**Ms Quinn**—Any modelling we may or may not do is a matter for the government.

**Senator ABETZ**—Can I ask the minister, will the government be asking—

**CHAIR**—No, Senator Abetz, we have Senator Fisher next.

**Senator XENOPHON**—If I can just pick up on what I think was going to be Senator Abetz's question. Is the—

**Senator Conroy**—You should not be led by Senator Abetz anyway, Senator.

**Senator ABETZ**—No, very wise, very wise, he has a great career ahead of him.

**Senator XENOPHON**—Minister, given that—

**Senator Conroy**—You are in danger if you follow him.

**Senator XENOPHON**—But given that there have been quite significant changes in terms of the allocation of permits, the assistance to emissions intensive trade exposed industries, is the government going to commission further modelling in relation to this, prior to the scheme being debated in the Senate in a couple of weeks time?

**Senator Conroy**—At this stage, not that we are aware of, but we will happily take that on notice and if there is any further information that the Treasurer can provide for you, we will make it available.

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**Senator ABETZ**—allow me to put it that way. I think we covered the topic with another senator about the changes announced on 4 May not having been modelled.

**Ms Quinn**—That is right.

**Senator ABETZ**—The minister has taken on notice the question of whether that will be done. In relation to what used to be MRET, now NRET, the National Renewable Energy Target or whatever—

**Answer:**

The design of the Government's CPRS policy has benefited from a substantial body of analysis, including economic modelling, in Australia and overseas, dating back over two decades.

The Government has undertaken the largest and most detailed modelling project in Australia in order to assess the economic implications of the CPRS. The Government's *Australia's Low Pollution Future: The Economics of Climate Change Mitigation* report, Green and White Papers all place substantial information in the public domain.

Further economic modelling is unlikely to substantially alter the information available to Australian policy makers.