

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates

1 June – 3 June 2010

**Question: BET 41**

**Topic: Carbon Emissions – 50% Reductions #2**

**Hansard Page: E35 (02/06/2010)**

**Senator BOSWELL asked:**

**Senator BOSWELL**—For the uninitiated can you explain that to me. If you want to reduce your carbon footprint by five per cent it costs how much? Your modelling was five per cent.

**Dr Gruen**—We did four scenarios, if I am right—

**Mr R Ewing**—Yes.

**Dr Gruen**—of a range of cuts. We are always talking about them relative to 2000 levels. So these are not five per cent cuts compared to what would otherwise be the case; they are much bigger than that. A five per cent cut by 2020 relative to 2000 levels is a much more substantial cut from the level of CO<sub>2</sub> emissions than you would see if you did nothing. So these are substantial cuts.

**Senator BOSWELL**—I am taking it that this \$463 billion figure would be taken from 2020.

**Dr Gruen**—Indeed. The scenarios that we looked at had those sorts of cuts by 2020 and then they had very much bigger cuts by 2020 so you are on a path to an economy with very much lower levels of CO<sub>2</sub> emissions than are currently being emitted into the atmosphere. The estimates were as for each of those scenarios, and obviously they have different costs: the deeper the cuts the larger the costs. But they all round to about a reduction in growth of GNP per capita of 0.1 per cent per annum.

**Senator BOSWELL**—So if we were to cut our carbon emissions by 50 per cent by 2030 it would cut the growth by 0.01 per cent. Is that what you are saying?

**Dr Gruen**—It is 0.1. As Mr Ewing said, we did not do that particular scenario. But the scenario we did do, which was the Garnaut minus 25 scenario, has cuts which are not quite as deep as the ones you are talking about—we do not know exactly because we have not looked—but comparable.

**Senator BOSWELL**—So what was the outcome of that?

**Dr Gruen**—We did not report the results to two significant figures but to one figure it was a 0.1 per cent per annum cost to GNP per capita growth.

**Senator BOSWELL**—So if we go out and spend \$463 million by the year 2030 we are going to cut our GNP growth by 0.1 per cent.

**Dr Gruen**—Per annum. Except that I know nothing about the \$463 billion.

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**Senator BOSWELL**—Well, that is the guts of the question. The ACTU want to put \$463 billion into decarbonising Australia by 2030. Your answer to me, and you may correct it, is that if we do that we are going to affect the GNP by 0.1 per cent.

**Dr Gruen**—No. I said the modelling that we did—

**Senator BOSWELL**—Can you just tell me what will happen if we—

**Dr Gruen**—I cannot tell you because I do not know the details of this report.

**Senator BOSWELL**—Maybe Mr Ewing has got the report there.

**Dr Gruen**—Even if he has, the point is we are not going to give you off the top of our heads, from what some detailed alternative modelling suggests, what our estimate is of the economic cost of some alternative scenarios. We have done a series of scenarios which we have published and given extensive detail on. We can take on notice a question about what Treasury's estimate is of the economic cost of someone else's proposal but we cannot give you an answer here and now. Not even Mr Ewing can do that.

**Senator BOSWELL**—Well, if you would do that for me and if you would also put this on record now...

#### **Answer:**

It is necessary to exercise extreme caution when comparing results from two separate modelling exercises. Any modelling exercise will have its own unique set of models, assumptions and scenarios, and differences in any of these elements could render comparisons faulty. In this case, this difficulty is exacerbated by the lack of detail on this modelling exercise.

In this instance, only one scenario in this report is broadly comparable with existing Treasury modelling. The Garnaut -25 scenario, one of the scenarios modelled in the Government's *Australia's Low Pollution Future: The Economics of Climate Change Mitigation* (ALPF) report, is broadly consistent with the "Weak Action" scenario in the National Institute of Economic and Industry Research's report *Complementary policies for greenhouse gas emission abatement and their national and regional employment consequences* prepared for the Australian Conservation Foundation (ACF) and Australian Council of Trade Unions (ACTU).

The "Weak Action" scenario in the ACF/ACTU report and the Garnaut -25 scenario in ALPF both assume a 25 per cent CO<sub>2</sub>-e emission reduction from 2000 levels by 2020. In both scenarios permits can be traded internationally and there are no additional domestic mitigation policies. However, the Garnaut -25 specifies trading within a global emission trading scheme with defined emission targets for all economies, while the "Weak Action" scenario contains no further detail regarding international permit trade.

The modelling of the Garnaut -25 scenario shows that growth in Gross National Product is 0.1 to 0.2 per cent per annum slower. Further details on the economic costs of the scenario are available in ALPF.