

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

31 May – 2 June 2011

Question No: BET 211

Topic: Scenario Modelling

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Senator Birmingham asked:

Question:

Senator BIRMINGHAM: How many times has the Treasurer requested specific scenario modelling?

Ms Quinn: I would have to take that on notice. There has been an ongoing series of discussions about scenarios at different points in time. I would be happy to take that on notice to come up with a precise number. Certainly it has been more than once. As things move through time we get asked to do different things.

If I was going to take it on notice I would like to have clarity as well. When you say 'scenarios', in the context of this morning's discussion, I understand it is difficult to be precise in the answer if I do not know precisely what the question is. The big picture scenarios are different from costings of lots of different various components of any policy package. The word 'scenario' is not precise enough for me to know exactly what you are asking.

Senator Wong: The word 'scenario' does not have a particular meaning.

Senator BIRMINGHAM: Certainly, Ms Quinn. To get a more clear picture of the advice you have been asked for, I would be looking for scenarios based on different pricing mechanisms, obviously, for a carbon tax, also whether you have been asked to complete work specific to not just the consumer price impacts but also in terms of other economic impacts, job impacts, and whether you have been asked to model different scenarios in relation to compensation packages.

Answer:

The core assumptions that the Treasury used in the modeling for *Strong growth, low pollution: modeling a carbon price*, and the core assumptions regarding international action on climate change in particular, were decided early in the modeling process. Given the long lead times in commissioning detailed modeling of the electricity generation and other sectors, the assumptions behind the international macroeconomic scenarios were requested in November 2010. The core assumptions behind the domestic economic-wide modeling of carbon pricing were requested in March 2011.

Preliminary estimates of carbon price impacts on CPI and household items such as electricity, gas and fuel were released following an FOI request in early 2011. This preliminary analysis provided updated household impact estimates according to CPRS design and policy settings from the then Government's negotiations with the Opposition in November 2009. Subsequently updated modeling of the carbon price impacts on CPI and household spending were requested for inclusion in the modeling report *Strong growth, low pollution: modeling a carbon price*.

Continuation of Question:

Ms Quinn: We are certainly examining all those aspects across a range of different scenarios. We look at the international connections of Australia with the rest of the world, Australia at a national level and all the way down to households and other sectors. We certainly have been examining all the questions in that context. Not all of them go to all of those different components, but it is certainly the case that we have been looking at the whole suite of models for the analysis for the government.

Senator BIRMINGHAM: In terms of the core assumptions that you have taken that underpin the models, are there core assumptions that you have taken in relation to international action on climate change?

Ms Quinn: The views about international action on climate change do form part of the analysis that we are doing. We have to make assumptions about international action, yes.

Senator BIRMINGHAM: Are you modelling on various scenarios of international action or a fixed scenario of international action?

Ms Quinn: We are looking at a range of scenarios.

Senator BIRMINGHAM: What are those scenarios?

Ms Quinn: That is a matter for government policy so at this stage, unfortunately, I cannot provide that information.

Senator BIRMINGHAM: So you are modelling on different scenarios based on what the government has asked you to model on?

Ms Quinn: Yes.

Senator BIRMINGHAM: This is a request that has come from who in terms of what the government has asked you to model on as to different international scenarios?

Ms Quinn: The discussion about what we have been asked to do is a matter for government. The instructions that come to Treasury come through the Treasurer. He has discussions with his colleagues and we work closely with other departments across the Public Service for the analysis that we do. Formally the instructions for the scenarios that we model come through the Treasurer.

Senator BIRMINGHAM: You are not looking at a fixed outcome internationally such as, say, taking all of the commitments made under the Copenhagen Accord and simply applying them as the most likely international outcome; you are actually applying a suite of potential different international actions?

Dr Gruen: I might just add a bit more to that. When we do this work, to the extent that we are trying to do this, we take into account what the Copenhagen pledges are in terms of putting this together. It is not done in isolation from that.

Senator BIRMINGHAM: I understand it is not done in isolation. It seems as if there is not a singular picture of what international action may be either, that the government is accepting there is a spectrum of potential action on the international stage and is modelling that spectrum.

Ms Quinn: It is fair to say that there is uncertainty about the precise evolution of international action on climate change. In the modelling that we did in 2008 for the government we explored different scenarios regarding international action. We are looking at a range of scenarios in the system as well.

Senator BIRMINGHAM: In terms of those different scenarios and your experience of the CPRS modelling, where do those different scenarios most manifest themselves in terms of different outcomes for the Australian economy or impacts on the Australian economy?

Ms Quinn: It is difficult for me to answer that question, given that we have not completed the modelling at this stage.

Senator BIRMINGHAM: I was asking given the experience of the CPRS.

Ms Quinn: I am not quite sure I understand the question. If you are asking what implications does different international action have for carbon pricing in Australia then it is the case that different international action is likely to manifest itself in different international carbon prices, and different international carbon prices to achieve different environmental outcomes will have different implications for Australia. That is what the modelling in general finds. If the world was to take greater action to reduce emissions then you require a higher carbon price, a higher carbon price has implications for Australia, potentially higher economic costs, but you achieve a greater return on the environmental benefit as well.

Senator BIRMINGHAM: In those scenarios have you also modelled beyond a carbon tax into a trading scheme as to the extent to which permits would be purchased offshore?

Ms Quinn: In the CPRS modelling, we certainly looked at what the implications would be for trade between different nations if there was a price on carbon through allowing international trade.

Senator BIRMINGHAM: Are you doing that work again in this modelling?

Ms Quinn: That goes to the design of the scenarios that we have been asked to model. At this point we have not finished that modelling.

Senator BIRMINGHAM: You have to forgive me for keeping trying with this, Ms Quinn. Have any of the scenarios that you have modelled been at the request of the Australian Greens?

Ms Quinn: We work at the direction of the government. To the extent that other members of the Multi-Party Climate Change Committee might desire input then that comes through the government to us. We have been asked to explore elements of policy that have come from members of the Multi-Party Climate Change Committee.

Senator BIRMINGHAM: And non-government members of the Multi-Party Climate Change Committee?

Ms Quinn: Yes.

Senator BIRMINGHAM: Thank you. Are you able to tell me what those scenarios are that perhaps do not relate to government policy because they have come from non-government members of the Multi-Party Climate Change Committee?

Senator Wong: It is still the direction of the government.

Ms Quinn: We are still working at the direction of the government and the Multi-Party Climate Change Committee has discussion in confidence. Under that confidence the same rules apply in terms of my ability to provide that information.

Senator BIRMINGHAM: If, again, you could provide some details on how many requests have specifically come from the Multi-Party Climate Change Committee and when those requests were made of the Treasury.

Senator Wong: Senator, we will take that on notice. Just to clarify my understanding of Ms Quinn's evidence, and she can jump in if I have it wrong, her indication is obviously the government—that is, the Treasurer—would seek or request certain work to be done. It may or may not be something that Treasury is aware of, nor indeed should answer what request goes from the MPCCC to the Treasurer. In other words, Ms Quinn can tell you what the Treasurer sought but what has led to his decision to seek that may not be something she can answer.

Answer:

All requests for modeling came from the Treasurer. To the extent that other members of the Multi-Party Climate Change Committee might have desired input, that would have come to Treasury as a request from the Treasurer. However we cannot answer what led to the Treasurer's decision for any modeling request.