

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

31 May – 2 June 2011

Question No: BET 213

Topic: Frontier Economics

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Senator Cameron asked:

Senator CAMERON: I must say that I am concerned about Frontier Economics being used in this political way continually. I suppose they leave themselves open to this. You would be aware that Frontier Economics actually did some modelling for both Senator Xenophon and the Liberal Party some time ago.

Ms Quinn: I believe that they have released a range of reports over time for various clients.

Senator CAMERON: Professor Howes and Dr Jotzo basically pulled that apart and we have not heard any more from the Liberal Party in terms of the modelling that was done.

Ms Quinn: It is hard for me to comment on someone else's analysis.

Senator CAMERON: I am sorry; I will not go there. A report on the ABC on 12 October 2009 said that Treasury had found a \$3.2 billion hole in the modelling. Is that correct?

Senator XENOPHON: Treasury never release their own documents, Senator Cameron.

Senator CAMERON: Don't get too excited, Senator Xenophon.

Senator XENOPHON: No, I am not excited. You should state what the facts are. Treasury never release their documents.

Senator CAMERON: I am asking the question.

Dr Gruen: Senator, I do not think that we are in a position to respond to questions about what happened in October 2009. If you want us to take it on notice, we can.

Senator CAMERON: Yes, I am happy for you to take it on notice. I am happy for you also to take on notice whether you can advise me about the basis of this quite alarmist position that the Premier of New South Wales is talking about, 13,000 jobs, and that it is a model issue. I would be happy for you guys to have a look at it. I know that you are very busy, but I would like to get some idea as to whether this modelling is credible modelling. In terms of where we are, the Howes and Jotzo analysis of the modelling that was reported said that it would be more expensive to go down the Frontier model in terms of consumption—more expensive for the economy, and 12 per cent more expensive for each tonne of carbon pollution. Perhaps you could take that on notice and come back to us on that, if that modelling is out there, because it is still being used as some magic pudding approach to climate change. The argument was that it was cleaner, greener and cheaper. You really need to nail this.

Answer:

On the issue of the fiscal impact of the proposals outlined in the August 2009 Frontier Economics Report *The economic impact of the CPRS and modifications to the CPRS*, advice was provided to the Treasurer in 2009. The advice to the Treasurer was based on the material publicly available in the Frontier Economics Report and necessary interpretations and assumptions.

On the issue of regional employment, Frontier Economics has published a number of reports that contain a range of sub-state regional results (including the 13,000 job figure for the Hunter Valley).

Both the Treasury and Frontier Economics have used the Monash Multi-Regional Forecasting model (MMRF) for carbon price modelling. However, the Treasury does not use MMRF to undertake analysis of the effects of carbon pricing at a sub-state regional level because the data used to calibrate the regional component of the MMRF model do not allow carbon pricing analysis of a quality sufficient for Treasury's purposes.