Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

31 May – 2 June 2011

Question No: BET 269

Topic: Frontier Economics modelling paper

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Senator Xenophon asked:

Senator XENOPHON: I appreciate that. I make no secret of the fact that I, along with the former opposition leader, commissioned Frontier Economics to do some work on this. In a recent paper that they provided to the new taxes committee chaired by Senator Cormann they expressed a view that if the interim carbon tax is set at a similar level to the permanent price in the CPRS and if Treasury modelling is to be believed this would put Australia on track for emissions seven per cent above 2000 levels by 2020. I do not know whether you want to take that on notice or whether, in terms of general high-level principles, you are in a position to comment on that.
Senator Wong: This is the Frontier Economics paper?
Senator XENOPHON: This is the paper called magic pudding—
Senator CAMERON: The magic pudding economists.
Senator XENOPHON: I just wanted to say 'magic pudding' before Senator Cameron did. This is the paper that was called magic pudding economics.
Dr Parkinson: If you will allow me to, I will take that on notice.
Senator XENOPHON: That is fine.
Dr Parkinson: I have not read the paper.

Answer:

The May 2011 Frontier Economics report *Magic pudding is vanilla economics* considers a scenario in which there is a domestic carbon price but no international permit trading.

The core policy scenario modelled for *Strong growth, low pollution: modelling a carbon price* shows that pricing carbon through an initial fixed price period of three years followed by a transition to a flexible price cap-and-trade scheme will be effective in meeting Australia's emission target of a 5 per cent reduction compared to 2000 levels through a combination of domestic and internationally-sourced abatement. The core policy scenario modelled shows that pricing carbon will reduce Australia's emissions by 152 Mt CO_2-e in 2020 compared to the reference scenario, of which 58 Mt comes from domestic abatement and 94 Mt comes from internationally-sourced abatement.

Relying entirely upon domestic abatement opportunities would be a much more expensive way to meet Australia's emission target and would require either a higher domestic carbon price, or more expensive direct action.