

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

31 May – 2 June 2011

Question No: BET 270

Topic: Frontier Economics modelling paper #2

Hansard Page: 2 June 2011 P 45

Senator Xenophon asked:

Senator XENOPHON: That is right. In your letter to Senator Cormann dated 19 May, you set out, I think quite fairly, the extensiveness of the economic modelling done since 2008. I do not dispute that. I guess the question is about alternative approaches. I refer to the clean energy standard that President Obama set out in his State of the Union address and the Frontier Economics approach, which is an intensity based system with an absolute cap. Is it your understanding that there has been extensive modelling done of that or that the modelling focused on the government's CPRS?

Dr Parkinson: Senator, you know that I chaired the Prime Minister's Task Group on Energy Efficiency.

Senator XENOPHON: Yes.

Dr Parkinson: We did some modelling on a national energy efficiency approach, the so-called NEESI. Clearly, within the confines of a broad package there are initiatives that can help get to areas where a carbon price cannot. There are two points that I would make. One is reflecting on where you went with some of my colleagues yesterday. It is undoubtedly the case that if you are able to remove distortions in the tax system as part of your response you can gain some additional benefits.

Senator XENOPHON: This is the tax interaction effect, the multiplication.

Dr Parkinson: I am dredging my memory, but I think it was the Congressional Budget Office in the United States, in 2005 or 2006, that, when thinking about the design of emissions trading there, made the point—

Senator XENOPHON: You know you are making me have to read it now, don't you? Now you have mentioned it I will have to look it up.

Dr Parkinson: You are forcing me to read both Frontier Economics and Resources for the Future.

Senator CAMERON: Don't waste your time, Dr Parkinson. Take it from me!

Senator XENOPHON: Dr Parkinson, I think it is a fair swap. You can ask me 20 questions on it.

Senator CAMERON: Malcolm Turnbull took my advice and stopped being a puppy dog.

Dr Parkinson: The particular CBO report that I am thinking of makes the point—forgetting about the distributional impact on households—from a pure economic efficiency approach. I think it was suggesting that using the revenue to eliminate things such as payroll taxes could actually be enhancing economic efficiency. That did not go to the question of what would be the price impact on households, but it was making a similar point to what you were talking about yesterday.

Senator XENOPHON: So in any design of an emissions trading scheme or a carbon tax, what priority will be given to the tax interaction effect? How front and centre is that in any design package?

Dr Parkinson: I think it is fair to say that there are lots of issues being considered in the design of potential compensation responses. A range of issues will come up there.

Senator XENOPHON: Can I just raise this issue as a result of what President Obama has said and what the Congressional Budget Office has said, and in the context of China looking at an intensity based scheme. Obviously it is not a capped scheme. I understand that they are looking at reducing the energy intensity of certain industries.

Dr Parkinson: Can I just clarify that the Chinese government has committed itself to improvements in emissions intensity per unit of GDP and indeed has kicked that off with its new five-year plan. But, in

addition, it has commissioned 13 cities and provinces to explore the use of market based instruments, including cap and trade.

Senator XENOPHON: Sure, although as I understand it, the primary focus is an intensity based per unit scheme.

Dr Parkinson: No. The focus today at a national level is on reducing emissions intensity per unit of GDP, but, at the same time, they are preparing the ground and they have sent eight cities in five provinces, the 13 together, to experiment with different approaches, using market mechanisms, including cap and trade. The NDRC, the National Development and Reform Commission, have been very clear that that is what they have been tasked to do.

Senator XENOPHON: Given both the emissions trading approach and the intensity approach, which seems to be an interim measure, and given what is being proposed by President Obama, is that relevant in the design of any scheme, given what our major trading partners may be doing?

Dr Parkinson: No.

CHAIR: Senator Xenophon, we are getting dangerously close to climate change policy discussion here rather than tax. We had this discussion yesterday.

Senator XENOPHON: It is nearly over for me. I was going to ask about the fiscal implications of that for the design. That was the context, Dr Parkinson. I was not being mischievous.

Dr Parkinson: I was not assuming you were. It is not actually relevant to us. If we have a cap and trade scheme where we can import permits, those permits do not have to arise from other emissions trading schemes. There are different ways in which permits can be generated that we can accept into our scheme. How we decide to do that is a matter for us.

Senator XENOPHON: Do you mean imported permits or permits being generated?

Dr Parkinson: Imported permits, yes. For example, we could simply import clean development mechanism permits. Or we could allow the importation of permits from a country that has an emissions trading scheme—for example, New Zealand.

Senator XENOPHON: How far advanced are New Zealand at the moment? Are they up and running?

Dr Parkinson: They already have a scheme running.

Senator XENOPHON: They are up and running and they are trading permits?

Dr Parkinson: Yes.

Senator XENOPHON: I will read the Congressional Budget Office report.

Dr Parkinson: It is not that worth while.

Senator XENOPHON: No, I will.

Dr Parkinson: It was an interesting exercise a number of years ago.

Senator XENOPHON: Sure. Could you take on notice that question in relation to the assertion by Frontier Economics of an increase in emissions.

Dr Parkinson: We will have a look, yes.

Answer:

See answer to BET 269.