



Media Release

Senator Mathias Cormann

CHAIR OF THE FUEL & ENERGY SENATE SELECT COMMITTEE

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SENATE COMMITTEE COMMISSIONS INDEPENDENT REVIEW OF ETS MODELLING

The Treasury's economic modelling underpinning the Rudd government's proposed Emissions Trading Scheme will be subject to an independent peer review commissioned by the Senate Fuel and Energy Select Committee.

Committee Chairman Mathias Cormann announced that Dr Brian Fisher of Concept Economics would be conducting the review (terms of reference attached).

"Dr Fisher is one of the world's most experienced and respected advisers on climate change, emissions trading and the economic impact of climate and energy policies," Senator Cormann said. "He has been at the forefront of the international debate for more than a decade.

"Australians deserve to know what the most likely economic impact of the Government's proposed emissions trading scheme will be.

"The Rudd Government has refused to ask Treasury to assess the most realistic scenarios when modelling the economic impact of its proposed Carbon Pollution Reduction Scheme.

"Treasury officials have conceded before our Committee that *"the scenarios that were modelled by Treasury were done at the direction of the government"*.

"In directing Treasury the way they have, the Rudd Government is trying to put the best possible gloss on any economic impact of its proposed Emissions Trading Scheme," Senator Cormann said.

"Not to assess the risk to Australia's economy and jobs of introducing an Emissions Trading Scheme without any requirement for our competitors to do likewise is negligent.

"Developing nations such as China and India, two of the world's biggest greenhouse gas emitters, have shown little intention of joining an international effort to reduce greenhouse emissions.

"It is beyond belief that the Rudd government would not have Treasury conduct at least one model which took this reality into consideration."

"Treasury also failed to consider the impact of the global financial crisis on the most appropriate design of its ETS or on the rate at which other countries will commence participation in a global emissions trading scheme.

"Dr Fisher's review will put the government's modelling to the test.

"His work will identify the costs to Australia in terms of the potential leakage of Australian industry and jobs to other countries not bound by greenhouse reduction targets," Senator Cormann said.

"It will give us a better picture of the true impact of the Rudd Government's proposed emissions trading scheme on jobs and the cost of living for Australians.

“With the current global economic turmoil, this review is absolutely essential to help protect Australia’s economic interest.

“If the government really believes its modelling will stand up to scrutiny, it must make all of its documentation, codes and databases available to Dr Fisher for the purposes of this review.

“Failure to do so would simply confirm what most observers have already concluded – the government’s analysis is at best flimsy and superficial, driven more by short-term politics than the long-term needs of our economy or the global environment,” Senator Cormann said.

Media Contact:

**Chair, Fuel & Energy Select Committee
Senator Cormann**

**Ph 02 6277 3457
Mob 0411 874 546**

Enc. Terms of Reference

SENATE SELECT COMMITTEE ON FUEL AND ENERGY
A PEER REVIEW OF THE TREASURY MODELLING OF THE ECONOMIC
IMPACTS OF REDUCING EMISSIONS

That Dr Brian Fisher (former Executive Director of ABARE and currently of Concept Economics) be engaged to provide a review of the Treasury Modelling *Australia's Low Pollution Future: The Economics of Climate Change Mitigation* including all relevant publicly available information, and having requested full access to the government's model, documentation, codes and databases, any further information made available by the government, with particular reference to the following:

1. Sensitivity analysis of the assumptions on which the modelling has been undertaken;
2. The impact on global emissions of the government's proposed emissions trading scheme and the potential leakage of Australian jobs and industry in:
 - 2.1 emission intensive trade exposed industries such as aluminium, LNG, cement and agriculture;
 - 2.2 non trade exposed industries such as electricity.
3. The economic and environmental consequences of the Government's proposed eligibility thresholds for emissions intensive, trade exposed (EITE) industry assistance;
4. The consequences of more realistic assumptions concerning:
 - 4.1 the likelihood of the rest of the world taking similar actions to Australia;
 - 4.2 the participation of China in a global emissions trading scheme by 2015;

- 4.3 the participation of India in a global emissions trading scheme by 2020;
 - 4.4 the immediate participation of the United States in a global emissions trading scheme;
 - 4.5 the likelihood of a global agreement being sustained through the year 2050;
 - 4.6 commercial scale availability and use of carbon capture and storage technology, particularly in the light of assumptions regarding the path of the carbon permit price;
 - 4.7 low or non-existent barriers to international trade in carbon permits;
 - 4.8 the taxation treatment of permits, both in Australia and overseas.
- 5 The failure to include the impact of the global financial crisis on:
 - 5.1 Australia's capacity to bear the costs of participation in a global emissions trading scheme;
 - 5.2 the rate at which other countries will commence participation in a global emissions trading scheme.
 - 6 The impact of the Government's emissions trading scheme on issues of national security including fuel resources and refining, construction resources and energy security;
 - 7 The impact of the Government's emissions trading scheme on government revenue and spending, and the total revenue that the Government can expect to collect from the scheme through the year 2050;
 - 8 The economic costs of the Government's expanded renewable energy target compared to the costs of alternative policy approaches;

- 9 Testing the veracity of the conclusions that under the Government's emissions trading scheme by 2050 electricity prices in Australia would rise five times as much as in the US, Canada, Japan and the EU and three times as much as in China over the same period;
- 10 The impact of the Government's emissions trading scheme and a rising carbon price in all years that the scheme is in place on:
 - 10.1 unemployment;
 - 10.2 cost of living pressures for households, pensioners and individuals more generally;
 - 10.3 inflationary pressures;
 - 10.4 nominal interest rates, and real interest rates;
 - 10.5 Aggregate productivity.
- 11 The economic impact of Australia introducing a poorly designed scheme in 2010, rather than a better designed scheme in 2011 or 2012, taking into account the decisions of major emitters;
- 12 The discounted present value of the economic costs and benefits of the Government's proposed emissions trading scheme;
- 13 The adaptation opportunities that could be foregone as a result of implementing a poorly designed emissions trading scheme, and the economic costs of not implementing those opportunities;
- 14 The economic impact of the government's emissions trading scheme on farming and agricultural industries, even if those industries are not covered in any scheme before 2015;
- 15 The desirability of fixed-price permits, versus a price cap on permits;

- 16 The impact of the government's proposed emissions trading scheme on the financial viability (as opposed to economic viability) of coal-fired electricity generators, both in the short run and long run;
- 17 The cost and accuracy of compliance measurement, both in Australia and internationally;
- 18 The economic and environmental implications of the White Paper (due December 2008).

Duration

That the review be completed by 30 January 2009.

Content

That the review consist of written analysis together with supporting data in tabular and diagrammatic form.

Contract

That the consultant comply with the terms of the attached contract.