



Media Release

Senator Mathias Cormann

CHAIR OF THE FUEL & ENERGY SENATE SELECT COMMITTEE

09/1005/M

2 February 2009

TREASURY ETS MODELLING UNDERESTIMATES ECONOMIC IMPACT

Rudd Government attempts to downplay the economic impact of its Emissions Trading Scheme have been exposed according to the Chairman of the Fuel and Energy Committee Mathias Cormann.

His comments came after the Senate Fuel and Energy Committee decided to release a report it received from Dr Brian Fisher, peer reviewing the Treasury modelling of the economic impacts of reducing emissions.

“In his report Dr Fisher has cast serious doubt over the quality of many of the assumptions underpinning the Government’s modelling of its proposed ETS,” Senator Cormann said.

“Considering this report it is becoming increasingly clear that the Government directed Treasury to conduct its modelling in a way that would put the best possible gloss on any economic impact of its proposed emissions trading scheme,” he said.

Some of the questionable Treasury assumptions identified by Dr Fisher include:

- International action assumptions which are highly optimistic;
- Emission pricing and permit trading assumptions that bias the results toward artificially low costs of mitigation, with Treasury assumptions, “*which virtually guarantee that the permit prices from the modelling are unrealistically low*”;
- Electricity sector transformation assumptions that appear to underestimate significantly the cost and structural adjustment challenge of moving to a decarbonised electricity generation sector;
- The assumption that very significant mitigation in a number of emissions-intensive industries will occur at relatively low cost;
- Long term commodity price assumptions that in some cases depart significantly from industry estimates.

Dr Fisher concludes in his report that “*the interaction of (the Treasury) assumptions is likely to result in the Treasury modelling seriously underestimating the economy-wide and sectoral challenges associated with particular emissions reduction targets, particularly in the short to medium term*”.

“From evidence received late last year, the Committee already knew the Government had refused to ask Treasury to assess the most realistic scenarios when modelling the economic impact of its proposed CPRS,” Senator Cormann said.

“Challenged about the scenarios chosen for modelling, a senior Treasury official told our Committee that “*the scenarios that were modelled by Treasury were done at the direction of the government*”.

“That is code for don’t blame us,” Senator Cormann said.

“Dr Fisher presented the Committee with a very thorough, high quality assessment of the Treasury modelling and has made a range of recommendations (attached).

“The Committee will now consider the Fisher report and its recommendations as it continues with its inquiries into the impact of an emissions trading scheme on the fuel and energy sector.

“Unfortunately Dr Fisher’s work for the Fuel and Energy Committee was undermined by the failure of the Treasurer to respond to a Committee request for access to relevant government information.

“The Government continues to hide important data sources underpinning its modelling to prevent proper scrutiny of what it is doing, with a letter to the Treasurer by the Committee in early December still unanswered.

“The Committee has decided to act on one of the Fisher recommendations by pressing this issue in the Senate this week.

“We will be asking the Senate to use its power to insist the Government provide access to all the relevant information it holds, to enable a proper assessment of the economic impact of its proposed CPRS.

As Dr Fisher says in his report:

“An emissions trading scheme and associated medium and long-term targets will have profound economic implications for every Australian business and household. That Australia’s economy may be on the brink of the greatest economic slump in more than half a century only reinforces the need for prudent decision-making, notwithstanding the results of the Treasury modelling about Australia’s smooth transition to a low carbon future.”

“The Committee will continue to play its role in helping to ensure any Emissions Trading Scheme the Government ultimately implements is both environmentally effective and economically responsible,” Senator Cormann said.

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Enc. Dr Fisher’s Recommendations and a copy of the full report “*A Peer Review of the Treasury Modelling of the Economic Impacts of Reducing Emissions*”

Recommendations made by Dr Fisher based on the analysis in his report include:

- that given indications of the worst global economic crisis in more than half a century, Treasury provide stakeholders with updated GDP forecasts from the IMF, OECD and Consensus Economics so that these can be compared with those used in the climate change modelling;
- that full model documentation and databases together with any additional scenario implementation code be released so that stakeholders can better understand the full implications of the Treasury modelling;
- that ETS governance arrangements incorporate a review process to confirm that the Treasury modelling results were reasonably accurate. This process should specify the way that any unintended consequences in ETS performance can be quickly corrected;
- that further analysis be done on the short- and medium-term impact of an ETS on the electricity generation sector and other emissions intensive industries that may be subject to significant structural adjustment particularly as it affects regional Australia and that such modelling be done using tools that take into account the lumpy nature of investment and the likely timing of the retirement of large capital assets;
- that additional sensitivity analysis be conducted around at least one policy scenario involving slow, fragmented and partial global action in the medium to long term;
- that additional sensitivity analysis also be conducted around less optimal international permit trading assumptions and the availability of Clean Development Mechanism (CDM) certificates;
- that a formal review follow the UN Conference of the Parties in Copenhagen in late 2009 to take stock of the likely configuration of global climate action in the next decade and Australia's actions in that context (this would mirror the review mechanism agreed by European Union leaders at their summit in December 2008);
- that Australia undertake a significant, pre-emptive diplomatic effort in Europe and the United States in order to counter the possible imposition of border barriers in the likely event that global action on climate change is slow, partial and fragmented;
- that the Productivity Commission formally review the Government's proposed ETS against its Best Practice Regulation Guidelines.