

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates

29 May – 31 May 2012

**Question: BET 87**

**Topic: Bipartisan Emissions Target – Analysis & Modelling**

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**Senator WATERS asked:**

Senator WATERS:... The department of climate change did some analysis in 2010. Are you aware of anyone else that has done any modelling or costing of achieving reductions by competitive tendering?

Mr Campbell: I am not familiar with any extra analysis.

Mr Ray: We are aware of the department of climate change's work.

Senator WATERS: No-one else, to your knowledge? How successful have been other examples of reducing emissions by competitive tendering? How expensive are they in terms of cost of emissions abatement per tonne?

Mr Campbell: This would probably be best directed to climate change. There are other schemes that have been introduced over time where, effectively, the equivalent cost per tonne of abatement was extremely high. It was in the order of magnitude of hundreds of dollars per tonne rather than the model prices in the climate change report. Again, for more detail, you would probably need to go to the climate change department.

Dr Gruen: I could give a broad answer but not a detailed one. The broad answer is that using a price mechanism enables the market or individual firms or individual consumers to find ways of reducing carbon dioxide emissions in ways that no-one had ever figured out before until you gave people the financial incentive to do it. So that is largely why most economists, I think, argue that market based mechanisms are preferable—simply because, if you like, of the paucity of our knowledge about what is possible in the face of a change in incentives. All sorts of things turn out to be possible, but you do not know about them until you introduce these incentives and let all sorts of people think through their own personal circumstances and how they can best respond to the higher prices. So that is the nature of the argument as to why economists think that price mechanisms generate the most efficient answer.

Senator WATERS: I am across the theory behind that. If you do have any further details on particular examples of where competitive tendering has not been successful or has been successful, I am conscious that climate change will probably have that information as well. If Treasury has any of that information, it would be great to have that on notice, if you would not mind having a little look for any further details.

**Answer:**

Treasury is not aware of additional modelling beyond the Department of Climate Change and Energy Efficiency's analysis on the cost of achieving emission reductions by competitive tendering.