

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

4 – 6 June 2013

Question: BET 299

Topic: Social Cost of Greenhouse Gas Emissions

Written: 17 June 2013

Senator MILNE asked:

299. The ABS responded to a question on notice to supplementary estimates (SBT 74) that you do not have an estimate of the social cost of greenhouse gas emissions.

- a. Will you need this for integrating the environmental accounts with the standard national accounts?
- b. Are you working on it?
- c. Have you seen the recent study by an interagency working group in the US on the social cost of carbon?

(http://www.whitehouse.gov/sites/default/files/omb/infoereg/social_cost_of_carbon_for_ria_2013_update.pdf)

Do you think their approach is sound?

Answer:

299.

- (a) The social cost of greenhouse gas (GHG) emissions is already to some extent captured in the Australian System of National Accounts (ASNA). For example, the impact of increased frequency of extreme climatic events is reflected as damage to produced capital (e.g. housing, equipment, and infrastructure), increased insurance premiums, lost production and so on. The implementation of a carbon tax for Australia is already reflected as a business cost in the ASNA.

Moving beyond the *System of National Accounts* (SNA) the international statistical community recently approved the Central Framework of the *System of Environmental Economic Accounting* (SEEA CF) as an international statistical standard. This Central Framework has been followed by a complementary module called the *System of Environmental Economic Accounting – Experimental Ecosystem Accounts* (SEEA EEA).

The SEEA EEA provides guidance on the valuation of environmental degradation, which is a key element of the social cost of GHG emissions. It describes a range of possible valuation methods that could be used to value degradation. The ABS is in the process of responding to the release of the SEEA EEA – this response will include an assessment of what ecosystem accounts are relevant to Australia's policy needs and what accounts are realistically achievable given expected ongoing resourcing for the ABS. The response within the ABS and the key Australian policy agencies has not yet concluded.

- (b) The ABS has implemented an appropriate recording of the carbon tax within the ASNA. As described above, various other costs related to GHG emissions are already reflected in the ASNA, though these are typically not explicitly identified (nor are they readily identifiable). The ABS is currently assessing what elements of the SEEA EEA represent a high priority for

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Australia and what elements are realistically achievable. Estimation of the cost of GHG emissions is one of a number of initiatives that will be examined.

- (c) The study undertaken by the Interagency Working Group on Social Cost of Carbon, United States Government (Technical Update of the Social Cost of Carbon for Regulatory Impact Analysis, 2013) is an interesting initiative. We note that the study adopts a very broad notion of social cost related to GHG emissions. The ABS will use the SEEA EEA to guide any possible valuation of environmental degradation arising from GHG emissions. Note that the SEEA EEA is not prescriptive in its approach to ecosystem degradation and in fact a range of possible valuation approaches are suggested, the choice of valuation technique being dependent on the type of analysis that the data are intended to support. In the absence of a clear knowledge of the use of data produced by the Interagency Working Group on Social Cost of Carbon (United States Government) and given the ABS is yet to develop a measure or even a full understanding of social costs of GHG, it is difficult at present for the ABS to provide a considered review of the approach taken in this study.