

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates

4 – 6 June 2013

**Question: BET 73**

**Topic: Carbon Price # 3**

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**Senator CORMANN asked:**

**Senator CORMANN:** Thank you, Dr Parkinson. Driving home last night and, dare I say it, overnight as I was reflecting on the discussions I had with your colleagues about carbon price assumptions and how it was all flowing through, one thing intrigued me and I thought I would just ask you about it. The box name spells out that, in terms of the advance sale of carbon permits, essentially for 2013-14 and 2014-15, which are sales that potentially go up to three years ahead, the price that is used is the market futures price which is of course currently around A\$6, whereas the price that is in the budget forecast for these years is \$12.10 for 2015-16; \$18.60 for 2016-17. So you are using a lower price on a cash basis in your early years in relation to the advance sales of permits three years down the track, yet at the same time that is happening you have actually accelerated the pace of advance sales, which we established yesterday, doubling the pace of advance sales in fact. Why would you double the pace at which you presell carbon permits, when you get half or a third for them?

If your budget is based on a prediction which, incidentally, we do not think is believable, that the price of carbon will go up twice between now and 2015-16 and three times between now and 2016-17, would you not slow down the pace of advance sales rather than accelerate it to the extent that the budget is envisaging?

**Dr Parkinson:** I was not privy to the conversation you had with Mr Ray and Dr Gruen on this yesterday.

**Senator CORMANN:** Maybe take it on notice. I am not trying to be cute. It is a genuine question. It intrigues me that you are basing your cash revenue estimates essentially on market prices, which are significantly lower. Your assumptions are based on the proposition that you are accelerating your advance sales, yet you are predicting in the budget that the carbon price is going to be twice or three times as high a few years down the track. It does not seem to make sense to me to try and sell more permits now, when you think that the price is going to go up three times.

**Dr Parkinson:** It is a good question. I am happy to take it on notice.

**Answer:**

The arrangements for the auction of carbon units are a matter of Government policy. As reported in the 2013-14 Budget, the carbon unit auction measure has no impact on the fiscal balance and is estimated to increase receipts by \$340 million over the forward estimates period (page 14, Budget Paper No. 2, *Budget Measures 2013-14*).