

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

19 – 20 October 2011

Question No: 849

Topic: Compensation for households

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Senator Xenophon asked:

Senator XENOPHON: And I am happy for further consideration to be taken on notice; I think that is the fair thing to do. I did raise it with Dr Gruen and Ms Quinn on 23 September, and I think there was a discussion about that—after I apologised for getting my Keyneses mixed up! But is there not an issue there that there is a potential downside that, given that compensation for households is relatively fixed—the compensation for households is relatively fixed, is it not—

Dr Parkinson: That is correct.

Senator XENOPHON: So that is one part of the package that is relatively inflexible.

Dr Parkinson: Yes.

Senator XENOPHON: I understand the policy rationale, but that could cause a fiscal hole if the carbon price is less.

Dr Parkinson: And that is why I said that if everything else is constant you are correct. The bits that are constant are around the household assistance. But, as Ms McCulloch said, it is not then just a case where if the permit price is 10 per cent lower then it flows through automatically, because the value of the—

Senator Wong: Because other bits move.

Dr Parkinson: Because other bits will move.

Senator XENOPHON: Yes.

Dr Parkinson: But you are right: the household compensation component is—

Senator XENOPHON: That is relatively fixed; that is less flexible.

Dr Parkinson: That is right. Hence, if the cost of permits is lower, the extent to which households are compensated or overcompensated becomes larger.

Senator XENOPHON: That is right.

Dr Parkinson: It is akin to a tax cut or a payment to households.

Senator XENOPHON: If Bloomberg is right on that assumption, there is a significant potential fiscal downside.

Dr Parkinson: There has always been that in the same way that, if permit prices were higher, there was always a sense that you might find there would be more revenue, but you would need to think about returning that to households or what you were going to do in terms of compensation.

Senator XENOPHON: Could you take on notice an analysis of Bloomberg new energy futures and what the potential impact would be if they are right and the assumptions made are wrong in relation to that.

Dr Parkinson: We are happy to do that.

Answer:

- We note that Bloomberg New Energy Finance and other market commentators regularly comment on carbon price movements in the public domain.
- The spot and futures prices for European allowances and Certified Emissions Reduction units will often change reflecting expectations about the demand and supply of these certificates, with a particular focus on near-term developments.
 - It would not be appropriate to provide a running commentary on hypothetical revenue outcomes purely on the basis of recent changes in the spot and futures markets for European Allowances and CERs.
- The Treasury modelling exercise 'Strong Growth, Low Pollution: Modelling A Carbon Price' was one of the largest and most complex economic modelling projects undertaken in Australia.
- It included two global scenarios assuming longer-term abatement efforts to stabilise greenhouse gas concentration levels at around either 550 ppm or 450 ppm by around 2100.
 - These scenarios provided a credible and realistic backdrop to examine the impact of pricing carbon in Australia.
 - The modelling exercise provided a comprehensive view of how the longer-term environmental targets can be met at different carbon prices with different economic impacts and these fundamental environmental objectives and targets have not suddenly changed.
- The estimates of the Clean Energy Future package were included in the 2011-12 MYEFO.
 - Consistent with the Charter of Budget Honesty, the carbon price estimates will be reviewed in future budget updates.
- While revenue will move up and down in accordance with the carbon price, many spending elements of the packages such as assistance under the Jobs and Competitiveness Program (JCP) and permit based assistance under the Energy Security Fund (ESF) will move up or down in accordance with the carbon price.
 - The financial impact of the Clean Energy Future was detailed in the 2010-11 Mid-Year Economic and Fiscal Outlook. The cost of the Clean Energy Future package has been factored into the budget bottom line, which shows a surplus from 2012-13. In accordance with longstanding practice, the Government does not publish individual recostings for old measures. Instead, recostings form part of the budget bottom line.
- The Government will review the household assistance arrangements on an on-going basis to determine if additional assistance is required. The Government has committed that assistance will be permanent and will not be reduced.