

Senate Finance and Public Administration Legislation Committee
Additional Estimates Hearing – February 2010
ANSWER TO QUESTION ON NOTICE

Topic: Economic Modelling on the Carbon Pollution Reduction Scheme

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Question: (Senator Birmingham)

In relation to the Government's proposed Carbon Pollution Reduction Scheme:

- a) What advice has been provided to the Minister in relation to the impact on job losses? For example, has there been modelling conducted on what job losses, and where (if so, please detail numbers and localities), could be expected through the closure of coal mines, the impact on power stations more reliant on the use of brown coal, other sectors such as small business or the rural sector?

Answer:

The Department has provided the Minister with comprehensive advice and briefing on the economic impacts of climate change policies on the Australian economy, including impacts on employment, economic growth, and competitiveness. This advice has been informed by the Treasury-led modelling in *Australia's Low Pollution Future – The Economics of Climate Change* (ALPF), released in October 2008, which is the largest and most detailed modelling project ever undertaken in Australia, and the findings of numerous other studies.

All the available analysis strongly suggests that ambitious emissions reductions are compatible with continuing strong trend employment and income growth. In particular, under the CPRS, Australia is projected to significantly reduce emissions while increasing total employment by 1.7 million jobs from 2008 to 2020, with average GNP per capita increasing by at least \$4,300 per person by 2020 across different targets and scenarios.

On the basis of the ALPF and other analysis, the Department has advised the Minister that projected future changes in employment shares are expected to be broadly consistent with historical trends, both with the CPRS and in the reference scenario with no CPRS. The modelling finds that employment and output in service sectors are projected to continue growing above the national average consistent with historical trends, resulting in the services share increasing from 72 per cent of employment in 2008 to 75 per cent in 2020 and 81 per cent in 2050. Also consistent with historical trends, due to continued improvements in labour efficiency in the mining, manufacturing and agricultural sectors and trend changes in demand patterns, the value of the mining, manufacturing and agricultural sector output continues to grow.

The introduction of the CPRS results in relatively small changes to these overall trends at the national level. The costs to sectors and regions vary, with growth in emission intensive sectors slowing somewhat relative to the reference case and growth in low and negative emission sectors increasing.

The analysis also suggests that impacts are expected to vary across sectors and regions. With regard to regional impacts, the Department has advised the Minister that Australian economic models do not currently account for dynamic responses at the regional level and sub-regional level including changes in regional industry composition and the movement of employment and capital between regions and sub-regions. Furthermore, the Australian Bureau of Statistics does not provide nor support state level or sub-state regional level input-output tables due to concerns about small sample sizes and poor statistical accuracy. Consequently, the Department has advised the Minister that methods and data used to estimate regional impacts are likely to overstate actual regional impacts and are not considered reliable. For these reasons the Garnaut Review used a combination of quantitative and qualitative analysis to identify the potential sub-state regional impacts of emissions reduction policies, and concluded that very few regions would be adversely impacted, and that there was significant scope to address these potential impacts through targeted assistance.

In April, the Government announced it will not introduce the CPRS until after the end of the current commitment period of the Kyoto Protocol and only when there is greater clarity on the actions of other major economies including the US, China and India.

This means the Government will not move to legislate the CPRS before the end of 2012.