

Part 3 of the MYEFO sets out Treasury's fiscal strategy and outlook for the Australian economy<sup>1</sup>. For the first time, the fiscal strategy includes an estimation of revenues and expenditures associated with the CPRS to 2020.

AIGN concludes that the Treasury's fiscal strategy is to maximise the upside potential of a substantial positive fiscal balance from the CPRS. This is contrary to the Government's promise of fiscal neutrality.

There are four key areas where Treasury has minimised the estimates of Government revenue:

- The Government has estimated that Australia will out-perform its 108% Kyoto Protocol commitment, with Australia's net emissions expected to average 107% of 1990 emissions over the period 2007/08 to 2011/12<sup>2</sup>. Based on these estimates, Australia will have 27.5 million international permits to sell. The current price of permits in the EU market for 2012 delivery is €16.09, which at an exchange rate of €0.60:A\$ is A\$737 million to the budget bottom line. Treasury does not include this revenue in its estimates.
- Treasury's permit price projection starting at A\$26 in 2013 is a modelling assumption based on a comprehensive global agreement in Copenhagen, not a price forecast based on a fragmented agreement. While the Treasury's permit price assumption is sensitive to the exchange rate (for which the forecast to 2020 is not reported by Treasury), it is not sensitive to the demand for and supply of international permits. The most recent price forecast by Point Carbon for internationally traded CERs is for €25 in 2013 in a fragmented agreement<sup>3</sup>. That is A\$40 at the current exchange rate, adding \$55 billion to CPRS revenues to 2020.
- A one cent depreciation in Australia's exchange rate relative to the US\$ adds more than \$1 billion to Government revenue to 2020. A return to

US\$0.8:A\$1 from 2013 to 2020 would add \$12 billion to CPRS revenues to 2020.

- The Treasury assumes a national allocation of -5% of 2000 emissions in 2020 and that the Government negotiates an international emission allocation trajectory for Australia from 2013 to 2020 that is a straight-line. This trajectory would impose on Australian's wealth losses that are four times higher than that shouldered by the Europeans and more than twice that of Americans by 2020<sup>4</sup>. A report by Access Economics demonstrates that an allocation for Australia of an additional 505 million permits to 2020 can redress some of this imbalance.

**Table 1: Treasury's Fiscal Strategy – CPRS Cumulative Budget Surplus to 2020**

	<b>\$ Billion</b>
Surplus Kyoto Protocol permits	\$0.74
A 10% devaluation in the \$A	\$10.00
A 10% underestimate of the international permit price	\$10.88
Comparable effort international permit allocation to Australia	\$15.35
Treasury estimated CPRS deficit	-\$2.52
<b>Cumulative Treasury Fiscal Up-side to 2020</b>	<b>\$34.45</b>

<sup>1</sup> *Mid-year Economic and Fiscal Outlook 2009-10*, The Treasury, November 2009

<sup>2</sup> *Tracking Kyoto and 2020: Australia's Greenhouse Emissions Trends 1990 to 2008-12 and 2020*, Department of Climate Change, August 2009

<sup>3</sup> <http://www.businessgreen.com/business-green/news/2252413/copenhagen-wrangling-leads>

<sup>4</sup> *Road to Copenhagen: Economic 'comparable effort' modelling of Australia's national allocation*, Access Economics, November 2009