



MEDIA RELEASE

AUSTRALIAN INDUSTRY GREENHOUSE NETWORK

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AIGN Calls for Carbon Policy Transparency

The Australian Industry Greenhouse Network (AIGN) today called on the Government to make public the Treasury models used to analyse the economic implications of the Clean Energy Future Plan.

“The Clean Energy Future Plan will drive a fundamental restructuring of the Australian economy into the future, yet the economic risks and costs for the community remain largely unexplained by Treasury,” said Michael Hitchens, CEO of AIGN.

AIGN released a report today by the respected Centre for International Economics. The report, *Notes on “Strong Growth Low Pollution”: Modelling and related issues*, which highlights the limited scope of the Treasury modelling, and in particular the lack of analysis of alternative international scenarios.

AIGN wrote to the Treasurer in May this year, and has written again today, urging transparency and the opportunity for extended analysis and peer review so the community may be better informed about the implications of the Clean Energy Future Plan.

“Given the important roles that the Climate Change Authority and the Productivity Commission have under the draft *Clean Energy Bill*, and the likelihood they will need to use modelling to fulfil those roles, AIGN calls on the Government to release the models to one of those organisations with a view to making them ‘open access’ so that a broader range of scenarios, risk and costs can be explored and reported to the community” Michael Hitchens said.

AIGN points out that in the USA the Environment Protection Agency uses models that are open for public use and scrutiny, with the detailed configuration of, and data for, the models also available.

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Background

The CIE was asked by AIGN to critique the Treasury modelling of the Clean Energy Future Plan, with particular reference to changes that had been made since the modelling of the CPRS.

Table 1.1 from the report summarises some of the key review themes that emerge. These are essentially around

- risks relating to the significant purchase of international abatement, and
- some specific issues related to the domestic modelling of the carbon price.

Table 1.1 **Summary of review issues**

<i>Issues related to 'international' aspects of the modelling</i>	<i>Issues related to 'domestic' aspects of the modelling</i>
<p>The overall framing of the policy simulations is limited (only 2 scenarios, both with coordinated international action, are considered). Simulations assume Australia joins <i>existing</i> global action.</p>	<p>Exclusion of agriculture and other sectors (in early years) in the simulations...</p>
<p>Apparent higher marginal cost of abatement for Australia (than in previous analysis)....</p>	<p>...appears to lead to a higher cost of abatement in Australia than in the 2008 analysis....</p>
<p>....leads to very high proportion Australian abatement being met through the purchase in international abatement. This in turn leads to a number of questions that could be resolved through additional scenario and sensitivity analysis.</p>	<p>..but apparently to lower average costs per Mt than in the scenarios considered in the 2008 Treasury analysis.</p>
<p>In particular, there are a number of implicit assumptions underlying the results for international trade in abatement which could be made more explicit and tested.</p>	<p>There are a large number of economic mechanisms operating the models used by Treasury. The key mechanisms in the economywide (CGE) model are changes in real wages and the real exchange rate. This is in sharp contrast to the very limited economic mechanisms in the input-output pricing model used to estimate price effects of the carbon price.</p>
<p>This includes sensitivity analysis of various risks related to international trade in abatement including delayed emergence of an international market, different timing of commitments by countries and the challenges involved in combined capped and uncapped trading schemes.</p>	<p>Industry level results within the CGE model follow understandable patterns given the real wage and exchange rate mechanisms. Overall effects are smaller in the current analysis compared with 2008. This may be due to the choice of a different baseline. These results also flow directly from the international assumptions and are likely to vary as those assumptions vary.</p> <p>The Australian abatement trajectory does not appear to be met in early years of the simulations, raising questions about Australia's cumulative abatement with the introduction of a flexible carbon price.</p>

The CIE report can be found here:

<http://www.aign.net.au/documents?PHPSESSID=65c3e95e08c082ffa387d1487b65045c#reports>