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This report was commissioned by the Menzies Research Centre. The goal of the report is as a broad review of the proposed Carbon Pollution Reduction Scheme (CPRS). It pays particular attention to the White Paper on the CPRS as well as the associated Treasury modelling. However, it does not conduct modelling of its own. The broad conclusion reached is that there is more value to providing additional modelling of the impact of the CPRS in particular in relation to adjustment and transitional costs. They argue that a mistake in terms of the assessment of the magnitude of these costs could derail, politically, the CPRS at some future point. The report argues for an independent regulatory impact review, say by the Productivity Commission. This would evaluate the form of the proposed CPRS as well as other factors.

On its face, the report brings together a number of criticisms of the government's proposed scheme but does not evaluate their substance using new evidence. For the most part this is useful but there is a tendency to concentrate on the obvious and not explore issues in more detail:

"While R&D spending on new technologies is a very important component of any response to climate change, there are clearly bounds on how much it is sensible to spend on that R&D. All R&D spending has an opportunity cost — the same funds could have been spent elsewhere and the resources used in the R&D (talented researchers, for example) could have been deployed elsewhere. Without a carbon price signal, it is extremely difficult to make judgements about the appropriate amount of R&D spending." (p.26)

This statement is not wrong but there is more that surely could have been said about this issue; especially what it means for the reports claims regarding the potential usefulness of delay. If this delays a carbon price, the implication here is that it will delay efficient decision making, by both private and public agents, on R&D issues.

Similarly, the report discusses the potential impact on "balance sheets" especially firm valuation. It claims that "[t]his reduction in balance sheet values is likely to make investment very difficult, particularly as funding can often revolve around balance sheet asset values." (p.29) It wonders if this achieves any objective. What a strange thing to wonder as the whole point of establishing a carbon price is to signal its scarcity on balance sheets and change where we invest. This looseness diminishes the report's usefulness.

This lack of exploration becomes important when considering one of the report's main claims that there is insufficient modelling. This centres around adjustment costs at a macroeconomic level something the Treasury modelling did not consider. However, the G-Cubed model did consider this and provided an estimate of such costs. This is the CIE's evidence that those costs are important but also their claim for more modelling. But if the G-Cubed model already has these estimates, why is more modelling required? That information is in the hands of the Government and, indeed, it is far from clear that it has not been taken into account -- especially given the low emissions target set by the Government. This is something the CIE did not comment on at all but it would appear very relevant for the issue of adjustment costs and the CIE's related claims about the importance of dynamic consistency.

In summary, as a review there is nothing new in this report. And as an instrument to claim for more modelling and a delay to the introduction of the CPRS, it does not make that case fully; especially, considering the need to conform to international timetables and the benefits that might come from providing investors with clearer price signals.