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Election 2004: The Government's non policy on energy

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With much fanfare the Prime Minister launched the government's approach to 'Securing Australia's Energy' on 15 June this year (Energy Task Force 2004). This long overdue, supposedly definitive energy statement is non-policy. As we go into the federal election, there is more policy in what the document doesn't say than the what it sets out for voters to evaluate.

WHAT SHOULD AN AUSTRALIAN ENERGY POLICY DO?

There are three fundamentally different aspects to energy, and effective responses to each are vitally important to the well being of our society. First, Australian citizens need energy services. Perhaps most obvious—although overlooked—is that what households need are energy *services* rather than energy *supply*. We want comfortable warm showers, light, entertainment, and convenient transport. We don't actually want electricity, gas, and petrol for themselves. A true energy policy must address how best to do ensure a secure and sufficient supply of energy services in the next five, twenty, and fifty years.

Second are the environmental effects of current fossil fuel use patterns. The defining environmental question for the 21st century will probably be how human society deals with the problem of green house gas (GHG) emissions and their effect on the climate. Yet problems of local and not so local air pollution with nitrous oxides, sulphur and other emissions remain very important, as do the negative environmental impacts of mining, exploratory energy infrastructure like gas pipelines.

Third is Australia's economic dependence on fossil fuel exports. Coal is Australia's biggest source of export income and Australia is the world's largest exporter of coal. Oil is our second biggest export, but is offset by oil imports of almost equal value. Liquefied natural gas exports are significant and growing. Uranium is also exported in significant quantities. Yet the end to finite supplies of oil and gas is in sight and some of our international customers for coal are making the first moves to reduce GHG emissions (notably Japan and Europe, via ratification of the Kyoto protocol). Thus, Australia's economy is very exposed to potentially massive losses in export income. Australians need to work out how our economy will evolve and adapt in coming decades.

A good energy policy would combine a portfolio of solutions to address all these needs.

THE 15 JUNE ENERGY STATEMENT

The document the government released on 15 June contains a lot of interesting background statistics, a collection of motherhood statements, and four policy contributions:

- reaffirmation of the position that the government will not ratify the Kyoto protocol
- a decision not to extend the Mandatory Renewable Energy target
- removal of excise on diesel fuel
- some new and rearranged energy spending programs.

On greenhouse, the big one, the government will not ratify the Kyoto protocol because 'it is not in the national interest', despite its own admission that there is a greenhouse problem and that emissions must be reduced. The government says that it is committed to meeting our agreed Kyoto protocol target of 108 per cent of 1990 emissions by 2012. But they have also reiterated their opposition to the use of emissions trading mechanisms to achieve this target. Taken at face value this is contradictory. If we are going to meet our targets anyway, how can it be against the national interest to ratify the Kyoto protocol, when the other signatories are likely to discriminate against Australia if it comes into force without us? Opposition to emissions trading is also at odds with the government's philosophy of allowing market forces to find least cost solutions.

The Mandatory Renewable Energy Target (MRET) was established by the present government and electricity retailers to provide a slowly increasing amount of new renewable electricity (or electricity offset with hot water) that peaks at a total of 9500 GWh per year by 2010. Arguably this is Australia's most significant renewable energy policy measure ever. It has launched the wind generation industry in Australia, with over 100 MW of capacity installed by the end of 2002 (Invest Australia 2003). It has provided a major boost to solar hot water production in other renewable energy sectors. When it was first introduced, lobbyists for the fossil fuel sector argued that it would be unworkable and introduce major costs to the economy. Once the target was in place the renewable energy industry quietly got on with growing and delivering and has actually produced more Renewable Energy Certificates than needed consistently for the past three years. The scheme was reviewed in 2003, with the renewable energy industry arguing strongly for extension of the both the size and duration of the target. Meanwhile, the fossil fuel industry maintained its position that continuing the target would be a terrible thing. In the event, the Tambling Review (Tambling 2003) recommended maintaining the 9500 GWh/yr target to 2010, but then to continue growing the target out to 20 000 GWh/yr by 2020—a very modest and economically low risk suggestion. The government's response has been to reject the suggested increase and maintain the status quo.

The removal of the diesel fuel excise comes at a considerable cost to government revenue (\$1.5 billion over five years according to the Energy Statement). The government argues that the current system is messy and that it is important to remove taxes from business inputs. This is all very well, but the unfortunate fact remains that the removal of the diesel fuel excise is to remove the only existing government applied cost signal in favour of moving to renewable technologies. This policy will undermine the incentives to convert expensive and polluting diesel power systems to photovoltaic based systems in remote areas.

The Statement did include some welcome spending programs dedicated to renewable energy technologies. However, these programs continue a pattern of 'changing the rules' every few years, which creates artificial boom/bust cycles in the renewable energy industry. Taxpayers' dollars would be much more effectively spent if they were offered to the industry with a clear positive policy signal to industry. The biggest of the spending programs the statement announces is the \$700m Low Emissions Fund (LEF). But reading the fine print on program reveals that spending will not commence until 2006–07 and that the \$700m program is actually spread over fifteen years. In reality, then, some government will probably change this program too. Further, the LEF also requires two thirds of project funding to come from industry and so clearly favours the fossil fuel sector, which is currently stronger than the renewable sector.

So overall the picture is one of policy actions that are inconsistent with rhetoric, combined with a careful re-arrangement of taxpayer funded schemes. The unspoken true policy appears to be to work behind the scenes to undermine any attempt at internationally agreed GHG emission reductions, in order to protect our fossil fuel income. That is a logical policy—if not a very moral one.

WHAT THE OTHER PARTIES OFFER

Presumably at some stage before the federal election, the ALP will present an updated policy statement on energy and greenhouse issues. In the meantime the most relevant document is the platform adopted at the January 2004 National Conference (ALP 2004). ALP press releases in response to the Energy Statement and other energy policy statements have been consistent with this platform. Chapter 8 of the platform presents policy for 'A sustainable Environment'. It contains many policies to address the greenhouse issue and the development of the renewable energy sector. The ALP's platform recognises the need for cuts of 60–80 per cent in GHG emissions, although it gives no timescale for doing this. Most importantly, the ALP gives a firm commitment to ratify the Kyoto protocol with emissions trading as the mechanism of choice to achieve targets. The platform also commits the ALP to a Mandatory Renewable Energy Target of five per cent.

These positions combined certainly represent a much more forward looking view of sustainable energy than the Coalition offers, but the chapters on economic development indicate that the ALP's overall position is inconsistent. Chapter 2, called 'A Strong Economy for a Fair Society' presents a commitment to economic growth in order to deliver increased standards of living. It does not mention the extent to which Australia's economy is dependent on fossil fuel exports. Chapter 12, called 'Developing Australian Industry', contains a commitment to employment growth in the mining sector. The section addressing the 'The Future for Minerals Resources and Industries' is explicitly devoted to the continued growth of the fossil fuel industry. This section acknowledges the significance of the fossil fuel industry to the Australian economy.

the sector to the economy, seeks 'sound' development of coal resources and exports, and commits to intensification of oil and gas exploration. The section also points to the desirability of more downstream minerals processing, exports of minerals-related services and technology. The industry development platform also expresses commitment to a national effort on energy with the stated aim to bring down energy prices to industry and consumers. There is one oblique reference to renewable resources helping to minimise resource depletion and finally a commitment to new uranium mines but a continuation of the status quo.

What is completely missing in the ALP's policies is any reconciliation between the environmental goals in Ch 2 and how to manage both the transformation of the energy industry and the long term replacement of the income from fossil fuels. The continued emphasis on keeping energy prices low also misses the point that the provision of 'energy services' at the lowest true cost that should be the goal.

The minor parties have the luxury of not having to worry about the actual detail of forming a government while keeping the economy functioning. It is politically easier for them to adopt clear principles and they have done quite well. Both the Australian Democrats (2004) and the Australian Greens (2004) have articulated clear policies for moving away from fossil fuels and supporting renewable energy technologies. The Greens have spelt this out in most detail in their 'specific goals' for climate change and energy, advocating a 50 000 GWh/yr MRET by 2020 and a reduction of GHG emissions to 80 per cent below 1990 levels by 2050.

RENEWABLES VS GEOSEQUESTRATION

The release of the government's energy statement brought to prominence the idea of capturing carbon emissions at the point of creation and then pumping them underground or into the ocean in a process called 'geosequestration'. The fossil fuel lobby and the government have embraced this idea with enthusiasm. The statement identifies a range of coal plus geosequestration options under low emission technologies and the LEF is structured to encourage this approach. The prime minister's speech on 15 June embraced this way of thinking even more enthusiastically than the document itself does.

At first sight, government support for geosequestration and a policy to divert money in support of this technology is distressing to supporters of renewable energy. However, just a few years ago, the fossil fuel lobby's basic line was that there was no proven link between GHG emissions and climate change. We have now seen a major shift: the industry and all sides of politics are now accepting that greenhouse gases are causing climate change, and that this is a real and serious threat that must be dealt with. The fossil fuel industry have come up with their own proposed solution, which will—unsurprisingly—require a great deal of publicly subsidised R&D investment and take many years before it can be commercially applied. In the meantime, the idea of geosequestration in the future is being used to justify business as usual now and to divert resources away from the renewable energy sector.

The government and the fossil lobby argue that large percentages of emissions can be captured and efficiently sequestered in such locations as old gas wells at low cost. It is reasonable to imagine that *some* percentage of emissions could indeed be dealt with in this way. However, experts funded by industry to work on geosequestration have estimated that only 25 per cent of total annual emissions could realistically be captured and sequestered (Allison & 1 2004) at the very significant cost of between US\$65–105 per tonne (Cook et. al. 2000). This would add A\$0.7–0.12 per kWh to coal electricity costs. (To bring these figures alive, Energy Australia charges domestic customers in Sydney approximately \$0.10 per kWh for electricity, so on these estimates, sequestration could more than double the price of electricity.)

Thus, it is increasingly hard for the fossil lobby to argue against immediately enabling market forces to allow competition between technology options via mechanisms like emissions trading.

WHERE ARE WE HEADING? WHAT DO WE NEED?

The good news is that energy issues are now well and truly on the political radar screen. The bad news is that the major parties are not offering Australians energy policy choices that effectively address the three essential issues: energy services, environmental impacts, and export income. The government does not appear to understand the distinction between energy services and energy and appears to believe fossil fuels will provide the bulk of our energy into the foreseeable future. It pays lip service to environmental problems and appears to have a strong underlying policy of protecting fossil fuel export income by working to undermine international efforts at reducing

emissions. The Labor opposition also shows little sign of understanding the energy services/energy distinction. They do have a much stronger position on the environment and on building the renewable energy industry. However, ALP has so far failed to address the question of the long term replacement of fossil fuel export income. The Greens and Democrats score well on environmental issues and seem to have an understanding of the need for services rather than energy. However, neither party offers much at all on the question of export income.

What Australians need are clearly articulated long term plans that spell out a timeline for the transition to an energy system with zero emissions and that avoid seeking a solution down the nuclear side track. We need to restructure energy markets so that they incorporate all currently 'external' environmental and other costs and facilitate provision of energy services rather than energy units. We also need a major strategic plan for reducing our reliance on conventional energy exports. My own four policy contributions are as follows:

- immediate adoption of a legally binding target for GHG emissions that reduces to zero in 50 years
- introduction of an emissions trading scheme that recognises the offsets associated with efficient delivery of energy services
- strengthening of the MRET measure to increase to twenty per cent by 2020
- a twenty-year plan to build a new industry that replaces coal exports with renewable energy derived fuels such as gasified biomass and renewable hydrogen derivatives.

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