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Catch the energy superpower tide to defeat recovery headwinds

Committing to stronger action on the climate is an opportunity for Australia to put the years of stagnation behind it, and move into a new era of rising real incomes.

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The pandemic recession has prompted rethinking of the fiscal, monetary and immigration policies that contributed to stagnation of labour incomes, persistent unemployment and rising underemployment in the half-dozen years before the pandemic.

If the rethinking leads to sustained policy change, Australia may return to full employment for the first time in nearly half a century. That would be of historic importance for the welfare of most Australians and the health of our polity.



The government's road map stops a long way short of an internationally credible destination. **Alex Ellinghausen**

Full employment would provide a favourable environment for economic reform. It would not in itself bring sustained growth in productivity, output per person and incomes. Without that growth, Australia will struggle with the huge public debt accumulated during the pandemic, and the strategic challenges and systemic competition in today's geostrategic environment.

Return to sustained growth in productivity, output and real incomes faces large headwinds: the weak pre-pandemic starting point; the China trade problem; the pandemic recession's legacy of damaged service export industries, especially education; and the decline in coal and gas demand that is an inevitable consequence of the rest of the world's carbon policies.

The headwinds can be defeated by catching the superpower tide.

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The [first article in this series](#) noted the four conditions for Australia capturing the superpower opportunity: the world starting now to move purposefully to zero net emissions by mid-century; the major economies remaining open to imports of competitively priced carbon credits and zero emissions goods; other countries accepting Australia as a legitimate participant in zero emissions trade; and Australian domestic policies supporting investment in zero emissions activities and rapid structural change.

Glasgow is water under the bridge. We can avoid compounding the damage at COP27 in Egypt in November 2022.

Meeting each one of these four conditions helps with the others. Join the other developed countries in policies to achieve early and consistent progress to zero net emissions, and we contribute momentum to the global effort. We help other countries to see that they can reduce the costs of their own transition if they remain open to imports of zero emissions goods and carbon credits from us. And we establish our credentials as a legitimate supplier of zero emissions goods and carbon credits.

Australia at Glasgow was a drag on the global effort. By standing outside the consensus of developed democracies, we weakened our position in the restructuring of global trade around the climate transition.



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Glasgow is water under the bridge. We can avoid compounding the damage at COP27 in Egypt in November in 2022. That requires commitments to emissions reductions by 2030 within the range of developed countries. It requires joining the methane pledge of other developed countries. It requires commitments to phasing out use of coal broadly in line with other developed countries.

We have recently seen major statements on related policy from the government (the Technology Roadmap 2021, released for Glasgow), the ALP (the climate policy released just over a week ago), and the Australian Energy Market operator (the draft 2022 Integrated System Plan [ISP] released on December 10).

Imaginary engine

The government's road map stops a long way short of an internationally credible destination. Like the apocryphal economist, the government assumes an engine to drive us to that inadequate destination. It assumes that businesses and households act as if a carbon price was driving behaviour.

The opposition's 43 per cent reduction in emissions by 2030 describes a destination just within the range of developed countries. The opposition plan provides an engine to take us from where the government's road map ends to the

proposed destination: most importantly, the commitment to investment in electricity transmission; and the activation of the Emissions Reduction Fund's safeguard mechanism. But it relies on the government's imaginary engine to drive us to the starting point for its own policies.

The AEMO draft ISP's "step change" scenario, considered most likely, sketches a similar electricity future to that proposed by the opposition. Electricity demand through the main grid almost doubles by 2050, to support electrification of transport, heating and some industry.

Grid-scale wind and solar capacity and generation triple to 79 per cent of supply by 2030 and more than double in each following decade. Whereas current coal generators' statements envisage that five gigawatts out of 23-gigawatt current capacity will be retired by 2030, AEMO's most likely scenario anticipates withdrawal of 14 gigawatts. It envisages closure of all coal generators by 2043, and perhaps by 2040.

The value of renewable energy certificates (RECs) under the Renewable Energy Target (RET) has been the main engine driving renewables investment to this point. Expanded solar and wind output has greatly reduced the wholesale price of power when the wind is blowing and the sun shining. This has reduced the average price of power to users – even when the cost of the renewable energy certificates is taken into account.

This was evident in the initial modelling for the Abbott government's Warburton Committee, and then for the Finkel Committee's National Energy Guarantee.

In the absence of value from RECs, the low prices for solar and wind when they are producing most may not support investment at levels envisaged in the government's road map, the ALP's Plan and the ISP. Can the states' policies, with surrender of RECs, augmented by private businesses' voluntary surrender of RECs, be the engine? Maybe, under some conditions. We need to think through the conditions.

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AEMO's ISP demonstrates that the lowest-cost electricity system development path would see early phasing out of coal power generation. We could provide an acceptable version of the developed countries' coal pledge by committing to do what AEMO thinks is best for low prices and high reliability.

The effectiveness of the opposition's safeguard mechanism depends on the discipline applied to gas and coal producers' demands for protection. The emissions-related reduction of coal and gas investment in many countries has contributed to higher world prices. Gas and coal producers want to ignore this benefit, and refer only to competition from developing countries without constraints on emissions. A principled approach to implementation of the safeguard mechanism would allow a Labor government credibly to join other developed countries in the methane reduction pledge.

None of the government, the opposition nor AEMO plans recognises the extent of the opportunity for early major investment in the new zero emissions industry. AEMO presents a "hydrogen superpower" vision, premised on large-scale exports of renewables-based hydrogen from the 2030s and accelerating in the 2040s. It misses the much bigger opportunity, starting now, for competitive production of zero emissions goods embodying renewable electricity and hydrogen.

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The government's vision remains blocked by a backward-looking "gas-based recovery", which favours gas-based hydrogen until the 2030s and 2040s and doesn't see major investment in new minerals processing until then. The opposition talks of Australia being a superpower of the zero carbon world economy, but understates the immediate opportunities for manufacturing industry based on new comparative advantage in zero emissions electricity and hydrogen.

The opposition could join other developed countries in credible commitments to the Glasgow objectives without fundamental departures from explicit policy. It would be harder for the government before the 2022 election, but the advantages in taking credible positions to COP27 will be compelling. They include using the superpower opportunity to put the years of stagnation behind us, and to move into a new era of rising real incomes for most Australians.


Ross Garnaut is Emeritus Professor of Economics at The University of Melbourne, a director of ZEN Energy and chairman of Sunshot Zero Emissions Futures. His new book, The Superpower Transition: Australia's Low-Carbon Roadmap, will be published in September 2022. This is the final article in his series on Australia's energy superpower opportunity after Glasgow.


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