Climate action under an Abbott government

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It looks likely that the next Federal Government will be a Tony Abbott-led Coalition Government. Mr Abbott promises, if elected, to repeal the carbon tax.

Labor may block that repeal, but if they do Tony Abbott has promised a double dissolution. At any rate, if current trends persist the Coalition will control both houses of parliament resulting in no electoral or numerical obstacles to repeal.

It’s true that four months is a long time in politics, but it’s time to consider the Liberal party’s policies and their implication.

The Liberal Party’s perspective on climate action

In a recent speech, opposition spokesman Greg Hunt outlined the Liberal Party’s policies, including the “Direct Action Plan”. He argued against a carbon tax with the following points:

- Energy is an inelastic good. That means affecting demand or supply requires a “radically high” carbon price.
- A carbon tax is the wrong market mechanism, inefficient, and increasingly “off the table” elsewhere.
- The carbon tax is having serious unintended negative consequences.

Hunt confirmed the bi-partisan status of the 2020 emissions reduction target, and argues the debate is about mechanisms. The opposition believes an incentives-based approach will be better at reducing emissions than a regulatory tool such as a carbon price.

Direct Action doesn’t do enough to support energy innovation

The core of the Liberal’s "Direct Action Plan" is a A$2.55 billion fund for new emissions reduction projects. In a recent interview Greg Hunt emphasised opportunities in “cleaning up power stations, cleaning up waste coal mine gas, cleaning up landfill gas, capturing carbon in trees or in soil, energy efficiency”.

This quotation raises an under-discussed issue. The Liberal’s climate policy indicates a focus on increasing energy efficiency and mitigation options in the agriculture and forestry sectors. It implies they want to shift away from Australia’s current dual focus on cutting greenhouse gas emissions and driving transformation in the energy sector. The latter is, implicitly, left to the market.

Core questions of how to make necessary, systemic changes in the energy sector and how to intensify energy innovation have not been addressed by the Liberal party. The promise to close the Clean Energy Finance Corporation makes this even more unclear.

Simply put, the medium-term scenarios indicated by their policy lack the sorts of energy policy and related substantial public investments which are likely to be essential for the required technological revolutions. Currently the carbon pricing scheme raises funds for such investment. Without this revenue generation – and associated investment – “bottom-up” change initiatives are likely to drive less change.

Is there a better way to transform energy?

Climate change and energy policy development is still very much in its infancy. It throws up wicked problems with which we are still very much grappling. How have other jurisdictions dealt with the issues? What can the
future government learn from them?

Analysts at The Breakthrough Institute explored the following core dilemma. To enable clean energy alternatives to rapidly become cost-competitive, policy makers need to aggressively limit greenhouse gases. But this sort of aggressive action is likely to cause a political backlash, because it will increase energy prices.

This dilemma is at the heart of the challenges faced in regulation-centred approaches, which make fossil fuels more expensive (e.g. via a carbon tax or an emissions trading scheme). They observe that the carbon price must be set at exorbitant levels to make today’s clean energy alternatives cost-competitive.

Preferable, they find, is an investment-centred approach which - in contrast - decreases the cost of alternatives through technological breakthroughs and innovation. They call for substantially more public investment to help achieve this.

Greg Hunt rejects regulation-centred approaches that “drive up the cost of all of our electricity in the hope that it will make renewables more competitive”. However, he is yet to outline an approach for providing or enabling investment in energy innovation.

In international politics we are seeing increasing focus on enabling innovation. For example, in the UK the Green Investment Bank finances the clean-tech sector. The UK also established a Technology Strategy Board in 2007. In the USA a more aggressive push on energy policy has emerged.

Another emerging trend is the search for “post-partisan” options. For example, The Breakthrough Institute teamed up with right-wing think tank American Enterprise Institute and the Brookings Institute. They identified potential post-partisan approaches such as reforming subsidies, using government procurement to drive energy innovation and achieve price declines, and internalising policy costs.

Good energy policy reduces budget blow-outs

The Liberal Party positions their policy as less expensive than the carbon price. But future investment needs (such as those discussed above) and potential costs blow-outs in their Emissions Reduction Fund (like those discussed by academics and the government) raise concerns about future federal budgets. Given the decade of deficits forecast by the Grattan Institute and others this could become an important issue.

Perhaps an Abbott-led Government could take a leaf out of the Post-Partisan Power book. Post-Partisan Power promotes measures that internalise costs and don’t add to debt levels or to budget pressures. They suggest dedicating revenues from a small carbon price or electricity surcharge to public investments in research and development.

Given the Coalition’s repeated “blood pledge” to repeal the carbon tax this scenario currently seems very unlikely. However given the Coalition’s promise to deliver surplus budgets, perhaps they should consider a modified carbon price.

Unanswered questions

The Liberal Party policy is a clear rejection of a regulatory-centred approach to climate action. However, pathways to a transformed energy sector are less clear. The Liberal policy articulates an alternative way to achieve the 2020 emissions target, but little more.

The Coalition ought to have a clearer view on this. Tony Abbott’s own recent statements on these matters indicates a worrying lack of knowledge of the roles of public investment in technological change, and a simplistic view of the failures that often result from any investment – public or otherwise – in innovation.

Core questions remain unanswered, including: What can or should be “left to the market”? How should we make real strides towards a cleaner energy future?

There is a need to press the Coalition on such matters and address these emerging issues.