

Climate backflip ignores expert advice

AFR, Phillip Coorey, 8 Dec 2016

The Turnbull government's decision to rule out a carbon scheme for the electricity sector rejects advice from its handpicked expert who will recommend an emissions intensity scheme as the most effective way to transition to a secure and lower-cost energy supply.

Chief Scientist Alan Finkel, who in October was put in charge of the review into Australia's National Energy Market, is scheduled to recommend such a scheme for the electricity sector in a preliminary report to the Prime Minister and premiers at Friday's Council of Australian Governments meeting in Canberra.

Sources familiar with the recommendation say Dr Finkel's committee, like other energy market experts, believes the scheme would reduce power prices and was the best way for Australia to move away from coal towards gas and renewable energy, while maintaining energy security and meeting the 2030 emissions reductions targets.

But 36 hours after Energy Minister Josh Frydenberg suggested such a scheme at least be looked at as part of the government's 2017 review of climate policy, a fierce backlash from government backbenchers led by Senator Cory Bernardi, and by minister Christopher Pyne, against anything resembling a price on carbon forced him to backflip and rule it out.

He was also hung out to dry by Mr Turnbull who on Wednesday morning was emphatic there would be no such scheme or any other type of carbon price and said it was for Mr Frydenberg to explain his comments.

Emboldened by his victory, Senator Bernardi then called for Australia to abandon altogether its Paris agreement pledge, made when Tony Abbott was prime minister, to reduce emissions by 26 per cent to 28 per cent on 2005 levels by 2030.

An emissions intensity scheme is not a carbon price or carbon tax in that it does not raise revenue by charging for emissions. Instead it would penalise generators who pollute above a baseline limit. Cleaner emitters who stayed below the baseline would not pay anything and would receive free credits which they could trade to bigger polluters.

Safeguards mechanism

The policy is similar to the Coalition's current direct action policy that has a "safeguards mechanism" designed to penalise emitters for exceeding limits. Polluters are currently paid from the budget to reduce emissions but this is considered unsustainable beyond 2020.

It is understood the federal government already has a copy of the report from Australia's National Energy Market Commission which says such a scheme would reduce prices, but cabinet resolved against the scheme several weeks ago.

As energy experts warned the government was now limited to options that would make power more expensive and less reliable, industry was also alarmed by the lack of preparedness to at least discuss the option. EnergyAustralia managing director Catherine Tanna said a market-based mechanism was needed, nothing should be ruled out and "it is far too early to be jumping to solutions".

A spokeswoman for AGL said the energy sector needed "clear policy settings that are agreed by COAG and consistently implemented across states". "An emissions intensity scheme is one cost-effective way to manage the energy transition but it cannot be achieved by this alone."

Tony Wood, energy expert from the Grattan Institute, said the backdown limited the government's ability to meet its 2030 targets. "It's a somewhat ironic outcome because it could be we end up with a fourth-best policy and we end up with exactly the opposite of what those who are opposing the scheme would like to achieve – more uncertainty, and even higher prices, and that would seem to be a really crazy outcome," he said.

'More expensive'

The government's decision to rule out a carbon scheme for the electricity sector rejects advice from its handpicked expert. David Rowe "Either the government puts a lot more money into the [direct action] emissions reduction fund ... or they take the safeguard mechanism and rapidly reduce the baselines without having some sort of trading scheme which is a much more expensive and clunky way of doing it. "Or they actually expand the Renewable Energy Target which gets them into the same sorts of problems they've criticised state governments for.

Danny Price of Frontier economics and who has long advocated a baseline scheme, said the scheme would actually reduce power prices while maintaining energy security. "This shows a lack of spine. The policy vacuum that it leaves will be filled by policies that will do exactly what they are trying to avoid," he told Fairfax Media. "The government is allegedly interested in lower prices and energy security. By doing this, it means they are the party of increasing electricity prices and reduced energy security."

On Monday, Mr Frydenberg released terms of reference for a review of climate policy for the decade beyond 2020. It opened the door to the purchase of cheap international permits to help meet Australia's 2030 emissions reduction target but made no provision for an emissions trading scheme or a carbon tax.

Credit scheme

But Mr Frydenberg did leave open the prospect of an emissions intensity scheme for the electricity industry which produces one-third of the nation's carbon emissions. "We know that there's been a large number of bodies that have recommended an emissions intensity scheme, which is effectively a baseline and credit scheme. We'll look at that," he said in an interview.

Following the backlash and a cabinet meeting on Tuesday afternoon, Mr Frydenberg ruled out any prospect of such a scheme. "The government will not introduce an emissions intensity scheme, which is a form of trading scheme that operates within the electricity generation sector," he said in a statement.

On Wednesday morning, Mr Turnbull said the terms of reference never opened the door to "a scheme of that kind" and it was up to Mr Frydenberg to explain his comments. "We are committed to doing everything we can to put downward pressure, maintain downward pressure on electricity prices," he said. If you want to ask questions about what another minister said, you should address them to him."