

Malcolm Turnbull must prepare for new carbon policy war



Malcolm Turnbull speaks to the media after the COAG meeting yesterday. Picture Kym Smith

Paul Kelly, Editor-At-Large, The Australian, 12:00AM December 10, 2016

The Turnbull government's strategic energy policy for the next election was set in a decisive meeting last Tuesday between Malcolm Turnbull and Environment and Energy Minister Josh Frydenberg that ruled out any emissions trading scheme for the electricity sector and decided to target Bill Shorten as the long-run champion of high energy prices for Australia.

There was, in fact, a three-way consensus reached when former environment minister Greg Hunt joined the meeting, a symbolic sealing of the climate change strategy that enjoys cabinet and overwhelming partyroom backing.

The die is cast. The Coalition-Labor split over climate change policy is set to intensify in this parliament to the next election. The political lesson from this week is that the sentiment of the Coalition parties remains fiercely opposed to any ETS. The huge push for an electricity sector emissions intensity scheme from the policy advisers, agencies and Chief Scientist Alan Finkel in his report has been killed stone dead. There are three groups of losers from this week's events: the climate change lobby with its preferred schemes, the policy advisers pushing their electricity sector approach, and the industry and business groups hoping to see the emergence of some Coalition-Labor policy consensus to bring investment certainty to the sector.

After a chaotic week when subterranean tensions in the cabinet nearly boiled over and Frydenberg's political standing took a hit, the post-2009 political settlement is confirmed. Turnbull as Prime Minister is pledged to honouring the Paris agreement and achieving Australia's emission reduction targets without a carbon tax, an ETS or an emissions intensity scheme for the electricity sector.

The unifying political principle embraced by Turnbull and his senior ministers is that Australians are already paying enough for their electricity — the Finkel report shows household energy bills have risen 61 per cent compared with a consumer price index increase of 14 per cent over 2008-14 with more upward pressure certain. Turnbull pledges to reach Australia's targets short of a new price scheme. He brands recent energy increases as "massive", says energy security and reliability are vital

and the lights must be kept on, and argues that an emissions intensity scheme is a cost or tax on coal-fired generators with a similar impact to a carbon tax.

Uncertainty and confusion in the national electricity market is guaranteed. Toxic policy conflict between federal and state governments will intensify — over renewable energy targets, emissions intensity schemes and absurd state government bans on natural gas extraction, which Industry Minister Hunt calls a “looming crisis”.

The entrenchment of the traditional anti-ETS Coalition position means Turnbull must confront perpetual criticism that he has sold out the most efficient means of emissions reduction and buckled to the Coalition far right-wing with senator Cory Bernardi being the single loudest voice this week. The truth is different: support within the government for a major policy change simply doesn't exist.

This week has been filled with two grand political and media-driven fantasies of the Left and Right. The Left insists Turnbull is a weak leader for not embracing emissions trading when the reality is obvious: the cabinet had no stomach whatsoever for this option, a partyroom majority opposed it and expecting Turnbull to embrace such a stance at the cost of destroying his government was an unrealistic proposition though a bonus probably for some of his progressive critics. The fantasy of the Right was even more fantastic: that Turnbull, as a progressive, had secretly planned to impose an emissions trading scheme on his government, that he sent out Frydenberg to float the idea, then betrayed him, and humiliated Frydenberg just as he humiliated Scott Morrison earlier on the GST.

This is part of the far-right political and high-profile media campaign to destroy the Turnbull government through the fabrication of serial mythologies with climate change at the top of the list buttressed by earlier misleading claims over the Australian Building and Construction Commission bill. The farcical nature of the “get Turnbull” brigade was on display a few weeks ago with reports that Turnbull might struggle towards year's end to avoid a leadership challenge.

The reality is far more mundane. The cabinet authorisation of the terms of reference for the 2017 climate change review was strictly a housekeeping issue. The cabinet submission did not envisage a carbon tax or emissions trading scheme. The expectation was that the announcement would be strictly low-profile. Frydenberg's mistake was to make it high profile, igniting a firestorm. He later accepted “full responsibility” for the mishap when he left open in interviews the emission intensity scheme option, thereby forcing the subsequent clarification. The only prospect of keeping this option alive was to keep it out of the media cycle, but that chance was lost by Frydenberg's comments.

The Tuesday post-cabinet meeting involving Turnbull and Frydenberg, with Hunt called in for a further opinion, brought a clear and decisive result to what threatened as a wider Coalition parties meltdown over climate change policy. It has multiple meanings. It shows Turnbull has no wish to repeat the mistakes that cost him the leadership in 2009, hardly a miraculous conclusion. He has buried any ETS nostalgia and this can be assumed for the rest of his prime ministership. In this sense it may constitute the final reconciliation between Turnbull and the party on climate change policy. It shows that an ETS remains an explosive, ideological fault line within the Coalition and industry dreams of Coalition and Labor coming together on climate change policy were just that — dreams.

It reveals the extent to which the South Australian blackouts, Labor's ideological insistence on a 50 per cent renewables target by 2030 and the damage higher power prices are already doing to industry and jobs has hardened sentiment within the Coalition against further pricing schemes.

The message from this week is that the government will fashion energy policy around two pillars: refinement of its Emissions Reduction Fund (paying companies to reduce emissions) and challenging state governments, notably Victoria and NSW, to abandon their rejection of natural gas extraction. The fracture within the government between the politicians and the main advisers on the most desirable policy instruments is a complicating factor. The tensions that erupted so quickly this week underline the fragility within the cabinet. The leaking of the expenditure review committee decision to abolish the Tony Abbott-cherished Green Army created after the 2013 election was a strike against Turnbull and guaranteed to agitate Abbott. Frydenberg's floating of the emissions intensity scheme option ignited not just Bernardi but senior cabinet minister Christopher Pyne, who made a conspicuous public strike against it. Abbott went public, warning Turnbull against reopening questions "that were settled for our side back in 2009" — a dangerous remark. There followed an eruption of briefings and counter-briefings. Backbench energy committee chairman Craig Kelly said he accepted the review but warned the party "will not accept" higher electricity prices. Turnbull largely drafted the "clarifying" statement Frydenberg issued to The Australian on Tuesday evening. Morrison, made it clear the government would not accept an ETS or carbon price. By week's end, Turnbull and Frydenberg had spoken again and further settled the issue, with the latter admitting to the PM he had misspoken earlier in the week.

It is no surprise Turnbull's comprehensive rejection of any ETS or emissions intensity scheme for the electricity sector coincided with accounts showing GDP shrank 0.5 per cent in the last quarter — highlighting recent government worries about jobs and economic competitiveness. Senior ministers are not prepared to initiate new carbon schemes in the quest of proving their climate credentials. Economic cost factors will have overriding priority to the next election.

Speaking after the COAG meeting yesterday, Turnbull refused to accept the claims of advocates and experts that an emissions intensive scheme might have a dampening impact on prices. He likened its impact to a carbon tax. It is significant the climate change review includes "the potential role of credible international units" in meeting Australia's 26-28 per cent reductions targets by 2030. This springs from the 2015 Abbott cabinet decision and the well known difference at the time between Abbott and Hunt. It can be assumed if Abbott were still PM this provision would not have been included in the review.

Its purpose, however, is to assist operations of the Emission Reduction Fund with its \$2.55 billion - allocation to buy emissions reductions. As envisaged, the "international units" do not relate to any emissions intensive scheme for the electricity sector. That is, they can be expected to stand and remain part of the review.

Any notion the Turnbull government, in the light of Donald Trump's victory, will withdraw from the Paris process is utter fantasy. Turnbull stressed after the COAG meeting yesterday that Australia would meet and beat its 2020 targets and that current policies would be sufficient to meet the 2030 targets, a heroic claim.

In his statement yesterday on presenting his preliminary report on the electricity market to COAG, Finkel said: "We now have a once-in-a-generation opportunity to reform the electricity sector to maximise its resilience in the face of rapid market changes."

Yet the week's events cast serious doubt on whether such opportunity will be taken. Climate change policy in Australia remains highly ideological on both sides — Coalition and Labor. Drawing on reports from the Australian Energy Market Commission and the Australian Energy Market Operator, Finkel said that "of the three policies assessed, an emissions intensity scheme best integrated with the electricity market's pricing and risk management framework had the lowest economic costs and the lowest impact on electricity prices".

This is an embarrassment for Turnbull since he had just removed this option from the review. Yet there is much in the Finkel report that assists Turnbull's arguments. Finkel says the security and - reliability of electricity supply "is less assured than in the past". He says the rate of technological change is "unprecedented" and, on the cost front, finds that household energy bills rose on average almost 50 per cent, inflation adjusted, in the six years to 2014. He warns that inadequate supply and the high cost of natural gas are contributing to rising power prices.

The Turnbull government is convinced the aggressive stance taken by South Australian Premier Jay Weatherill will be counter-productive since South Australia has become a classic study in the risks posed by renewables: the highest cost and most unreliable energy in the nation constituting a tangible risk to industry.

The head of the Australian Industry Group, Innes Willox, documented this week the dual dilemma the nation faced. Willox said "bipartisanship" was vital in long-run energy policy and previous policy had been messy, tortured and exceptionally difficult. He wanted an end to the political rancour — yet within a couple of days that rancour was affirmed. But Willox also argued the need "to keep pricing under control". He said trade-exposed industries such as steel, aluminium and cement were "under enormous stress" and those industries must be kept and retained rather than be driven away by policy action.

In his report, Finkel said: "There is evidence that investment in the electricity sector has stalled and investors have become less responsive to investment signals. This is due to policy instability and uncertainty driven by numerous reviews into the RET and a lack of clarity about the policies to reduce emissions after 2020."

Here is Turnbull's dilemma: how to promote necessary investment certainty when the Coalition-Labor and federal-state battle over climate change policy is set to intensify to the next election.