

It's time to end the carbon wars

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Australia has most known forms of energy – coal, gas, oil, sun, wind, hydro, tidal, geothermal, uranium and perhaps a few more. The country entered its modern era of resources-driven prosperity with cheap electricity as one of its big competitive advantages.

Yet now we pay some of the world's highest electricity bills, and live with threats of summer blackouts. Just over six months ago at the The Australian Financial Review Business Summit, Malcolm Turnbull declared a national energy crisis. Since then, things are gone crazy quilt, with the government threatening to curtail exports from the new LNG industry, attacking domestic power companies and intervening all over the place.

How we got here, and more importantly how we now get out, is the big question to be answered by The Australian Financial Review Energy Summit starting in Sydney on Monday.

What is depressingly clear however is that carbon war politics has got in the way of rationality every time. Those wars intensified when Australia under Kevin Rudd, Julia Gillard and the Greens chose the wrong role to play in the global decarbonisation drama.

A carbon-dependent economy with only a small carbon-emitting population could not lead the way with the world's highest carbon tax without inflicting a lot of cost on itself for very little global return. And it meant ignoring Australia's natural comparative advantage as an exporter of clean gas and relatively clean coal to much bigger emitters than ourselves, like China and India.

Most of the unresolved arguments – how much to force-feed renewables into the system, the critical importance of gas, the right speed to wind down coal – come back to these early overreaches on carbon cost. The battles have ravaged Australian politics for a decade, tearing down the leaderships of John Howard, Kevin Rudd, Malcolm Turnbull and Julia Gillard. Mr Turnbull and Tony Abbott are still fighting out a rematch which could yet decide whether the latest, best hope of a compromise in some version of Chief Scientist Alan Finkel's clean energy target actually stands a chance.

What's really needed is a modest price signal across the entire economy to encourage less carbon-intensive ways of producing things. But too much of the policy effort – including under Mr Abbott – was left to the requirement that more than 20 per cent of electricity generation be reserved to renewable forms. When power demand rose less than expected, the mandated amount drove an even bigger share of unreliable wind and solar power into the grid, with multiplying consequences. Renewables damaged the economics of the underlying baseload supply. That led to under-investment and premature closures of generating capacity, which in South Australia's dramatic blackouts two years ago became the tipping point for this latest phase of the crisis.

Generators now rely on gas more often, making gas a driver of wholesale power prices. That's been a desired result, because gas was expected to be the transition fuel between coal and renewables. But unscientific bans on gas development in NSW, Victoria, and the NT have sent gas – and power – prices soaring instead.

Mr Turnbull has this week even been willing to take on anti-gas talkback radio powerhouse Alan Jones. Developing a massive LNG export industry was always likely to link Australian gas prices to world gas prices. But this has been compounded by the irrational politics of Mr Jones, greens, and some farmers in stopping perfectly safe development of onshore gas in NSW and Victoria, pushing up domestic gas prices and further ratcheting up electricity prices.

The climate story is moving rapidly. China's planned emissions trading system could change carbon price considerations here. Renewables might get so cheap they don't need subsidising – in which case the carbon wars could conceivably end. But the driving of climate policy from the ideological fringes, either green zealotry or climate change denial, has disrupted rational policy making for a decade. That at least has to stop.