

RECENT DEVELOPMENTS: JUNE 2004

AT LAST! A COMPREHENSIVE ENERGY STRATEGY FOR AUSTRALIA

On 15 June 2004 the Prime Minister of Australia, the Hon John Howard, released the government's long-awaited White Paper on its energy strategy, "Securing Australia's Energy Future".

See www.pmc.gov.au/energy_future.

The publication of the 193-page White Paper is a watershed in Australian government economic management. For the first time in its history, Australia now has a comprehensive strategy which purports to address all of the key energy issues which impact on the Australian economy and on Australian society in general. It is impossible, in this short commentary, to adequately respond to many of the issues that it addresses.

One Reaction to the White Paper

The most interesting reaction to the White Paper was that of the renewables lobby. The overwhelming emphasis of the strategy is on long-run industry and environmental sustainability and on greenhouse gas (GHG) emissions reduction. The government looked at where GHG emissions are produced and adopted a wide, and not ungenerous, array of initiatives to reduce the level of GHG emissions, focusing on transport industry emissions, coal-generated emissions and other fossil fuel-generated emissions as the long-term priority but also providing for a range of further initiatives in the renewables sector. In so doing, the government received strong criticism from the renewables lobby.

ResourcesLaw International represents a wide range of clients in the renewables sector as well as in the fossil fuel sectors. We are especially privileged to be advisers to one of the world's leading solar panel producers and a number of wind power generators and hydro-electric generators.

Spokespersons for the renewables sector have sought to appropriate the concept of sustainable development as their exclusive domain. In our opinion, this serves to weaken rather than strengthen the credibility of their criticism.

The Three Policy Objectives

The strategy has three policy objectives: prosperity, security and sustainability. In evaluating the strategy, it is helpful to do so under each of these headings.

1. The Prosperity Objective

This objective is largely concerned with underpinning the process of investment and improving the efficiency and productivity of the energy industry.

Developing Australia's energy resources, particularly coal and natural gas for both domestic use and export, remains a national priority and the White Paper affirms that the policy framework must above all provide certainty for investors.

The government has estimated that more efficient use of energy could yield an almost A\$1 billion annual improvement in GDP. The government will require all large energy users to provide publicly available "energy efficiency opportunity assessments" every five years as part of a wide business community education process.

The government is also strongly committed to continue domestic energy market reform in consultation with the states and territories.

2. The Energy Security Objective

Although Australia is well endowed with coal and natural gas reserves and has an extensive energy transportation infrastructure, for the remainder of its requirements, it must rely on continuing access to world markets. The government will continue to monitor global events and will undertake a biennial review of its energy security outlook.

The main short-term energy security threat is the threat of short term disruptions to energy production and distribution. In this regard, the government is fast-tracking the development of a joint Federal-state mechanism for management of major gas disruptions to complement that which already exists to handle oil supply disruptions.

The main policy elements are:

- ❖ Engaging in international efforts to promote open oil markets and to maintain a high global capability to address global or regional oil supply disruptions (this is principally via the IEA Emergency Oil Sharing System and the APEC Energy Security Initiative)
- ❖ Protecting Australia's energy infrastructure from disruption through the Critical Infrastructure Advisory Council and other initiatives
- ❖ In the longer term, ensuring that investment in new energy supply, transmission and distribution capacity is made in a timely and efficient manner.

3. The Sustainability Objective

On climate change, the government's approach is:

"Australia recognises the necessity of lowering global greenhouse emissions and that achieving this will require substantive action over the long term. Internationally, Australia is committed to pursuing effective global action, and will continue to actively engage with other nations to this outcome. To be effective, a global response must encompass the world's largest emitters and address the issue of economic activity and emissions potentially moving from one nation to another with no overall global greenhouse benefit.

Domestically, Australia is committed to maintaining a strong and internationally competitive economy while lowering its greenhouse signature. Australia is committed to meeting its Kyoto target of keeping greenhouse emissions to 108 per cent of 1990 levels by 2008–12. Unlike many countries that have ratified the Kyoto Protocol, Australia is on track to meet its target, and will continue to monitor progress. This has been achieved through a comprehensive approach to greenhouse abatement."

The government has therefore decided:

- ❖ not to ratify the Kyoto Protocol
- ❖ not to introduce a domestic emissions trading scheme in the absence of the emergence of an effective global scheme (if an effective global scheme emerges, the government will consider least-cost approaches to constraining emissions which could then encompass a trading scheme)
- ❖ to establish a A\$500 million Low Emissions Technology Development Fund to support industry-led demonstration projects
- ❖ to provide a further A\$50 million specifically for renewable energy initiatives (adding to an existing A\$50 million programme)
- ❖ to establish a A\$75 million Solar Cities programme
- ❖ to continue to support low-emissions energy from renewable sources through the Mandatory Renewable Energy Target (MRET) but not to extend or increase the target (the government considers that MRET will underpin some A\$2 billion in renewable energy investment in the period to 2010)
- ❖ to promote advanced electricity storage technologies
- ❖ to promote systems for accurate wind forecasting

- ❖ to continue other renewable energy schemes including:
 - the photovoltaic rebate program
 - the remote renewable power generation program
 - the renewable energy equity fund
 - the renewable energy commercialisation program
 - the renewable energy industry development program.

Overall, the government will to continue to build a strategic framework to place Australia on an environmentally sustainable footing for future generations.

The government considers this requires "a concerted effort to move away from ad hoc interventions of the past to standard setting and market-based approaches. It involves designing an environment policy that is science-based, result-oriented and that can deliver practical outcomes by working in partnership with industry, regions and the community." We could not agree more.

An Overall Assessment of the Strategy

It is impossible, in a few short paragraphs, to adequately assess a 193-page policy document that has been more than a year in the making. We therefore confine ourselves to six short comments:

(i) No single technology can provide the answer

First, the government has correctly recognised that, if it is ever to achieve a prosperous, secure and sustainable energy future, no single technology can provide the answer. Rather, the government is anticipating that the most innovative, market-based solutions will emerge over time.

In this respect, the White Paper is consistent with the World Energy Council's recommended policy of keeping all energy options open, although the White Paper makes only passing mention of the advantages of nuclear power as an emissions-free source of electricity. By contrast, China, Japan, India and the United States see nuclear power as a key technology for their energy future. More widely, the global "dash for gas" continues to accelerate and perhaps more attention should have been given in the White Paper to the further development of Australia's domestic gas markets.

(ii) Energy security cannot be guaranteed

Secondly, the government has recognised that energy security is not something which can ever be guaranteed in absolute terms. Again, it is necessary to keep as many options open as possible, both in terms of competing fuels and competing supply sources, domestically as well as globally.

In our opinion, a portfolio approach is required to the procurement of Australia's primary energy and further study needs to be made of this. Japan's experience is particularly instructive.

(iii) Australia has obligations to the world

Thirdly, Australia recognises its responsibility to play a major role in supplying the world with energy and energy-related products.

As the White Paper suggests, this should in turn allow Australia to rely on its established trading partners to maintain the supply of energy imports to Australia in times of crisis as well as under normal market conditions.

Australia also recognises its responsibility to the rest of the world to reduce its own GHG emissions.

(iv) A "whole of government" approach is welcome but more remains to be done

Fourthly, the White Paper is the very welcome result of the work of an interdepartmental task force reporting direct to Cabinet. It is a major achievement in presenting a "whole of government" approach to energy policy.

Nonetheless, the White Paper could and very likely should be followed up with a more rigorous analysis of some of the assumptions on which it is based (there never was a Green Paper).

(v) Why not a dedicated energy minister?

Fifthly, if the energy sector is anything like as important to our prosperity, our security and our industrial, social and environmental sustainability as the White Paper now indicates, is it not now an appropriate point for the government to consider appointing a minister to be dedicated full time to the energy industry portfolio?

(vi) Government policies are not set in concrete

Finally, the White Paper is "only a policy", in that it only represents current government thinking. Other specific initiatives are not foreclosed, nor are changes in specific areas as time goes on and as experience is gained.

Industry participants need to remember that all elements of government policy, that are not actually enacted as legislation, are not set in concrete and can always be changed at the government's discretion.

This newsletter does not cover all of the key issues arising from the White Paper. Further information on Australia's energy policy is available from Robert Pritchard who can be contacted by email at robert@resourceslaw.net