

ENERGY CRISIS OPTIONS: WHAT IT TAKES

Innes Willox, Chief Executive of the national employer association Ai Group

Published in *The Age* and *The Sydney Morning Herald*

Friday, 3 June 2022

Even though Australia is one of the world's biggest energy producers, we face an immense energy affordability crisis from which nobody is immune.

Why? Power prices have surged in the face of global coal prices, driven by the Russian invasion of Ukraine. Outages at ageing Australian coal power generators have increased reliance on gas. Now gas prices are surging too, also driven by the war in Ukraine.

The situation is becoming chaotic, as price pressures drive smaller retailers from the markets. Even when this settles down, industry and households face years of high power and especially high gas prices.

Energy matters. Power and gas make up a significant part of household spending, especially for the most vulnerable. But they are also important inputs for the industries that supply the rest of Australians' needs, from tinned tomatoes to bottled milk to bricks and beyond.

Given this is a global crisis that also afflicts our competitors, some businesses will be able to pass on higher costs to consumers. But others will be under dire pressure. Business failures and household pain loom.

So, what can be done?

We need to think clearly about our options. Some are terrible. Very few can have an impact in the immediate future. Some may never help at all. Even sensible steps will take a lot of doing. We need a strategy for the coming winter, for the next two years, and for the next five years and beyond.

To get to the long term, we must first survive the short term. And the short-term options are not great.

We could slash energy exports. The current laws to allow for this are unusable and would have to be totally rewritten. However, quite apart from questions of sovereign risk, cutting off our allies amidst a global energy crunch would be a big call, and we stand to lose if other nations make similar decisions on resources we import – like oil.

We could impose wartime-style domestic energy price controls. That in turn would imply wartime-style energy rationing and export caps to prevent still more energy going for a better price overseas. None of this sounds attractive, though a close regulatory eye on any actual market manipulation is a must.

We could compensate the most vulnerable households and businesses at risk. The detail would be complex to get right – as JobKeeper was – and if implemented should be targeted, time-limited and proportionate. While good policy design that takes into account the existing provisions to index pensions and other income support payments could keep the costs of compensation down, it would realistically take billions.

Such financial assistance may be the least-worst short-term option. Like export curbs and rationing, it is a band-aid that will not reduce the underlying problem.

Eventually, targeted, timely and temporary support needs to hand off to longer term measures.

What will ultimately help solve the problem is to accelerate the transition to net zero emissions that we've been fitfully lurching towards in recent years. Replacing coal and gas with renewable alternatives, and improving the energy efficiency of homes and factories make us much less vulnerable to global energy shocks. But that will take years, if not decades and the transition will undoubtedly be bumpy and patchy. It will not be straightforward and nor will it be without cost.

None of those sensible things are fast or easy.

The Federal Government already has a plan to accelerate the transmission lines that will unlock renewables – but it mostly takes projects from the late 2030s to the late 2020s. And communities near proposed powerlines are already unhappy. What can we do to speed zero-fuel-cost energy in the next five years?

Existing hydrogen roadmaps from governments and the emergent industry are largely about preparing for growth next decade. Efficiency upgrades are hard when tradies are fully occupied and supply chains are stretched.

What can we do to grow clean energy now?

Solving the problems requires cooperation across political and jurisdictional lines, and the involvement of energy suppliers, energy users and many other stakeholders. We may be pleasantly surprised as some transition options prove more rapidly achievable. We may be disappointed as some projects slip backward.

Clear-eyed pragmatism will be needed from all quarters. Can new coal and gas supply options help? Only if they can arrive in a relevant timeframe – most genuinely new developments take many years. And local supply will likely have little impact on global prices.

Still, there are risks of actual shortfalls in coming years. The Narrabri gasfields or the proposed Port Kembla LNG import terminal won't shield us from global cost pressures but they are much better than absolute scarcity. We should substitute away from high-priced and high-emissions fuels as fast as possible which industry already has been working to for years. Whatever the demand side can't achieve will have to be balanced on the supply side.

The new Federal Government aspires to end the climate wars. Australia's *civil* war over climate should be over. A clear majority evidently support responsible action for a safer future. However, actually delivering that during an energy crisis, and escaping the affordability crisis of our energy status quo, requires national coordination, mobilisation of massive resources, and the readiness to make difficult trade-offs for strategic goals.

In other words, a war footing.