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We need a market solution to climate change

By Cameron O'Reilly
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One would have to have been living on another planet not to notice a shift in mainstream political and media acceptance of climate change. As a consequence, no current or aspiring political leader, including the Prime Minister, is willing to be identified with the "climate change sceptic" camp.

While climate change was a clear point of differentiation between the major parties in the Victorian election campaign, the debate centred on the approach, namely the Victorian Renewable Energy Target, rather than the need to respond to global warming.

All this has happened rather quickly and owes much to the power of popular culture. While Al Gore may not have become US president, his longer-term influence on world politics through the film *An Inconvenient Truth* may prove more enduring than that of the man who beat him in the 2000 presidential election.

For climate-change activists and the increasingly powerful Greens, this is sure to be a welcome development. For the energy industry, it runs the risk of a long-term trend being tackled through short-term policy "fixes".

At present, the policy debate in Australia is largely focused on whether there should be some form of emissions trading introduced. In spite of the recent softening in Canberra's rhetoric, on this issue the majority of the states and the Commonwealth are at loggerheads. The Federal Government, meanwhile, is keen to focus debate on a potential new energy source through its nuclear inquiry.

We therefore have a situation in which a domestic cap-based emissions-trading scheme is favoured among the states despite their ruling out nuclear energy, which could become viable under such an arrangement. The Commonwealth wants to promote the adoption of nuclear energy without the introduction of the carbon price signal it would need to compete with coal and gas.

Both positions are symptomatic of the policy contradictions and uncertainty the energy industry must deal with in anticipating the likely responses from governments on climate change. Not surprisingly, therefore, the 2006 PricewaterhouseCoopers Global Utilities Survey of industry leaders had "uncertainty about the future of environmental schemes" as the number one disincentive for investment in the Australian energy sector.

As difficult as it may be for policymakers to consider, there is no substitute for letting the market decide a suitable response to climate change. Rather than championing particular technologies such as nuclear energy or wind, all governments would be better placed introducing incentives for industry and households to reduce their greenhouse emissions and then allow those responses to determine the energy mix.

As even a member of the Federal Government's handpicked nuclear inquiry, Professor Warwick McGibbon, has acknowledged, the key driver of that behavioural change is a carbon price that

encourages everyone to change the way they emit carbon. Certainly as far as energy retailers are concerned, such an approach would be acceptable if such a price signal was introduced across the whole economy and was technologically neutral in application.

What we have at present is anything but a national and technologically neutral approach. Instead we have many climate change schemes similar to the Victorian target, including the Federal Government's Mandatory Renewable Energy Target, the South Australian Government's climate change bill, Queensland's "13 per cent gas" policy and NSW's Greenhouse Gas Abatement Scheme. and their recently released NSW Renewable Energy Target policy. After toiling so long and hard to establish a national electricity market driven by market signals, governments are adopting a parochial approach to climate change that involves subsidies for preferred energy providers.

The states would no doubt point to their proposed emissions-trading scheme as an example of their attempts to promote national solutions, and to its credit, the NSW Government has said its renewable energy target requirements can be met by retailers buying accredited renewable energy from interstate. If we are to have such policies, the industry would hope that all the states can adopt such a national mindset. Climate-change policy should not be the basis of a state industry policy.

As the pressure for action from the community increases, all governments will no doubt reach for more of these programs to appear to be doing something. That time and energy would be better spent hammering out a uniformly applied market-based policy response to climate change.

For if we continue on our present course, the effect of the lack of agreement between governments on how to tackle climate change could be lower investment and higher prices for our existing energy mix. Hardly an ideal environmental outcome.

The sooner we get some policy certainty and uniformity underpinned by market signals, the sooner a coherent climate-change response will be in place.

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