CLIMATE ENERGY FINANCE

STILL WAITING: TREASURER FLAGS AUSTRALIAN RESPONSE TO US INFLATION REDUCTION ACT – GOOD START BUT MORE AMBITION URGENTLY NEEDED

2 NOVEMBER 2023

In a major address, Australian Treasurer Jim Chalmers has today prioritised the need for a uniquely Australian response that "complements" but does not "copy" the US's landmark climate and energy policy, the ~$1 trillion Inflation Reduction Act (IRA). The IRA has turbocharged the energy transformation in the US and attracted unprecedented private capital into the country, reindustrialising and greening the economy and threatening to pull capital investment away from Australia at a critical juncture in the energy transition.

Climate Energy Finance, the Climate Capital Forum, the Smart Energy Council, the ACTU, Saul Griffith's Rewiring Australia, the Clean Energy Council and others have repeatedly called on the government to invest $100bn of strategic public interest capital into an Australian renewables industry package, including onshore critical minerals processing, green iron, battery manufacturing, and green hydrogen/ammonia, to respond to the challenge of the IRA.

The Treasurer's focus today on four key industry and economic opportunities, which reflect the key priorities we and others have identified is to be applauded. These are refining and processing critical minerals; supporting manufacturing of generation and storage technologies, including batteries; producing renewable hydrogen and its derivatives like ammonia; and forging green metals including green iron.

All are industries where Australia can lead the world and exercise our significant comparative advantages. There is a clear geopolitical imperative to prioritise and establish domestic supply chain capacities in these sectors, to diversify risk. This won't happen if we leave it to the free market.

We also welcome the Treasurer's emphasis in his remarks on the crucial role of skills, technology, planning and regulation to activate and deploy the capital investment needed to underpin these industries, and his refocusing of the [Productivity Commission] to guide our country towards a successful net zero transformation.

But the Treasurer's projection that $225bn capital investment is needed by 2050 is too low by orders of magnitude, this timeframe is too late, and it reveals a too-cautious federal policy mindset that risks forgoing Australia's opportunity to position itself as a leader in global cleantech as the world moves at breakneck speed to decarbonise.

Further, the Treasurer's statement that capital commitments will be detailed in the May 2024 Budget betray a lack of appreciation of the urgency of the challenge. MYEFO is December 2023 - we need to see commitments then, and go further again in May 2024.

The $40bn committed to-date by the Albanese government is a good start – $15bn for the National Reconstruction Fund (NRF), the $20bn Rewiring the Nation, Energy Minister Chris Bowen's brilliant Capacity Investment Scheme, the $1.9bn Powering the Regions fund, the extra $4bn in critical minerals support, the extra $2bn equity support for the Northern Australia Infrastructure Fund (NAIF) and the $1.3bn downpayment on "Electrification of Everything" are all positive steps. But collectively too small and too slow, so far.

Incrementalism will not deliver on the transformative opportunity we have to remake our nation. We need a comprehensive, coordinated front-loaded package to drive decarbonisation this critical decade. Australia is starting a decade behind due to the climate science denialism of the previous mob and its pandering to the incumbent fossil fuel industry's self-interest. We have zero time to lose and everything to gain.

We are in a collective, entirely interrelated climate, energy and cost of living crisis, but when combined with China's global leadership and supply chain dominance, this creates unprecedented opportunities for wholesale transformation of the energy system, industry base and economy here in Australia.

Rather than talking in multiple decades, we need the Albanese government to seize the current moment as a massive global technology, innovation and investment race to scale up a multitude of new zero-emissions industries and solutions and capture global supply chains, building diversity to reduce geopolitical risk and position Australia at the forefront of the new global economy.

We are uniquely positioned to export “embodied decarbonisation” by processing our critical minerals, our iron ore and our other energy transition materials here using our abundant clean energy, helping our trade partners decarbonise their economies, as well as transitioning our own at speed and scale.

Other countries' responses on establishing new cleantech supply chains are accelerating, the IRA being a prime example, as is South Korea’s new leadership in batteries and EVs in response to the IRA.

China is leading the energy transition by a huge margin and dominating critical supply chains. Further delay or or insufficient capital ambition in terms of Australian government investment means we now risk being permanently locked out as other countries build their new supply chains by locking-in value-added processing of our critical minerals and metals.

Vision is everything, leadership is everything, and the context of increasingly complicated and challenging geopolitical dynamics, securing domestic supply chains is everything.

For this we need landmark strategic public capital investment. The Treasurer cited the $2bn boost into critical minerals announced last week by PM Albanese and the $2bn Hydrogen Headstart program. Again, these are incremental steps – nowhere near commensurate with Australia’s opportunity, and nor are they large enough to attract the quantum of investment we need to onshore critical minerals processing and green hydrogen at scale.

Private finance will “crowd in” once it has the price signal, and policy architecture and public investment that catalyses and rewards decarbonisation is key to this. The private capital is entirely there to be a key competitive advantage for Australia.

For example, Australia has one of the largest private capital pension pools in the world. Our $3.5trn of super is ready to invest when it gets the right policy and carbon pollution price signals, for example, building on the start from the Safeguard Mechanism. Likewise, we have the opportunity to leverage the massive power of Australian corporate balance sheets, such as those of BHP, Rio Tinto and Wesfarmers.

This financial firepower remains latent until the price and policy signals are right to derisk and crowd in their investments.

Australia’s key trade partners are also keen to build their partnerships in Australia, be that China’s iron and steel major Baowu, or South Korean steelmaker POSCO and battery producer

LG Energy Solutions, and a nation-building scale investment package would signal Australia's material strategic commitment and provide certainty.

Alongside industry policy and investment, grid infrastructure, renewables, storage and electrification are critical enablers of our industrial and economic transformation. While we have a laudable national 82% renewables by 2030 target, we need multiples of 100% renewables, and our superabundance of wind and solar potential underpins this opportunity.

The Australian Energy Market Operator (AEMO) estimates 250GW of renewables and battery storage capacity is needed. This equates to over $250bn of investment.

The total investment opportunity of a comprehensive response to greening Australia's grid and economy is closer to $1trn than $225bn cited by the Treasurer, taking into account the jobs and value-added exports this entails.

At the end of the day, we have an investment, jobs and export opportunity of a century.

The opportunity cost of seeing this squandered by insufficient strategic vision, public investment, ambition or urgency of response is unthinkable, and will be borne by future generations.