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All pain, no gain

The full cost of the National Party's climate stance

Discussion paper

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October 2021

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ISSN: 1836-9014

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Introduction

While it has been widely rumoured that the cost of securing National Party support for Scott Morrison's commitment to net zero could be up to $20 billion in in budget spending[1] for projects in National Party seats, the real cost of the deal is, according to an analysis of various recent climate change modelling done by Deloitte Access Economics (DAE), likely to be more than ten times that figure at around $210 billion.

Comparing the various modelling conducted by DAE, including the recent Business Council of Australia (BCA) commissioned work, it is clear there are significant economic benefits associated with setting a 46 per cent emission reduction target for 2030. These benefits from early action flow primarily from bringing forward emission reductions in sectors like electricity and transport which gives other industries more time to develop the technologies they need to decarbonise.

This report explains the size and cause of the significant economic benefits associated with increasing the ambition of Australia's 2030 target that are calculated by the DAE modelling and relied upon by the BCA.

[1] Crowe (2021) *Scott Morrison to push on with net zero target despite Nationals,* https://www.smh.com.au/politics/federal/scott-morrison-to-push-on-with-net-zero-target-despite-nationals-20211018-p59109.html

The economic benefits of increasing the 2030 emission reduction target

The macroeconomic modelling results released by the BCA[2] make clear that there are significant economic benefits associated with setting a 46 percent emission reduction target for 2030. In the BCA's words:

> Setting a more ambitious interim target now will drive new investment and bring forward action in sectors such as electricity where we can deploy commercially viable technology at scale. Of course not all sectors will be in a position to decarbonise at the same pace, and our plan allows for this accelerating early action in sectors where commercially viable technology exists today.[3]

And lest there be any doubt, under the heading "What is the optimal pathway?" the BCA report answers:

> Moving faster and earlier reduces the burden and cost in later years.[4]

Given the BCA's estimates of the benefits of introducing a 2030 emission reduction target of at least 46 percent it is unclear why the Morrison Government would consider providing 'compensation' to the National Party whose actions are preventing more than $200 billion worth of benefits from being realised. Indeed, it is the rest of the country that should be 'compensated' for the failure to introduce a simple reform that would deliver significant benefits. Intriguingly, the National Party has not provided any evidence or modelling to support the assertion that regional communities would be worse off with a more ambitious 2030 target than without one.

While it has been common practice in Australian politics for powerful minority groups to extract 'compensation' for 'allowing' policies that are in the national benefit to proceed, it is unprecedented that a bloc of votes would be 'bought' in order for them to impose harm on the broader community. Put simply, given that all of the states have committed to achieving net zero by 2050, what have the National Party agreed to do in exchange for significant taxpayer support for their pet projects?

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[2] Business Council of Australia (2021) *Achieving a net zero economy,* https://d3n8a8pro7vhmx.cloudfront.net/bca/pages/6612/attachments/original/1633693581/BCA_Achieving_a_net_zero_economy_-_9_October_2021.pdf

[3] Business Council of Australia (2021) *Achieving net-zero with more jobs and stronger regions,* https://www.bca.com.au/achieving_net_zero_with_more_jobs_and_stronger_regions

[4] Business Council of Australia (2021) *Achieving a net zero economy*

But while the direct financial costs of Scott Morrison's 'deal' with the Nationals are comparable to the Commonwealth Government's annual expenditure on schools, it is the long term economic costs of letting the National Party veto significant economic reform that are truly staggering. The BCA modelling suggests that the benefits to the Australian economy of setting a 2030 emission reduction target of at least 46 percent at more than $210 billion (in net present value terms) over the next 50 years. To put that number into perspective it is equivalent to a year's output from the entire Australian mining industry.

The BCA concludes that:

> A 46 to 50 per cent emission reduction range is both pragmatic and ambitious.
>
> The quantum of the target's range was guided by top down macroeconomic modelling — tracing a least-cost emissions reduction path between 2020 and 2050 — and bottom up economic analysis, which assessed the practicalities of investing in abatement technologies and infrastructure in different sectors of the economy between 2021 and 2030.
>
> The ambition is designed to bring forward easier to abate activities and deploy commercially viable technology faster. The electricity sector is expected to do the heavy lifting, where there is tremendous opportunity to invest in renewable generation capacity in the national electricity market.
>
> Accelerating our decarbonisation efforts now with known, commercially viable technology will reduce the cost of transition later and make it easier for Australia to achieve a net zero economy by 2050.[5]

And

> The economic benefits of Australia decarbonising faster and earlier are twofold: local regional transitions can be better planned and therefore come at a lower economic and social cost; and economic growth will be stronger off the back of a greater share of new green export industries.[6]

While it is clear that the BCA's macroeconomic modelling shows that increasing ambition now will deliver enormous economic benefits in the coming decades, the BCA also provide a wide range of microeconomic evidence and arguments to support their position and which, read together, stand in stark contrast with the lack of any evidence put forward by the National Party to support their opinion that bringing forward significant new investment in renewable energy, storage, energy efficiency and electrification will be of any harm to

[5] Business Council of Australia (2021) *Achieving a net zero economy*

[6] Business Council of Australia (2021) *Achieving a net zero economy*

regional Australia. The microeconomic arguments relied upon by the BCA are discussed below.

Lower electricity prices

According to the BCA, increasing the ambition of Australia's 2030 target to at least 46 per cent would lead to a significant increase in the supply of renewable energy and storage and, in turn, push electricity prices down. In the words of the BCA:

> The ambition is designed to bring forward easier to abate activities and deploy commercially viable technology faster. The electricity sector is expected to do the heavy lifting, where there is tremendous opportunity to invest in renewable generation capacity in the national electricity market.[7]

And

> The greater penetration of renewables in the grid will result in lower electricity prices for consumers while market reforms will ensure reliability and security of the system is maintained.[8]

And

> Increasing the share of renewable generation in our electricity system is not just important for reducing emissions, it's fundamental to driving down electricity prices for consumers establishing new export industries.[9]

Increased investment in the short term, particularly in regional areas

Setting a more ambitious 2030 target will inevitably lead to an increase in wide range of investments across the continent. In the words of the BCA:

> The potential investment between now and 2030 to transform the electricity grid — leaving aside required investments in other sectors — could be in the order of $50 billion for new renewable generation assets alone. This doesn't include the significant capex requirements also required in transmission, storage, network augmentation and system stability and security services.[10]

And

[7] Business Council of Australia (2021) *Achieving a net zero economy*
[8] Business Council of Australia (2021) *Achieving a net zero economy*
[9] Business Council of Australia (2021) *Achieving a net zero economy*
[10] Business Council of Australia (2021) *Achieving a net zero economy*

> The plan would accelerate emissions reduction and seize the first mover advantage, meaning on average Australians would be $5,000 better off per year, and those in the regions would gain the biggest economic benefit.[11]

Increased employment in the short term as we recover from Covid

Setting a more ambitious 2030 target will inevitably lead to an increase in employment associated with the construction and operation of new energy infrastructure, the rewiring of significant parts of the industrial, commercial and residential sectors, an in new export industries. In the words of the BCA:

> The best thing we can do for workers and for regional communities is to avoid playing costly and damaging catchup with a plan to prepare for inevitable change.[12]

And

> The economic benefits of Australia decarbonising faster and earlier are twofold: local regional transitions can be better planned and therefore come at a lower economic and social cost; and economic growth will be stronger off the back of a greater share of new green export industries.[13]

Increased export opportunities

While lower energy prices will lead to an increase in export competitiveness, new export industries will also develop. In the words of the BCA:

> The Technology Investment Roadmap estimates that low emissions technologies could deliver $30 billion a year of new export revenue from energy-intensive, low emissions products by 2040.[14]

And

> As we expand our renewable energy capacity, adjacency of renewable energy production and new green export industry infrastructure will be critical to maximising Australia's competitiveness. This applies to domestic supply chains that produce clean energy for export (such as hydrogen, ammonia or synfuels), and to domestic

[11] Business Council of Australia (2021) *Achieving a net zero economy*
[12] Business Council of Australia (2021) *Achieving a net zero economy*
[13] Business Council of Australia (2021) *Achieving a net zero economy*
[14] Business Council of Australia (2021) *Achieving a net zero economy*

> supply chains that process commodities into products (such as green iron, green steel, and green aluminium/alumina) for export.[15]

Benefits from 'first mover advantage'

As can be seen in the global car industry, industries are changing very rapidly. While it is possible for Australia to delay its transition towards renewable energy it is not possible for Australian industry to capture a 'first mover advantage' if Australia is a late mover. In the words of the BCA:

> To capture this economic opportunity, Australia must act now to invest in the development and deployment of these new technologies and become a world leader.[16]

And

> Early action puts us in the box seat to take advantage of our world class skills, abundant resources and proximity to markets to secure existing jobs and create new ones.[17]

And

> The economic benefits of Australia decarbonising faster and earlier are twofold: local regional transitions can be better planned and therefore come at a lower economic and social cost; and economic growth will be stronger off the back of a greater share of new green export industries.[18]

[15] Business Council of Australia (2021) *Achieving a net zero economy*
[16] Business Council of Australia (2021) *Achieving a net zero economy*
[17] Business Council of Australia (2021) *Achieving a net zero economy*
[18] Business Council of Australia (2021) *Achieving a net zero economy*

Estimating the macroeconomic costs of the Nationals' deal

Often in a democratic negotiation about policy change that may have winners and losers, groups who may be harmed by a policy that is seen to be in the national interest will be 'compensated' either directly (as was the case for low income earners with the introduction of the GST) or indirectly (as was the case with retraining packages for car workers who lost their jobs when the car industry left Australia). If the gains of the policy are large then compensation can be viewed as either fair to the adversely impacted, necessary to achieve the reform, or possibly both.

The proposal to 'compensate' the National Party for harming the national interest, and quite probably the interests of their own electorates, is unprecedented. As there are no national benefits from the National Party's insistence that Australia delay new investments that will drive down energy costs and reduce greenhouse gas emissions, there is no 'surplus' from which any compensation can be paid. On the contrary, as the decision to delay climate action will shrink the size of the national economy, relative to the case if a more ambitious 2030 target was set, then the cost of the 'compensation' to the Nationals will come from a smaller economy and a smaller Commonwealth revenue base. That said, it is important to highlight that the National Party has not put forward any empirical, or even logical, evidence that their constituents would be harmed by speeding up Australia's investments in renewable energy and other low cost forms of emission abatement.

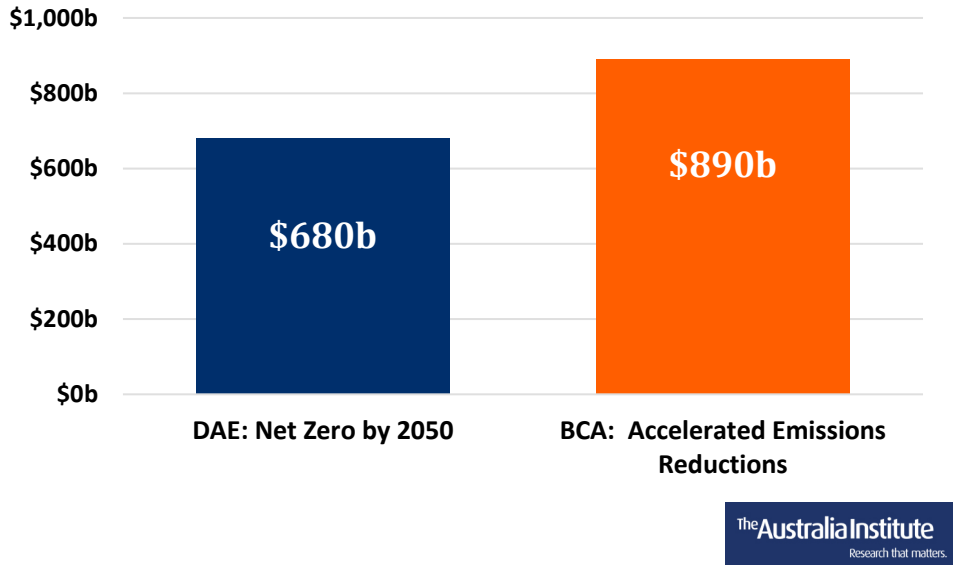
But while there is no empirical evidence to support the case for any 'compensation' for the National Party's constituents, there is strong evidence to suggest that the rest of Australia will be adversely impacted by the determination of the Nationals to prevent the Morrison Government from adopting a more ambitious 2030 emission reduction target.

One clear way to examine the likely costs is to compare the modelling recently undertaken by Deloitte Access Economics (DAE) for the BCA into the economic consequences of lifting the 2030 target to at least 46 percent with DAE modelling done last year based on Australia achieving net zero by 2050 but with only the Paris target for 2030 in place.

Figure 1 shows that when DAE modelled a net zero target combined with the Paris targets for 2030 the benefit to the Australian economy (in net present value terms) was $680 billion whereas the DAE modelling done for the BCA based on a more ambitious 2030 target of at least 46 percent delivered benefits of $890 billion.

In short, according to the BCA's modelling, the cost of refusing to increase the ambition of the 2030 emission reduction target is at least $210 billion, in net present value terms, over the next 50 years.

Figure 1: Net Present Value of GDP impacts of addressing climate change



Source: Analysis of Deloitte Access Economics (2020) *A new choice: Australia's climate for growth,* https://www2.deloitte.com/au/en/pages/media-releases/articles/new-choice-australia-economy-climate.html and Business Council of Australia (2021) Achieving a net zero economy, https://d3n8a8pro7vhmx.cloudfront.net/bca/pages/6612/attachments/original/1633693581/BCA_Achieving_a_net_zero_economy_-_9_October_2021.pdf

Conclusions

There is no economic evidence that bringing forward investment in renewable energy, storage and energy efficiency, much of which will be located in regional areas, will have any adverse impact on regional economies.

There is copious evidence that the costs of unmitigated climate change will be both significant and concentrated in regional areas.

And while the prospects for the coal and gas industries, which are concentrated in some regional areas, will be harmed by the commitments made by other countries to phase out fossil fuel use, the impact of a more ambitious Commonwealth commitment to reduce domestic emissions on the Australian fossil fuel industry would be trivial and, given the commitments of state governments and BCA members, more likely zero.

But despite these facts, and the lack of any evidence from the National Party to the contrary, the Morrison Government is proposing to spend significant amounts of public money to 'compensate' a group of MPs who have provided no evidence of harm to their constituents, but whose actions are clearly harming the country.