

A research note from the Institute of Public Affairs distributed to all federal parliamentarians
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5 Reasons to Abolish the RET

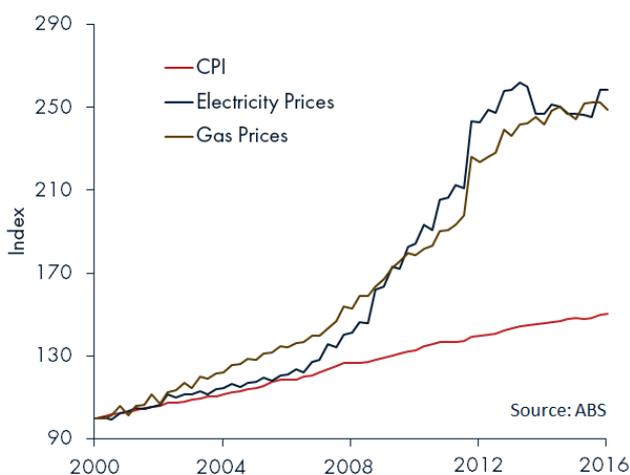
The Renewable Energy Target (RET) mandates that 33,000 GWh of electricity – 24 per cent – be generated from renewable sources by 2020. To do this, wholesale energy users, mostly retailers, are required to purchase a certain amount of wholesale energy from renewable sources.

Because renewables are typically costlier and less efficient than non-renewables, the RET causes energy prices to rise but productivity, growth, wages and employment to fall. This undermines Australia's international competitiveness. These costs are incurred with no noticeable benefit to the environment.

1. The RET Increases Energy Prices

Energy prices have been increasing rapidly over the past 10 years, with electricity prices up by 115 per cent since 2006.¹ In 2016, consulting firm CME Australia found Victoria, New South Wales, and South Australia had amongst the highest electricity prices in the world.²

Energy Prices Have Been Increasing Much Faster than Inflation



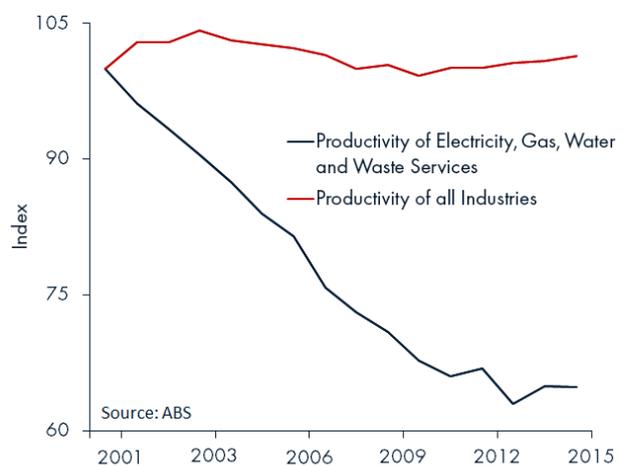
There are many factors causing higher prices, including state-based restrictions on gas and coal exploration and development. But the RET also causes higher prices for two key reasons: firstly, energy retailers are

required to purchase more energy than they otherwise would from renewable sources, the added cost of which is passed on through higher prices. Secondly, the RET forces extra energy supply regardless of demand. In the short-run this lowers wholesale prices. But by depressing revenue many coal-fired stations are forced to shut down or mothball, causing both a reduction to long-run supply and higher prices.

Based on analysis by ACIL Allen, it is estimated that total energy prices for end-users would be approximately \$30 billion higher over 2014-2030 as a result of the RET.³

2. The RET Reduces Productivity

Electricity Sector Productivity Declining



Since 2000-01 Australia's multifactor productivity growth has averaged just 0.15 per cent per year.⁴ A key contributing factor to this trend is a sharp decline in productivity growth in the energy generation sector where productivity has decreased by 2.7 per cent per year on average since 2000-01.⁵

The RET contributes to this problem by forcing the generation of energy from less efficient and costlier sources. This means more resources are needed to generate a given amount of energy.

3. The RET Lowers Growth, Employment, and Wages

The RET reduces economic efficiency by requiring more resources go to the energy generation sector than what would otherwise be required. This means scarce economic resources are being put to sub-optimal use, which reduces productivity and economic growth.

Deloitte, for example, estimated that real GDP would be \$29 billion larger in 2030 if the RET were to be abolished.⁶ Most of the increase to GDP comes from increased household consumption (due to increased disposable income from lower retail prices) and higher export volumes from expanded output.

Because of higher output there is extra labour demand which puts upward pressure on wages and employment. Deloitte estimates that abolition of the RET would lead to 5,000 more full-time jobs and increase average yearly earnings by \$1,300 per person by 2030.⁷

A larger economy also means more revenue would be collected by the Government.

4. The RET Undermines Competitive Advantage

Based on economically demonstrated reserves, Australia has 1570 years' worth of energy production, including 1022 years of brown coal.⁸ This relative abundance means that Australia should be one of the lowest cost energy nations in the world.

By forcing an artificial transition away from abundant energy sources, the RET adds to the cost base of energy-intensive businesses, such as aluminium smelting and manufacturing. This makes such operations less commercially viable and hampers their ability to compete with businesses from other countries.

The negative effects on Australia's international competitiveness is taking place in the context of an already relatively uncompetitive economy. According to the World Economic Forum, Australia is 22nd in the world in terms of competitiveness, which is behind the majority of competitor nations with a similar level of economic development. For example, Singapore is 2nd, the United States is 3rd, the United Kingdom is 7th, Japan is 8th, Hong Kong is 9th, New Zealand 13th and Canada is 15th.⁹

5. The RET Makes no Noticeable Difference to the Global Climate

According to the International Energy Agency, approximately 400 billion tonnes of carbon were emitted globally from fuel combustion from 2001-2014.¹⁰ Over the same period the Climate Council of Australia, a renewable energy lobby group, estimated the RET reduced emissions by just 22.5 million tonnes.¹¹

This means the RET resulted in 0.005 per cent fewer carbon emissions globally over a 14-year period. This is the equivalent of a reduction of 0.0004 per cent per year on average, equating to effectively no change to global temperatures.

It is simply not in Australia's national interest to have an energy policy predicated on emissions reductions.

Some claim that abolishing the RET would result in 'sovereign risk' as people have made investment decisions based on current policy settings. But the RET promises renewables corporations access to a stream of subsidies through an effective tax on consumers. This is different to privately earned investment returns which are subsequently reduced through policy changes. No individual or business has a moral claim on other people's income indefinitely.

Conclusion and Recommendation

The RET should be abolished in its entirety. This would ensure that the optimal mix of energy generation emerges from a competitive market process where companies respond to the needs of consumers and businesses rather than interest groups.

Endnotes

- 1 Australian Bureau of Statistics, *6401.0 - Consumer Price Index*, Australia, Dec 2016
- 2 CME Australia, *International Comparison of Australia's Electricity Prices* July 2016, pg. 10, based on market exchange rates (i.e., before taxes are included)
- 3 ACIL Allen, *RET Review Modelling: Market Modelling of Various RET Policy Options*, 2014. Analysis assumes all of the costs of the renewable energy certificates are passed on as higher energy prices
- 4 Australian Bureau of Statistics, *5260.0.55.002 - Estimates of Industry Multifactor Productivity*, 2015-16
- 5 Ibid
- 6 Deloitte, *Assessing the Impact of the Renewable Energy Target*, July 2014
- 7 Ibid
- 8 Geoscience Australia, <http://www.ga.gov.au/acra/coal>, 2016
- 9 World Economic Forum, *Global Competitiveness Report*, 2016-17, pg. xiii
- 10 The International Energy Agency, *C02 Emissions from Fuel Combustion*, 2016
- 11 Peter Stock, *Giga-what? Explaining Australia's Renewable Energy Target*, the Climate Council of Australia, 2015