

On the face of it, Australia has enjoyed a record run; the longest continuous period of economic growth as measured by gross domestic product (GDP) of any developed country.

But there is a long list of “howevers”.

Australia has one of the highest levels of household debt in the world. It has had no real wage growth of any substance for nearly 5 years. While the federal budget may return to surplus shortly for the first time in 10 years, the political system has made its management very difficult. The failure of governments to get majorities in the Senate – which has been the norm since the current Senate voting system was introduced in 1949 – has meant that the Senate, more often than not, refuses to wind back the extent of any transfer payment, preventing Government from controlling one of the critical aspects of spending.

The Australian economy escaped the recession that followed the global financial crisis (GFC), partly from a profligate stimulus package by the Rudd Government that proved to be largely unnecessary, but mainly because of the demand by China for commodities and the associated capital expenditure boom in the Australian resource sector. As the boom wound back, infrastructure spending and domestic construction took up the slack. As a result, Australia has maintained a healthy growth rate.

And yet, productivity growth has been low across most sectors in Australia, with an average of 1.25 percent annual growth over the past decade.

Australians, by nature, are iconoclastic. This iconoclasm has turned into a savage disregard for many critical institutions however, largely because of institutional failure; notably the major banks (which have been the subject of a Royal Commission) and other major financial institutions such as the AMP Society, formerly a pillar of Australian financial rectitude. A similar scepticism has enshrouded other institutions like the Church, following the Royal Commission into institutional abuse of children.

Totemically, the same contempt is held for the cricket team following the ball tampering episode.

Australians rarely admire their politicians. But the failure of the political process, particularly on the Liberal Party’s side, to resolve major public policy issues has raised public ire to an unusual degree and with savage electoral consequences.

The most significant issue is energy and energy pricing. On the face of it, Australia enjoys an abundance of every form of energy; the largest LNG and coal exporter in the world and an abundance of sun and wind. While perhaps it has less water than other countries in the world, it still manages to have a large hydroelectric scheme. As a result, and until 10 years ago, Australia enjoyed a highly competitive energy cost, both domestically and industrially - consistent with its natural resource abundance.

Today, its electricity and gas costs are some of the highest in the world. This is not only affecting household budgets but is also putting substantial pressure on the energy-intense businesses that still remain in the country.

The Liberal Party has been locked in an internal war on the issue since long before it came to Government six years ago. It is the major bone of contention between the reactionary and liberal sides of that Party. The Right, on the main, deny climate change and have stymied the

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measures put forward to manage energy policy. In many cases, their opposition has been a proxy for an ideological conflict. The more liberal side of the Party has sought to both deal with climate change and to alleviate the pressures of public policy failures in energy over many years. Most notably, an over-reliance in South Australia on connection to the East Coast grid, without backup power, led to major black-outs two years ago.

Malcolm Turnbull and the now Treasurer Josh Frydenberg, as then Energy Minister, sought to promote a solution in the National Energy Guarantee (NEG), which would simultaneously deal with the reliability, affordability and sustainability of the nation's energy system. It placed the onus on the energy retailers to deliver this result.

Within the Coalition Government, a reactionary rump pushed for government subsidies of coal fire power stations to support their climate change denying posture.

Having pushed the NEG through his party caucus, Turnbull bowed to party pressure and removed the sustainability portion of the NEG and in the process fatally undermined his own authority within his party. This was seized upon by his conservative opponents, who did not have sufficient support to get their own candidate (Peter Dutton) elected to the Prime Ministership. As a result, Turnbull and his effective and popular Deputy, Julie Bishop, are gone, with Scott Morrison now the accidental Prime Minister.

Angus Taylor, who was one of the leaders of the anti-Turnbull group within the Liberal Party, has been given the job of being Energy Minister to clean up the mess that is partly of his own creation. His chosen option has been to pick up the recommendations of the competition authority (Australian Competition and Consumer Commission) on the electricity sector and to go further and empower it with divestiture powers for the energy companies, plus sweeping discretion over contract terms, including pricing. So far, these extreme measures have foundered in dysfunctional parliamentary processes that are likely to prevent them becoming law before the election expected in May. Labor has, so far, opposed the measures as too interventionist.

The lack of actionable policy is going to be highly problematic for the Government. The Labor Party has agreed to the NEG, though with a higher renewable target, leaving the Government denying a policy of its own authorship. Labor has discussed restrictions on emissions with the possibility – yet to be defined – of a cap and trade mechanism to supplement the NEG.

Critical to a reduction in energy prices is dealing with transmission costs, which are unusually high by global standards for three reasons:

- Australia's large infrastructure costs;
- Having to redesign the grid to take account of intermittent energy sources with the build of renewables; and
- The fact that they have to bear high financing costs as a legacy of privatisation.

The ageing coal-fired system provides most (about 75 percent) of the total energy produced. Enfranchising more renewables requires an affordable on-demand source of power. Gas would be the ideal energy source for dispatchable power given its flexibility, however this is effectively ruled out by the fact that Australia committed its gas to export and any surplus gas in the system is used to back-fill Gladstone's new LNG plants.

Amazingly, Australians pay a higher price for Australian gas in Australia than the people of Tokyo pay for Australian gas in Japan, despite the requirement that it be liquefied, transported and re-gassed before it is delivered to Tokyo. The Government has not been able to grapple with this and, despite having put in mechanisms to regulate exports, it has chosen not to use

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them. It is most likely that the issue will drift on unresolved until the next election, which the Government will be hard pressed to win as it is now trailing the Opposition in the polls by a large margin.

Labor's energy policy has the mirror image problem of the Liberal one. It has a commitment to high levels of renewables - 50 percent - and no apparent plan to resolve the "transition" flaw in renewables that requires the use of gas turbine backup.

The solution most likely lies in Government either building more infrastructure to transport gas across the continent from the north or north west, where there is an abundance of supply, or other measures.

What is consistent across the political spectrum is a failure of both parties, but particularly the Government, on a major issue of public policy that cuts to the heart of households and industry. This may be one of the substantive reasons why public institutions are held in such low esteem.



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