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Melbourne
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Institute



MEInetwork23 Seminar #5: Fiscal Policy for a Zero Carbon Superpower

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Australia's place in a zero carbon world

Five great advantages:

1. Renewable energy resources
2. Potential for sustainable biomass production and land sequestration
3. Minerals for energy and hydrogen-intensive processing
4. Critical minerals
5. Infrastructure and industrial culture from mining, forestry, agriculture



Australia's place in a zero carbon world

In contrast, high-income and densely populated industrial economies won't get to zero emissions without large-scale imports of zero-carbon inputs:

1. Europe
2. Northeast Asia



Australia's place in a zero carbon world

Australia has no near comparator internationally

1. Low cost of capital of developing countries
2. Low domestic demand



Australia's place in a zero carbon world

Australian exports can directly reduce global emissions by 7 percent and possibly much more:

- Requiring investment of 5.5% GDP for several decades
- Comparable to investment in mining in China resources boom 2002-12
- A generation of full employment with rising incomes for a generation



Role of Government

Role of Government #1

Carbon price or equivalent to internalise external costs of carbon emissions. (For exports, its others' carbon price that matters – but ours is necessary to be a credible zero carbon trading partner):

- An Abbott Tax on economy until possible – 2035?
- Need stop gap alternatives until then – extension of RET, subsidies



Role of Government

Role of Government #2

Support for innovation to compensate for external benefits of being a pioneer:

- ARENA, CEFC, etc
- Need general system of fiscal support for pioneers



Role of Government

Role of Government #3

Public provision of infrastructure that is natural monopoly or requires high co-ordination costs for multiple users:

- Electricity transmission
- Hydrogen transmission and storage
- Power system reliability
- Establishing industrial precincts to use renewable energy



Role of Government

Role of Government #4

Trade Policy to Secure International Market Access:

- Crucial for Australian companies to have access to worlds lowest cost engineering services, machines, other inputs
- Crucial to have access to foreign markets
- Early home zero carbon critical qualification
- Plus certification of zero carbon inputs
- Foreign subsidy to competitors in one activity (eg US IRA) for some industry weakens our prospects in that industry but should not affect domestic policy
- If an ally subsidises our producer as well (eg US for critical mineral), take subsidy without affecting our policy



Role of Government

Role of Government #5

Sharing vision of future to guide private investment decisions:

- Ideas from public goods institutions
- Public education
- Political leadership




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