

CapitalAnalyst

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Ministers have it not easy, especially if they have to combine competing interests in one cabinet portfolio, think about Energy and Climate Change, to harmonise or favour it is easy to become torn if not torn apart.

Angus Taylor: a minister at war with himself

ENERGY AND CLIMATE CHANGE - THE ECONOMY

Angus Taylor's main job is to develop a national energy plan. By necessity, this must be a plan that assumes priority over the multiplicity of state plans that have proliferated in recent years. These plans are all driven by the fact that state governments want to appear virtuous on

emission reduction. Angus Taylor is also minister for emission reduction, and as such, he is under pressure to produce a plan to achieve zero carbon emissions by 2050.

The ingredients for a national energy plan were set out by the CEO of the Australian Energy Market Operator (AEMO), Audrey Zibelman:

"We are at an inflection point at this industry," she said. "We need to either reform the market and regulations to allow for efficient market responses or decide that we can't and that we need to go towards a more regulated and local market.

"What we can't afford to do any more is not make a decision and continue to whinge to each other about not making a decision."

The need for a plan to give certainty to investors is a current refrain from the renewable energy lobby. This usually means that they want subsidies for renewable energy and preferably taxes on fossil fuels. While paying lip service to the idea of an open energy market that is agnostic on sources of power, the renewables lobby strongly supports reports like the recent one produced by the International Energy Agency that says fossil fuel generators must be closed by the 2030's if the world is to get to zero emissions by 2050.

Angus Taylor has mandated an eclectic energy mix going into the future. He is a strong supporter of the Snowy 2.0 pumped hydro support for renewables but has also backed the construction of a 600 Megawatt gas-fired power station at Kurri Kurri in the Hunter Valley.

Overlaid on this is the government's plan for a technology roadmap. This takes account of the fact that Angus Taylor is sceptical of the capacity of renewables alone to achieve emission reduction goals. This is a view promoted by the former chief scientist Alan Finkel, who believes that hydrogen fuel cells and carbon capture and storage have a significant role to play in future energy generation. The progressive side of Australian politics only supports hydrogen produced by renewable energy. They are opposed to carbon capture and storage and particularly opposed to nuclear energy.

When the prime minister and the energy minister go to the United Nations Conference of the Parties (COP26) in Glasgow in November, they will probably take the 'technology roadmap' and a plan to achieve zero emissions by 2050 with them. The next part of Mr Taylor's bifurcated responsibilities will be to integrate the roadmap into the national energy plan without disrupting the national energy market.

This will not be easy because it will mean overriding eight state and territory plans. The states will resist but the government can claim that it is bound by its international commitment to proceed with its plan.

In the end the interventionist Mr Angus (Hyde) Taylor will prevail over the benign Dr Angus (Jekyll) Taylor, but it may be a grim tale as it unfolds.

The Snowy 2.0 project is a costly mistake?

ENERGY AND CLIMATE CHANGE - THE ECONOMY

When the idea of a second snowy scheme was proposed in 2016, it was embraced enthusiastically by then Prime Minister Malcolm Turnbull, who was a dedicated supporter of renewable energy. He argued that pumped hydro was the dispatchable power support that was needed to allow emission free energy generation. Turnbull called it “a nation building project”.

The current prime minister, Scott Morrison, is also a supporter as is energy minister Angus Taylor, which is surprising given that his family company is the biggest landholder along the Snowy River.

Not everyone is enthusiastic about Snowy 2.0. On June 2 thirty energy engineers and CEO's wrote to the 'Australian' saying that the scheme was a costly mistake. They say:

“Details confirm that the Snowy 2.0 business case, issued almost two years ago by Snowy Hydro, was based on grossly inflated revenues and understated costs. Put simply, the federal government was presented with a profoundly flawed justification.”

They also make the point that the revenue situation has changed since Snowy Hydro first said the project was viable. The Australian Energy Market Operator (AEMO) says that Snowy 2.0 is likely to be largely redundant.

“On the revenue side, the output of Snowy 2.0 from 2025 to 2042 is now forecast to be less than half the business case estimate, according to the Australian Energy Market Operator. AEMO forecasts Snowy 2.0 to be largely idle before 2033, as the existing 1800 megawatt Tumut 3 pumped hydro station can provide most of the forecast output from both stations until then. Also, AEMO forecasts Snowy 2.0 would never attain the maximum annual output estimate in the business case”, the engineers say bluntly.

“Not only has output been over-estimated by 100 per cent, Snowy 2.0 is not urgent or critical for the transition to renewable energy, nor itself “renewable”.”

The engineers also say that Snowy 2.0 has negative effects on the environment.

“The financial and technical flaws of Snowy 2.0 are reason enough to halt the project. An equally compelling reason is the recently revealed magnitude of damage to Kosciuszko National Park. The bulldozed moonscape scar along 5km of the Yarrangobilly River at the Lobs Hole construction site is already visible on satellite images. Much more is to be destroyed across 35km of the park. Most of the 20 million tonnes of excavated spoil is now to be dumped on parkland rather than in the reservoirs”, they say.

It is surprising that Malcolm Turnbull, who prides himself on being an environmentalist, could be happy with this destruction. Moreover, the impact on the river system is likely to be destructive for many species particularly fish. They make the point about one native species of fish:

“The NSW Department of Primary Industries describes them: “Stocky galaxias is listed as a critically endangered species. There are heavy penalties for harming, possessing, buying or

selling them, or for harming their habitat.” Yet it is now evident that the NSW government has no option but to grant exemptions to its own biosecurity protections to “legitimise” the spreading of declared noxious pests, throughout a national park no less, and beyond — this will be unprecedented.”

Added to this the people of Dalgety, which is close to Angus Taylor’s family property, are worried that the scheme will extract water from the Snowy River system and leave them without enough water for their farms, for which they will not be compensated by the energy producers.

This is a classic example of city politics ending up as bad policy, particularly for the regions.

Scott Morrison goes on the front foot with foreign policy statement

THE ECONOMY - DEFENCE AND FOREIGN POLICY

On the eve of his departure overseas to attend the G7 summit, the prime minister gave a major speech on foreign policy to the Perth branch of the United States/ Asia society. Scott Morrison pushed back against the current assertive policy approach of China, calling on liberal democracies to resist coercive trade measures.

He implored free nations to work as one as they did during the Cold War to fight authoritarianism, the Prime Minister renewed his calls for a rules-based overhaul of global trade rules to prevent China’s ongoing threats to Australian exports.

“There is much at stake for Australia, for our region, and the world. We are living in a time of great uncertainty not seen since the 1930s,” Mr Morrison said.

“We are facing heightened competition in the Indo-Pacific region. We need all nations to participate in the global system in ways that foster development and co-operation.

“Australia stands ready to engage in dialogue with all countries on shared challenges, including China when it is ready to do so.

“Patterns of co-operation within a liberal, rules-based order that have benefited us for so long are under renewed strain.”

The prime minister proposed that the multilateral rules-based system should be reinforced. In particular he suggested that the World Trade Organisation and the World Health Organisation should be given more power to deal with breaches of the rules. In particular, he suggested that the WTO dispute settlement provisions should be amended to make them binding on parties to a dispute.

In a move that is likely to provoke China, Mr Morrison backed President Biden’s call for an investigation into the origins of the Covid-19 virus.

“I strongly support President Biden’s recent statement that we need to bolster and accelerate efforts to identify the origins of the Covid-19 pandemic,” Mr Morrison said.

“Having led calls for an independent inquiry, it remains Australia’s firm view that understanding the cause of this pandemic is essential for preventing the next one, for the benefit of all people.”

Are Scott Morrison’s representations to the G7 participants likely to have any impact on China’s future strategy? Probably not.

The Chinese have a clear strategy to dominate the world’s trade and payments system. In a few years, it will be the biggest economy in the world. In contrast to the United States, China has arguably no comparable direct foreign debt. US debt equates to a year of its GDP.

China is now issuing loans in digital yuan to foreign purchasers of Chinese goods and services. It is also using digital yuan to purchase foreign goods and services. China’s ambition is to make the digital yuan an alternative reserve currency to the US dollar. If it is successful in this then it will totally disrupt the current trade and payments system. In the worst-case scenario, creditors of the US will no longer want to hold US debt. A run on the dollar will force the US to buy back its debt with hard currency rather than resorting to the printing press.

This could bankrupt America and most of the western world, which denominates its debt in US dollars, and they will be no longer be able to provide welfare support to their citizens or maintain their defence assets.

In the circumstances, Scott Morrison’s initiatives appear a bit like closing the stable door after the horse has bolted.

Misunderstanding China

DEFENCE AND FOREIGN POLICY - THE ECONOMY

Recently, the leader of the opposition, Anthony Albanese gave a speech to the mining sector in which he accused the Morrison government of politicising the China relationship, and having no strategy to deal with the country’s assertiveness without amping up domestic militarism.

"Morrison is making the grave error of prioritising his domestic political interests over Australia’s national interests," Albanese said.

Mr Albanese appeared to be responding to statements by defence minister, Peter Dutton, that the possibility of conflict over Taiwan should not be discounted. Scott Morrison has adopted a less confrontational approach to relations with China. As he told Nine media’s Peter Hartcher in late May:

“Australia would prefer a better relationship with China, but Beijing’s trade sanctions are like the traditional Chinese lion dance – mostly theatrical.

“There can be a lot of diplomatic atmospherics but at the end of the day the relationship is still going on,” he said.

On 6 June the shift in Labor’s approach to policy on China was put to deputy opposition leader, Richard Marles, on the Insiders program. David Speers asked Marles what the Labor strategy was for dealing with China. He said it involved doing diplomacy better. Speers then asked what

this entailed, to which Marles responded that it was up to the government to engage in better diplomacy. The assumption is that there is some mechanism that will unlock relations with China, and it is the government's incompetence that has inhibited it from discovering this diplomatic solution.

Both the government and the opposition views represent a misunderstanding of China. They are based on the concept of China as a monolithic, mechanistic state controlled by the Communist Party of China with Xi Jinping sitting at its apex pulling all the levers. In this scenario, relations with China are governed by whether we are nice or nasty to President Xi.

This is an outdated rear-view mirror perception of our biggest trading partner. The renowned, American, China scholar David P Goldman says that people who adopt the Labor position are falling for what Malcolm Turnbull used to call 'the Thucydides trap. This means accepting that China will be the most important country in the world and relaxing and enjoying the dominance. The government believes that the west should resist China's assertiveness, but it has no understanding of what China's strategy is.

Goldman says that Xi Jinping and the Communist Party of China want to restore China to the position that it has occupied for all but a small part of the last 5,000 years of history. As Goldman puts it the CPC rules over 1.3 billion emperors most of whom are ambitious, clever and hard working.

China was a dominant world power for all but 200 years of its 5,000 year history. That period, from the Opium Wars through to the end of Mao's disastrous 'Great Leap Forward' is what is known as the century of humiliation.

Since the 'Cultural Revolution' the Communist Party of China has been careful to ensure that the party is made up of high achievers, who represent the educated elite of the country. The masses are prepared to be ruled by this elite as long as it delivers prosperity and stability.

The objective of the party is to restore global supremacy through technological domination. According to Goldman they are relying on two mechanisms to do this: capturing global data and disrupting the international payments system.

At the present time Huawei stores the medical records and DNA of 1 billion people. It aims to collect data on at least 1 billion in the next few years. This means that all the pharmaceutical companies in the world will have to come to Huawei for testing data. As China moves forward in artificial intelligence this paradigm will be repeated over and over.

As the west becomes more and more reliant on modern monetary theory to deal with its economic problems it is weakening the US dollar as a reserve currency. China is aware of this and is developing the digital yuan and a complementary block chain payments system to replace it. It will force its client states, including Australia, to adopt the new payments system and believes that eventually it will render the western financial system obsolete and bankrupt western governments with overwhelming debt burdens.

These are the issues that both major parties in Australia need to confront. The question is, are they smart enough?

Believe it or not the Australian vaccine rollout is going smoothly

THE ECONOMY

According to Nikki Savva, writing in the Australian on Thursday, Labor could win the next election if Anthony Albanese keeps prosecuting his case that Scott Morrison has bungled the vaccine rollout and hotel quarantine. Savva contends that Albanese is making a strong case that Morrison has refused to take responsibility for the slow vaccination rates and the quarantine leaks, in the same way he refused to take responsibility for the bushfire response.

One problem with this analysis is that the vaccine rollout is no longer going slowly. In the seven days to June 2, over 700,000 people were vaccinated with 130,000 being vaccinated on Wednesday alone. More than 1 million people were vaccinated in the last 10 days in May.

Labor hasn't caught up with the numbers. Shadow health minister, Mark Butler, and acting Victorian premier, James Merlino, keep saying that only 2% of the adult population has been fully vaccinated but health minister Greg Hunt says 30% of the over seventies are now fully vaccinated. Since this cohort comprises 7 million people it means that at least 10% of the adult Australian population is now fully vaccinated.

Peter Collignon, the Professor of Infectious Diseases at the Australian National University, appeared on ABC media on June 3 and clarified the position with regard to the vaccination rollout. He said that the problem with the slow start was that there had been supply issues. Europe had diverted 3.2 million doses to countries who had a more immediate need than Australia. CSL had found it difficult to get to full production and some of that production had been reserved for neighbouring countries in the Asia Pacific region. Professor Collignon said that this was the right thing to do.

He said that it was likely that in the seven days from June 3 more than 1 million people would be vaccinated. If authorities could maintain this rate of vaccination, everyone in Australia who was eligible would receive a vaccination by October and nearly everyone would be fully vaccinated by the end of the year.

On June 3, the federal government forwarded a memorandum of understanding to the Victorian government, which initiated the project to build a second purpose-built quarantine facility at Avalon. Professor Collignon made the point that this would be useful, but he warned that it will only have a capacity of 500 beds which would only deal with a proportion of the Australians who want to return and foreign visitors who want to work or study. He said that quarantine hotels would still be required and recommended that states adopt the model of medi-hotels that has been employed in NSW.

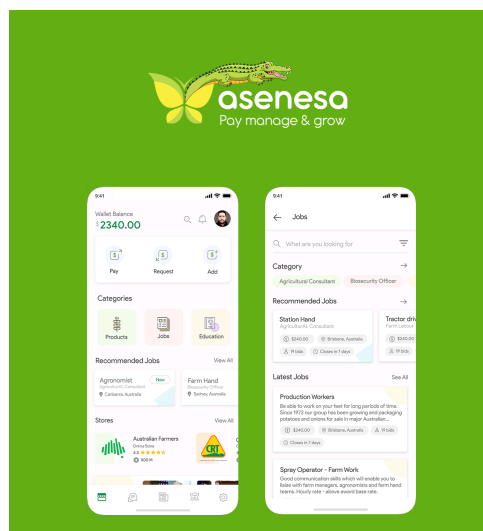
These are apartment buildings with discrete air conditioning services and balconies that have so far not had any infection leaks.

The big change in the vaccine rollout is the involvement of the state government mass vaccination centres. NSW has 30 actual or potential vaccination hubs dispensing Pfizer vaccine. Victoria is dispensing 170,000 doses of Pfizer a week and says that it could do more. When Pfizer delivers its 20 million doses in October these clinics will come under a lot of pressure to vaccinate the remaining young Australians who will need to be done. On June 3 the prime minister said that pharmacies would begin vaccinating in the second half of the year.

Professor Collignon said he did not think there was any great vaccine hesitancy at the moment. However, it is concerning that aged care and disability workers are refusing to be vaccinated. So far, only 30% of them have had an injection. The prime minister hinted that the states could make health security orders that mandate that they must be vaccinated. Western Australia has made such an order, but Victoria is reluctant to do so.

It will be interesting to see how this is resolved.

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