



PM's subsidy crusade stirs ghosts of Labor's past

The Australian

April 29, 2024 Monday

Australian Edition

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Section: COMMENTARY; Pg. 11

Length: 1141 words

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Body

In his first speech to the National Press Club after the 2022 election, Anthony Albanese boasted that his reforming Labor government would transform Australia into a clean-energy superpower.

How so? asked a sceptical journalist from Bloomberg News. How would Australia compete against the US, Canada, China and other countries that are aspiring to be global leaders in green manufacturing? "By getting on with it," replied the Prime Minister. Some 20 months later, the question remains unanswered: Getting on with what?

The two examples of promising green businesses the PM cited on that day have hardly stood the test of time. Sun Cable, Mike Cannon-Brookes's proposal to build the world's largest solar farm and link it by an undersea cable to Singapore, seems less likely to come to fruition than Clive Palmer's plan to rebuild the Titanic. As for Tritium, the Australian company that promised to build the world's fastest electric vehicle chargers in southeast Queensland, the less said the better. Tritium's future won't be built in Australia. It will be built in Tennessee, where the company has received generous assistance from President Joe Biden's Inflation Reduction Act, securing a sweetheart deal to build a giant manufacturing plant.

The \$15bn National Reconstruction Fund Albanese promised would kickstart the industries of the future has been in place for well over a year but has yet to issue a single grant.

The PM plans to break the impasse with the National Reconstruction Fund 2.0, optimistically named the Future Made in Australia Act. Underpinning the government's green superpower ambition is a breathtaking complacency that assumes Australia's natural advantages in the fossil fuel-based economy can be seamlessly swapped out for ascendancy in the brave new carbon-free world. They cannot be. Our primacy in resources was based on merely having stuff. Green manufacturing is about making stuff, which is a different game altogether.

The Albanese government has placed a speculative bet on green hydrogen as the key to our export success. It makes the fatuous claim that Australia has an abundance of sunshine that can be turned into cheap renewable energy.

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In October 2022, Energy Minister Chris Bowen announced a \$13.7m grant to Andrew Forrest's company, **Fortescue** Future Industries, to scope the construction of a 500MW electrolyser at Gibson Island near Brisbane. Bowen described the project's success as "critical" to Australia's ambition to be a green energy superpower.

Last month, **Fortescue** boss Mark Hutchinson reinforced the project's importance, describing it as "a litmus test for the rest of the hydrogen industry in Australia". Yet when **Fortescue** announced financial approval for a string of green hydrogen projects at the end of last year, Gibson Island was not one of them. "We've been working very, very hard on it," Hutchinson told The Australian Financial Review Business Summit last month. "But it's tough based on the current power prices when we're looking at competing globally." To judge from **Fortescue**'s investment portfolio right now, the future may be built in Norway, northern Patagonia, Brazil and British Columbia before it is built in Australia. It may even be built in Kenya and Congo. The future is already being built in Buckeye, Arizona, where **Fortescue** is investing \$US500m (\$765m) in a green hydrogen plant it says will be up and running by 2026.

It turns out abundant sun was not such a competitive advantage in the manufacture of green hydrogen. Low taxes, fiscally responsible government and cheap and reliable carbon-free energy are far more appealing drawcards for investors.

In 2023, manufacturing in Arizona grew faster than in any other state. It includes energy and water-intensive industries such as silicon chip manufacturing, with Arizona coming from nowhere to fourth place among US states. Apologists for the Albanese government might look for excuses in the global subsidy arms race unleashed by the Biden administration's Inflation Reduction Act. They might claim Arizona has easy access to a much bigger market.

Yet Arizona's hi-tech manufacturing boom started before Biden came to power and came at the expense of neighbouring California, where manufacturing is declining.

It isn't hard to work out why. Arizona's top state income tax rate is 2.98 per cent. California's is 13.3 per cent. Corporate tax in Arizona is 6.96 per cent compared to 8.84 per cent in California. For energy-hungry industries such as hydrogen and the IT sector, however, the biggest attraction is the industrial electricity price: 7.47 cents a kWh in Arizona compared to 18 cents in California.

Albanese continues to talk a big game, promising jobs, industry and prosperity will flourish under the Future Made in Australia Act. Details are scarce, but the PM told ABC's 7.30 this month there would be new government programs attached to the Act, as well as a recalibration of old ones.

Yet the long history of manufacturing decline in the past 50 years is a story of broken promises and failed industry welfare programs. The Hawke government's generosity in granting \$36m to the Kodak film factory in Victoria in 1988 (roughly \$100m in today's money) failed to stop the introduction of digital cameras or development of the smartphone. Hundreds of millions of dollars thrown at the car industry failed to save the Holden Commodore. Indeed, evidence that industry assistance programs work as intended is difficult to find.

It's more than three decades since Bob Hawke's Labor government eschewed industry protectionism as a means to make Australia globally competitive. Yet governments, state and federal, of both political persuasions, have found it difficult to go cold turkey. The federal government's guide to grants lists 330 different types of industry assistance. In 2019, the last year before Covid-19, the Productivity Commission calculated total government assistance to businesses at \$13.9bn in tariff assistance, tax concessions and direct grants.

That is why we can say with some certainty that more government grants are no substitute for the economic discipline practised by the Republican administrations of governors Jan Brewer and Doug Ducey or the far-sighted decision of the Arizona government in the 1980s in overseeing the construction of the second-largest nuclear reactor in the US. The 3.9GW Palo Verde Nuclear Generating Station remains the backbone of the Arizona electricity grid, producing some of the cheapest power in the country.

Albanese is hardly the first prime minister to enter office who has failed to learn from King Canute, instead suffering from the delusion that getting your hand on the levers of state gives you the power to alter the tides. The outgoing tide of deindustrialisation shows no sign of abating. Nick Cater is senior fellow at the Menzies Research Centre.

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Load-Date: April 28, 2024

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