RET Policy looks like assistance

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To the chagrin of many vested interests, today's reality is that Australia's Renewable Energy Target (RET) has all the hallmarks of industry assistance policy, and few of a policy to address climate change. The Climate Change Authority's RET review should acknowledge this.

In the absence of carbon pricing, the RET has delivered additional renewable generation and significant abatement at reasonable cost. With the introduction of the emissions trading scheme (ETS), everything changed. First, the RET only increases the cost of reaching our emission reduction targets. This is because it forces a selective source of emissions reduction.

If renewable energy in Australia is part of the lowest-cost mix to reduce emissions, the market will deliver renewable energy.

Second, the RET does not address market failures or barriers that might prevent the ETS delivering a low-emissions future efficiently over time. This is because, like the ETS, it delivers today's lowest-cost solution within the defined sector. Neither policy brings forward technologies that could be lowest cost in the longer term. When faced with uncertainties such as global climate change policy and future technology developments, best practice is to develop a suite of options that can respond to changing circumstances. Neither the RET nor the ETS do this. Complementary policy should improve either the efficacy or the efficiency of the primary policy. The RET does neither.

Industry policy always creates winners and losers. The RET review has created an opportunity and both sides have come out swinging. After all, who wouldn't want a government-guaranteed market share for their product? Who wouldn't object to a government-guaranteed market share for their competitors?

As industrial policy, the question is whether the assistance has delivered a viable set of technologies with better prospects for economic growth than would have been delivered in its absence. An associated consideration is how to balance costs to consumers against certainty for investors. Third, there is a strong argument the certainty created by setting a target in absolute energy terms should not be discarded lightly.

The ideal outcome would be to phase out the RET and grandfather or preserve contractual and related investment decisions made under the program. The possibility of the ETS being repealed by a Coalition government is put forward as a reason to leave the RET alone because it might then contribute to emissions reduction in a meaningful way. Mid-stream policy review is always fraught with challenges. In the case of the RET review, using the wrong framework may deliver the right answer to the wrong question.

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