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1. Reduce the cost of meeting carbon targets

1. What could be done to improve the cost-effectiveness and alignment of policies to reduce emissions across the industrial, electricity and transport sectors?

The claim that "enduring, broad-based market mechanisms are the best way for governments to reduce carbon emissions" is a statement of belief or philosophy, for which there is little empirical support and certainly countervailing evidence. The big picture evidence over many decades now is that all efforts to deploy market mechanisms have resulted in a relentless increase in greenhouse gas emissions at the global level, as can be seen in the data series.

At the same time, the concentration of CO₂ in the atmosphere continues to rise continually with each passing year (as measured at the Mauna Loa observatory in Hawaii, and documented and published monthly by the National Oceanic and Atmospheric Agency since 1959).

A strong case can be made that reliance on market mechanisms is actually not consistent with competitive free market economic theory. That is especially the case for a mid-sized, open, trade-exposed economy such as Australia, reliant on imports for almost all goods and on exports for foreign income. Failure to recognise this reality will undermine policies to reduce emissions.

The classic examples are off-shoring of emissions. The 'easiest' way to reduce industrial emissions is to drive industries to close (with equivalent production increased offshore and goods imported). Policies then drive what are essentially accounting games, likely leading to increased global emissions, rather than genuine emission reductions globally. This shrinks the electricity sector (certainly relative to the size it would have been), creating a 'reduction' in emissions on a narrow national accounting view.

2. Are there gaps in the emissions-reduction policies in the industrial, electricity and transport sectors which should be addressed?

The key jurisdiction issue is at the international level, which is addressed in the response to the question above. The question for the government is how to avoid undermining the economic performance and productivity of Australia in the pursuit of emission reduction goals given the inefficiencies and inconsistencies in emission reduction signals internationally.

At the national level, the example of a gap that is extremely obvious (and extreme in its absurdity) is the handicapping of the ability of the electricity sector to achieve enduring least cost emissions reduction in the long-term due to the thicket of legal bans on nuclear energy. No emissions reduction policy can be considered serious in the presence of obstacles to the industrial-strength generation type with: near zero emissions, the ability to provide the foundation of lowest total system cost, the longest

operating life, and the smallest footprint from land use to material inputs to the full spectrum of environmental and societal impacts and broadest applicability.

Australia is an increasingly isolated outlier in its nuclear energy policy. As an independent statutory body, the Productivity Commission should be able to state the facts on this without fear or favour.

This is a long-term perspective, but one where short-term neglect is fatal. It will not be possible to achieve deep reductions in Australia's CO2 emissions if nuclear energy remains banned.

Annual improvements (or declines) in productivity are always so small as to have very little effect in the near-term: it is always the compounding effect over the long-term that matters. Therefore, the pre-eminent near-term priority of the Productivity Commission should always be the long-term effects of current policy settings. If that were not the case, there would hardly be a need for the Productivity Commission, given that governments are elected every three years at most.

3. Are there any duplicative emissions-reduction policies in the industrial, electricity and transport sectors which could be streamlined?

On the face of it, there would appear to be duplication and overlap between state and federal policies, programs and subsidies. I am not aware of in-depth work researching this. If it does not already exist, it may be fruitful for the Productivity Commission to study and identify state-federal duplication.

2. Speed up approvals for new energy infrastructure

1. Are planning and approvals processes for large energy infrastructure taking too long? If so, what causes the most delay?

Large energy infrastructure that should never be built should not "take too long": it should simply never be built at all.

Therefore, the question is back-to-front. The real questions are:

- On the infrastructure itself: What should be built, where, when (and by whom)?
- On authority and process: Who should decide, and how? (The grand says who?)

A system in which large resources of elapsed time, labour and capital (in all its forms, not only financial) are expended on projects that should never be built, or on projects that should be built but are delayed so long that they end up never being built is bad for Australia's economic productivity.

Of course, the opposite extreme must also be avoided. Not every project that is proposed should be built simply because it is proposed. An efficient process must always have a pipeline of proposed projects that are assessed with the appropriate level of effort for their degree of maturity in development and their potential role in the wider system.

Among the many wider questions that the Productivity Commission should be asking (if it doesn't, who will?) is whether the current strange hybrid of 1990s free-market economic philosophy in energy, grossly distorted by anti-market policies of various kinds

is leading to more productive or less productive energy systems. (The effect on the overall economic productivity of the nation is a separate, but equally important question.)

Between the (supposedly) competitive free market for electricity and the constraints on emissions, which are now increasingly binding, is the process of the AEMO Integrated System Plan. The ISP is a modified version of the original statements of opportunities and transmission network system planning arrangements. It has become a caricature of the old system planning functions of the 20th century state energy commissions. The problem is over-constrained by the misplaced notion that emission reduction targets are paramount, and that wind and solar power (with as much storage and transmission as 'needed') are the only way to meet emissions reduction targets. Contradictions between (quasi-central) planning and a (supposedly) free market are evident. The regulator is conflicted between its duty to protect the interests of customers and the policy imperatives of emission reductions.

In this context, the vast, unproductive overbuild of the transmission system and associated renewable energy zones is running into delays. The problem is much bigger than delay per se.

Hence, in thinking about the problem of delays, some categories may be useful:

- BEST: infrastructure that should be built, and is built, without undue delay or costs
- GOOD: infrastructure that should not be built and this decision is reached quickly and efficiently
- BAD: infrastructure that should be built, but is delayed, costs driven up and benefits impinged
- WORSE: infrastructure that should not be built, but is built without delay, leading to long-term damage
- EVEN WORSE: infrastructure that should not be built, but is built with delay, same damage, higher costs
- WORST OF ALL: infrastructure that should be built, but is not, leading to complete loss of benefits

Most of Australia's energy infrastructure is in one or other of the last four categories above: there is very little in the first two categories. This is likely to become worse under current policy settings, with consequent adverse effects on productivity both within the energy sector, and on productivity in the wider economy (in addition to damage to the natural environment, communities and social capital).

Infrastructure that falls in the category of things that should not be built at all includes:

- generation infrastructure that is driven by subsidies and other forms of underwriting,
- transmission infrastructure that relies indirectly on subsidies to generation infrastructure or that is given special treatment (an example of special treatment for transmission would be less-than-stringent application of the Regulatory Investment Test for Transmission, RIT-T designed to protect consumers from unproductive over-investment), and
- storage infrastructure that exists only because of subsidies and distortions elsewhere in the system.

All of these are likely to be detrimental to economic productivity of the sector, and more broadly.

Indefinite delays to infrastructure that would be detrimental to productivity and should not be built at all would be seen as good in economic terms. Even better would be to avoid expending resources on those projects.

2. **How can planning and approvals processes be sped up without unduly compromising regulatory standards?**

One of the most effective ways to achieve this would be not to bring bad projects into the approvals process. The current electricity master plan (in the form of the ISP) diverges so far from a productive, low impact, low emissions system that if the current process continues, the delays and damage to communities and the environment, and the adverse effects on energy productivity and Australia's productivity are likely only to become more severe.

Evidence from around the world indicates that the type of system that Australia is attempting to build will not work, will drive costs up not down, will antagonise people and communities especially in rural areas, as well as those environmentalists who are at least as concerned about specific natural ecosystems and biodiversity in general as they are about greenhouse gas emissions and climate change.

3. **Should clean energy projects be treated differently to other projects for the purpose of environmental and other approvals? If so, how?**

No. It would be a serious error to treat projects labelled as "clean energy" differently from other projects. That approach is likely to lead to unintended consequences and adverse outcomes.

A version of this problem is already evident in the adverse environmental impacts of, for example, wind farm projects in Queensland, in which the trade-offs between local environmental damage and emissions reductions have been barely considered at all, let alone with any rigour and wisdom.

4. **What can be done to build local community support for new energy infrastructure projects?**

This is an important and sensitive subject. Among the problems becoming apparent in rural areas in Australia is the division of communities (and even families) due to 'benefit-sharing' arrangements associated with developments such as wind farms that have a range of negative impacts beyond the land on which they are located.

A bigger question is whether those projects are needed at all, and whether they are increasing or degrading the productivity of the energy sector and of Australia as a whole. Those bigger questions need to be asked, and not avoided.

5. **Please outline any evidence showing the productivity benefits of faster approvals for energy projects.**

This relates to the response above. The question is framed in a dangerously narrow way. The key question is whether the right projects are being built in the right places at the right time.

Fast-tracking approvals of the wrong projects in the wrong places will have a far more deleterious effect on productivity—potentially by an order of magnitude or more—than reducing delays of the right projects.

Fast tracking approvals of the wrong projects will turn an unfortunate but small dampener on productivity into a much larger reduction in productivity.

The key questions remain:

- Which are the right projects in the right places?
- Who is to say and how are those answers to be found? and
- What is the process for finding the answers?

Only then should the question of the speed of the process and the avoidance of delay be addressed.

3. Encourage adaptation by addressing barriers to private investment

1. What are the barriers and enablers impacting decisions by owner-occupiers, landlords and developers about how housing is built and updated over time so that it is resilient to the effects of climate change?

In the case of flood impact the key is in zoning laws and local planning, particularly around flood plains, and to a degree in flood control and management infrastructure. In the case of storm and fire risk, siting, vegetation management and building standards all have roles to play.

The insurance industry is sending pricing signals through premia.

If all risks are privately carried, the impacts tend to fall on those with lowest incomes (flood-prone houses are less expensive, while low-income occupants may tend to forgo insurance). If all risks are socialised, an adverse impact on productivity should be expected (from repeated and perhaps frequent loss and rebuilding).

These issues should not be viewed only through the lens of climate change and adaptation.

Australia is a 'climate taker' (analogous to the economic concept of a price taker): the climate and weather Australia experiences are essentially unaffected by Australia's policy settings and success or failure in achieving targets that it adopts.

2. What information do people need to make decisions about where to live, how to build and how to upgrade their homes to appropriately factor in climate change?

Sufficient information is already available through flood maps, fire risk maps and insurance companies.

3. What are the most cost-effective retrofitting options for improving the resilience of Australia's existing housing stock? What are their costs and benefits?

No comment.

4. What role might minimum standards play in ensuring the resilience of Australia's housing stock?

No comment.

5. The impacts of climate change are being factored into the regulation of where and how houses are built in different ways around Australia. What does leading practice look like? Where is there room for improvement? Are there lessons we can learn from other countries?

No comment.