ADDRESS BY INNES WILLOX ON ECONOMIC RECOVERY AND ENERGY TRANSITION

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Two of the biggest questions facing us today are:

- How do we restore growth following the pandemic?
- And how do we make a successful transition to net zero emissions by 2050?

Answering these questions together can both boost our growth and put it on firmer long-term foundations. Today I want to share some thoughts about how to do so.

The recovery challenge

First, what does the recovery challenge look like?

The Australian Industry Group's members are in the engine room of the economy and we are constantly gathering their experiences and monitoring performance across manufacturing, services and construction. We face several serious impacts.

Restrictions have been necessary and so far successful, but the immediate hit to jobs and the economy has been enormous. For example, Ai Group's Performance of Manufacturing Index for April showed the biggest drop in the history of the index. To the extent that success allows us to relax those measures, the hit will lessen.

But:

- even with policies like JobKeeper, unemployment is surging - and falls are much slower than rises.
- Lighter restrictions *won't* be 'normalcy'. Activities like international tourism will remain heavily restricted, and caution will be common until there is a vaccine. Changed practices may mean activities like business travel never fully recover. Many workers may be looking for a new career in a new sector, not just a new job.
- We face a large and potentially self-sustaining shortfall in private investment and demand as businesses and households make individually rational decisions to cut back in the face of lost income or uncertainty.
- This is a global crisis and we will share in the economic pain of our trading partners – and feel the impact of their policy choices, for good or ill.
- Governments have lifted spending and cut or deferred charges to provide immediate support. But there will have to be a handover from emergency steps to longer-term measures, and different governments may be unable or unwilling to sustain a stimulatory fiscal stance.
- Public debt is not an immediate crisis, especially not for the Commonwealth. But responsible management of public and private debt is going to be a big long term challenge.

There is huge uncertainty about the depth and duration of this economic pain in Australia. We all hope for a quick resurface after a rapid dive. But private demand and investment may be deep underwater for a long time – unless public policy can keep us all afloat.

Governments will need a suite of options across regulation, taxation and spending that they can deploy as necessary to limit damage and

support recovery. And those options will need to improve the long-term Budget picture, by supporting growth or averting ongoing costs, so that we can rebuild the fiscal capacity to respond again whenever the next acute crisis hits.

The climate challenge

One source of future crises is climate change, as previewed this past summer. Our national interest lies in global action to avoid as much climate change as possible. We will have to deal with what we can't avoid.

A successful energy transition requires gaining competitiveness and leaving no-one behind. That task extends well beyond electricity generation, to heavy industry, transport, agriculture, the built environment and more. There is immense scope for reform and investment to support that transition. And getting started during the crisis will contribute to faster recovery.

There's much more agreement over climate change than we often think – as our business, farmer, union, and civil society colleagues in the Australian Climate Roundtable can attest. But it has been a focus of political division. I think we've all been heartened by our governments resetting and working together across party lines to respond to the pandemic. They are now seeking consensus around long-term reforms that can strengthen Australia but were too challenging in good times. Federalism, education and training, taxation, industrial relations, regulation writ large are all important areas for agreed reform. And so is resolving bipartisan climate policy that can help our whole economy prosper to net zero emissions and beyond. We need a reset here, too.

What we need now

Recovery and transition are overlapping subjects, not identical. Important parts of transition will take too long to play a role in recovery. Important recovery options have nothing much to do with transition, though we should run a ruler over them all to ensure no regrets for the long term.

We need a framework for preparing options for decision, prioritising between them and implementing them soundly. Even with dire need, not every idea is worth doing. We need to weigh bang for buck – how much immediate activity, how much long term reduction in climate damage and abatement costs? And even the best ideas can be done badly if we are not careful. What are the relevant infrastructure and skills constraints that might stop projects? Can we ease them, and in the process retrain and redeploy workers from roles that aren't coming back? What are the risk points and how can we manage them? We need to coordinate across jurisdictions and portfolios. Energy transition is not just for energy ministers! And we must balance adjustability for governments and certainty for investors. Bigger and longer-term commitments constrain governments, but they can underpin more investment in local supply chains and drive more benefit.

We need tools for making options happen. Governments will have different preferences and capacities for regulatory reform, tax incentives, grants and other approaches. Settling sound long-term designs of the electricity market and climate policy could do as much for electricity investment as public financial support, for instance.

Finally we need the options themselves: specific useful stuff that can be done, built or bought. "Shovel-ready projects" are rarer than you'd think when a crisis hits. Some options will take a lot of work to

get ready for decision – though sadly we may have the time if the economic fallout is lengthy.

Opportunities

Ai Group is consulting widely on the most constructive directions for recovery and transition.

There is broad interest in **better energy management**. This can take many forms: plugging leaks and drafts; more efficient, controllable or electrified equipment; better thermal performance; distributed generation and storage; safer and more capable switchboards and wiring; and metering and management to help individual users and the wider grid. There is huge upgrade potential across private and public housing, commercial buildings, government buildings and industry. Major private investment could be mobilised. And everyone benefits from squeezing more value from every unit of energy and infrastructure.

Our **electricity networks** are opportunities and enablers. Switching edge-of-grid customers to minigrids saves everyone money while building resilience. Faster smart meter rollout beyond Victoria is one of several preconditions for a cheaper smarter grid. Major transmission projects can unlock diverse generation and storage, but these projects are complex and may be hard to accelerate. We need to choose projects carefully for long-term value, and shield energy users from the costs or risks if any fall short.

Heavy industry needs transition pathways. Electrification is one and recent ARENA work finds big opportunities with positive returns now. Hydrogen is another option for feedstock, transport and high-grade heat. Hydrogen steel-making and other big ambitions are exciting, though probably well beyond the recovery timeframe. But

we can make useful investments now in hydrogen production. Global increases in electrolyser installations will speed green hydrogen down the cost curve and Australia could commence a significant rollout within 18 months. The most obvious early application is blending with residential gas. Meanwhile blue hydrogen can anchor carbon storage systems that other industries will ultimately need, and there may be near-term options to capture industrial emissions for storage or feedstock for building materials.

Energy storage increases the value of cheap but variable renewables and could help recovery, with caution and care. Big batteries are quick to build and getting cheaper, but longer supply gaps are better plugged with pumped hydro – albeit with longer construction times. Household batteries need to be installed and operated to provide grid-wide value.

Transport deserves attention. This is an excellent time to prepare our cities and major corridors for mass takeup of electric vehicles by installing or provisioning for charging points at servos, public and local government parking lots and apartment blocks. Hydrogen infrastructure can also help, particularly for trucking.

There are many already-planned **electricity generation** projects. But generation may be more the consequence of recovery investments than their direct focus. Stronger networks, more flex and new demand from electrolysis can pull supply through. Any direct support for generation projects should avoid dissuading investment through higher uncertainty.

I have no doubt we'll see other worthy options, including today.

So there's a lot that we can do to rebuild stronger and cleaner. The need is urgent. COVID-19 and climate are bigger than any economic challenge we've faced in the last century.

Turning potential and need into projects and policies takes hard work and compromise. But I am very encouraged by the growing consensus in our discussions with members, with governments, and with stakeholders like those of you here today. Let's build on that momentum.

Thank you.