

## The Impact of Climate Change on Australia's Economy

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On 12<sup>th</sup> March 2019, the Deputy Governor of the Reserve Bank of Australia (RBA), Guy Debelle, delivered a historic speech. "**Monetary policy is always having to analyse and assess ... forces and their impact on the economy. But few of these forces have the scale, persistence and systemic risk of climate change**" (<https://www.sbs.com.au/news/rba-to-take-climate-change-into-account-when-setting-interest-rates>) He noted that our financial stability could be threatened by both the physical impact of climate change and the effects of transition to a low-carbon economy.



(Guy Debelle sourced from <https://www.smh.com.au/environment/climate-change/milestone-rba-climate-speech-seen-as-changing-the-conversation-20190313-p513x2.html>)

This public statement brought the RBA into line with the Australian Prudential Regulation Authority and the Australian Securities and Investments Commission, the “trifecta” of economic regulators. Anna Bligh, chief executive of the Australian Banking Association stated that Australian banks have already considered climate change by minimizing their carbon footprint and reporting on risks to stakeholders. It is the financial sector that is the frontline for investor sensitivity. Assets, for example, are more exposed to extreme weather events. Investors are loathed to invest in coal power plants due to emissions costs and potential legal action. Debelle warned that insurers may face large unanticipated pay-outs due to unexpected weather events; some households and businesses may not be able to access insurance at all.

Although there has been debate on policies to mitigate climate change, such as carbon-pricing, little has been done in the area of macroeconomics. This is with the exception of Warrick McGibbon and co-authors. Climate change presents a complicated monetary problem as supply shock will be moving in the opposite direction to inflation. Thus policy will need to target nominal growth rather than inflation. Dr Debelle recognized the need to learn from the experience of others in order to understand and confront the serious challenges facing us. He cautioned that a rocky transition to renewable energy could cause economic shock, and advocated a smooth transition.

When other countries take action on climate change, there will be a further negative income shock in Australia. However although Debelle noted the flow-on effect of decreasing demand for fossil fuels from China and India, he neglected to mention Japan. This is a key omission as Japan is our largest consumer of coal exports, at 44%. Seven major groups in Japan including Mitsubishi have announced thermal coal and power plant exits (<https://www.smh.com.au/environment/climate-change/milestone-rba-climate-speech-seen-as-changing-the-conversation-20190313-p513x2.html>).

## The Backlash



(Trevor St Baker sourced from <https://www.theguardian.com/environment/2019/mar/13/coal-baron-and-inp-donor-blasts-rba-for-sounding-alarm-on-climate-change>)

Following Debelle's speech, Trevor St Baker blasted it as "totally inappropriate" and said that he lacked technical understanding in how the electricity market worked. Baker is a coal magnate and donor to the National party. He stated that we are world leaders in wind and solar generated power but 24/7 power required a combination of sources: hydro, gas, nuclear and coal. Baker has three projects on the agenda for the government: a storage project in South Australia, coal projects in Victoria and a power station on the Liddell site in New South Wales.

Matt Canavan, the Resources Minister and also a strong coal mining advocate, spoke on ABC radio about the need for a coal electricity plant in North Queensland. However his stance is not endorsed by Scott Morrison, as the State Government is unlikely to approve it. The Energy Minister Angus Taylor has confirmed that the Morrison government will consider new coal power plants as long as they are viable. Many National MPs support new coal power plants however Liberal MPs in city seats are concerned it may lose them the election.

## The Conclusion

Debelle concluded by saying that as "arguments over energy policy and support for new coal projects continue to divide the Coalition... decision makers in government and business [need] to take climate change seriously. Decisions that are taken now can have significant effects on future climate trends and can limit or eliminate the ability to mitigate the effect of those trends" (<https://www.sbs.com.au/news/rba-to-take-climate-change-into-account-when-setting-interest-rates>).

References

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