Political Risk and International Investment: The Renewable Energy Market in Australia and the 2013 Election

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Content

<table>
<thead>
<tr>
<th>CONTENT</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOREWORD</td>
<td>III</td>
</tr>
<tr>
<td>SUMMARY</td>
<td>IV</td>
</tr>
<tr>
<td>ABBREVIATIONS</td>
<td>1</td>
</tr>
<tr>
<td>1. INTRODUCTION</td>
<td>2</td>
</tr>
<tr>
<td>1.1 Research Question:</td>
<td>4</td>
</tr>
<tr>
<td>1.2 Approach to Research</td>
<td>4</td>
</tr>
<tr>
<td>2. SETTING THE SCENE: POLITICS IN AUSTRALIA</td>
<td>8</td>
</tr>
<tr>
<td>2.1 Status Quo: The political system in Australia</td>
<td>8</td>
</tr>
<tr>
<td>2.1.1 The Alternative vote formula: Voters behaviour, inter-party links and party behaviour in Australia</td>
<td>9</td>
</tr>
<tr>
<td>3. SETTING THE SCENE: THE RENEWABLE ENERGY MARKET, POLICIES AND LEGISLATIONS IN CONTEXT</td>
<td>13</td>
</tr>
<tr>
<td>3.1 Clean Energy: Ventures within Renewables</td>
<td>13</td>
</tr>
<tr>
<td>3.1.1 Operating- and Emerging Projects</td>
<td>14</td>
</tr>
<tr>
<td>3.1.2 Investment Focus</td>
<td>17</td>
</tr>
<tr>
<td>3.2 Existing Policies and Legislations in place to promote investment in the renewable sector</td>
<td>19</td>
</tr>
<tr>
<td>3.2.1 The Renewable Energy Target 2009 (RET)</td>
<td>19</td>
</tr>
<tr>
<td>3.2.2 Large-scale Renewable Energy Target and Small-scale Renewable Energy Scheme 2011</td>
<td>21</td>
</tr>
<tr>
<td>3.2.2 The Clean Energy Legislative Package</td>
<td>24</td>
</tr>
<tr>
<td>3.3 Why can it be Politically Risky to Finance Projects/Invest in the Renewable market when the Country is both Politically – and Economically stable?</td>
<td>26</td>
</tr>
<tr>
<td>4. PARTY DRIVEN POLITICAL RISK AND STRATEGIC PATTERNS</td>
<td>28</td>
</tr>
<tr>
<td>4.1 The Many Faces of Political Risk</td>
<td>28</td>
</tr>
<tr>
<td>4.2 Party Behaviour, Strategy and Competition: Rational Choice Theory</td>
<td>31</td>
</tr>
<tr>
<td>4.2.1 The Office-, policy-, and vote-seeking party</td>
<td>31</td>
</tr>
<tr>
<td>4.2.2 The Effects of Voter Behaviour and Public Financing</td>
<td>35</td>
</tr>
<tr>
<td>4.2.3 Tying the hands of the successor</td>
<td>35</td>
</tr>
<tr>
<td>4.3 Labor, Liberals and their Political Strategies</td>
<td>37</td>
</tr>
<tr>
<td>4.3.1 Patterns of Party Strategy: Catch-all Parties Versus Cartel Parties</td>
<td>37</td>
</tr>
</tbody>
</table>

Page i
5. FINDINGS AND ANALYSES: IS THE PRICE ON CARBON HERE TO STAY? ... 40

5.1 EXPECTATIONS TO DATA AND THE DIRECTION OF MY STUDY ......................... 40
5.2 PARTY COMPETITION AND POLICY PLATFORMS: THE CHOICE OF FOCUSING ON

RENEWABLE ENERGY AND THE PRICE ON CARBON ........................................ 42
5.3 LABOR, LIBERALS AND THE GREENS: SIGNS OF BEING MODERN CARTEL PARTIES? .... 46

5.3.1 Mandate Theory, Negative Election Campaigns and Policy Platforms .......... 47
5.4 THE PREDICTABILITY OF THE CARBON PRICING MECHANISM: POLITICS VERSUS
ECONOMICS ........................................................................................................ 49
5.5 THE 2013 FEDERAL ELECTION AND THE CARBON PRICING MECHANISM ............ 53

5.4.1 A Changed Renewable Market ................................................................. 57
5.5 FROM AN INTERNATIONAL BANKING PERSPECTIVE ..................................... 59

6. CONCLUDING REMARKS ..................................................................................... 61

6.1 SUMMARY OF THE RESEARCH STUDY ....................................................... 61
6.2 ANSWERING THE RESEARCH QUESTION ................................................... 61
6.3 WHAT DOES THIS TELL US ABOUT THE PRICING OF CARBON AND
PARTY COMPETITION IN AUSTRALIA? ................................................................. 63
6.4 WHAT DOES THIS TELL US ABOUT PUBLIC POLICY AND POLITICAL RISK IN GENERAL? .... 64
6.5 RECOMMENDATIONS FOR DNB .................................................................... 65

LITERATURE ............................................................................................................. 66

PRELIMINARY THESIS REPORT ......................................................................... 72
Foreword

I will especially thank DNB Energy Division under Morten Kreutz and Lars Ellegård for giving me this opportunity. It has been a great challenge, and you provided me with all the right tools for doing the best analysis I could through the introduction week last summer where I got a good understanding of what you do, funding a trip to Singapore and Australia that allowed me to conduct good interviews and get hands on information, and always being available on e-mails or for a meeting. I believe this thesis will be a valuable asset when making investment decisions in Australia. It will allow you to get a deeper understanding of the country politically, while also giving you a good outline of the opportunities in the renewable energy market, and the political risks it faces.

I will also thank my supervisor Nick Sitter for great support and good feedback throughout this process. You have really steered me in the right direction when I have had too many ideas. It feels extra nice when you have a supervisor who believes in your work and that has really helped me during these months.

This thesis has managed to combine a current topic with public choice theories within the field of political economy. This process has taught be a lot since I was able to incorporate topics I have studied during my master programme with important and relevant issues within risk analysis and the renewable energy market in Australia.

Thank you!
Summary

Renewable energy has become a controversial political- and economical topic. The world community are on a global scale experiencing shrinking reserves of non-renewable energy sources such as fossil fuels, which also are proved to be one of the main causes of pollution due to carbon emissions. Thus, it is the obligation of exploiting and developing alternative energy sources for the future, while also finding a better, and more effective way of using energy without polluting as much as we do today. The hurdle is however, since there is still more money to be made on traditional non-renewable energy due to on-going demand and its predictability, the renewable energy markets need help to develop through for example market-based mechanisms such as emission trading schemes as well as government subsidies. This will be an advantage for the market though creating stability and inducing financial incentives and that again will drift new investment into the market. Accordingly, without help from governments, investment will go elsewhere as no one will take the risk of capitalising in a market that is unreliable and immature compared to other energy markets.

Global means to decrease pollution such as the Kyoto Protocol has been put in place, yet the renewal of this agreement proves almost impossible since a number of high-polluting countries does not want to sign in fear of it hurting their economies. When the world community finds it hard to agree on a common solution, there is no wonder why this also translates into national borders. Australia is such a case where the two main political parties – the Australian Labor Party and the Liberal Party of Australia disagreeing on how to tackle climate change through what policy tools to use. Yet, both the Opposition and the Government agree on meeting the Renewable Energy Target (RET), producing 20% of all electricity supplied by Australia from renewable sources by 2020. Labor believe in using market-based mechanisms through a carbon pricing scheme to reach this goal, which Liberals threaten to remove if they win office in 2013 arguing that incentive-based mechanisms is all the country needs. Hence the argument is not on the actual result – but on what policy tools used to reach that goal. What policy tools this will be all depend on the behaviour and strategies by the parties in office as well as the opposition in between- and after elections. Thus, for the Australian case it is the policy tools resulting from these strategies
that are the real party driven political risk to the renewable market, as well as the outcomes of the next election in 2013.

Consequently, this thesis argues that the party driven political risk originates from two linked causes. The 2013 federal election defined as the “risk event” together with the strategies and behaviour laid out by the parties in competition in order to reach their goals whether that is office-, policy-, or votes or a combination of the three. This procedure is defined as the “causal chain” leading up to the risk event. It is the linked process between the causal chain and the risk event that creates the party driven political risk for the renewable market due to the unpredictability of policies and legislations proving a consequence of this behaviour. When parties tailor their policy platforms to attract supporters in order to reach their goals, it can often result in policies that are not ideologically grounded, and instead a result of a strategic pattern in order to reach that set goal. Often altered and unpredictable policies can result in market hesitation, which especially translates into areas reliable on continuous political support such as renewable energy. Besides, since renewables are such a touchy topic, these policies can change quickly or be removed based on what politicians need to do in order to get votes and popularity. By looking at the 2013 election as well as party behaviour and strategies, and how this affects current and future policies and legislations – what can be said about the political risk and especially the party driven political risk in the Australian renewable energy market?

The dispute between the Liberal- and Labor party regarding the carbon price has in recent times become one of Australia’s most messy political debates, which has made the country’s renewable energy market very uncertain for businesses and potential investors as well as dividing the electorate on what is the best way forward. DNB Energy Division under DNB Bank ASA, Norway’s biggest financial institution is one player looking into the renewable market in Australia. They are interested in funding projects if they feel that the political risk is acceptable. Thus the objective of this thesis has been to review the possible outcomes of the 2013 election and the current Australian political behaviour and strategies affecting policy and legislations in general, but predominantly in regards to the renewable energy market. This will help give DNB a clearer picture of the party driven political risk they face before making investment decisions.
Abbreviations

ALP – the Australian Labor Party
ARENA – Australian Renewable Energy Agency
ASI – Australian Solar Institute
CEC – Clean Energy Council
CEFC – Clean Energy Finance Corporation
DCCEE – Department of Climate Change and Energy Efficiency
ETS – Emissions Trading Scheme
LGC – Large-scale Generation Certificate
LRET – Large-scale Renewable Energy Target
LPA – Liberal Party of Australia/the opposition
ORER – Office of the Renewable Energy Regulator
REC – Renewable Energy Certificate
RET – Renewable Energy Target
RPP – Renewable Power Percentage
SRES – Small-scale Renewable Energy Target
STC – Small-scale Technology Certificate
STP – Small-scale Technology Percentage
The Coalition – Liberal Party of Australia and the Australian Greens

Please also note that in this thesis the “carbon pricing mechanism/scheme” is also termed the carbon tax, the carbon price, fixed price on carbon, carbon law etc.
CHAPTER 1

1. Introduction

Renewable energy is high on the agenda, and yet governments and industries around the world have a hard time getting their heads around how to unravel its future development. It is a vicious circle – in order to develop the renewable energy sector one needs financing, however financing will not happen to the extent needed, if there is no exact future in these markets. Without strict government legislations and policies inducing industries to lower their emissions through switching from non-renewable energy to renewables, as well as government subsidies to fund renewable projects, there will consequently be no incentives for other investors to financing these markets either.

My thesis will go beyond this, and look specifically at the backdrop that affects the required legislations and policies that are needed to induce financial incentives in the renewable markets, namely party behaviour and strategies. What are the parties and the sitting government affected by? And how does this impact the policy platforms produced by the parties? And in the end – how does this affect the political risk of the given market?

It is worth noting that there are many dimensions of political risk, for instance the term political risk is often regarded the same as political instability (Robles 2011). This is not the case here, since the focus will be on the risk resulting from party competition through their behaviour and strategies, and not in terms of the political risk affecting the quality of governance in a country. Thus, the focus of this thesis will be defined as party driven political risk – a political risk that can be present even when a country is both politically- and economically stable.

Consequently, this thesis argues that the party driven political risk originates from two linked causes. The 2013 federal election defined as the “risk event” together with the strategies and behaviour laid out by the parties in competition in order to reach their goals whether that is office-, policy-, or votes or a combination of the
three. This procedure is defined as the “causal chain” leading up to the risk event. It is the linked process between the causal chain and the risk event that creates the party driven political risk for the renewable market due to the unpredictability of polices and legislations coming out of such a process. When parties tailor their policy platforms to attract supporters in order to reach their goals, it can often result in policies that are not ideologically grounded, but are a result of a strategic pattern in order to reach a set goal.

Australia’s renewable energy market will be the case study for the thesis. By looking at the 2013 election as well as party behaviour and strategies, and how this affects current and future policies and legislations – what can be said about the political risk and especially the party driven political risk in the Australian renewable energy market? Both the opposition and the sitting government agree a common goal of producing 20% of all electricity supplied by Australia from renewable sources by 2020. This is called the Renewable Energy Target (RET). However, they disagree on how to get there. Hence the political debate is not on the actual result – but on what policy tools best suited to reach that goal. Consequently, the risk for the Australian renewable market lays here. It is the unpredictability of the methods being used, in addition to where future government subsidies will fall that leads to the political risk in this market. The carbon pricing mechanism that turned into law on 1st of July 2012 will be the main policy of interest in this thesis due to the great political challenges it has brought with it.

In regards to academia this thesis will add to the literature of party behaviour and strategies within public choice theory. In addition, and if not most important, it will also add to the literature of political risk. According to Müller and Støm, there is not enough emphasis on the importance of understanding how party behaviour and strategies affect political risk (1999), and to my knowledge, there have not been much written – if at all about the connection between party behaviour, strategies and political risk, when defining risk like I have. Thus it will be of great value to elaborate more on this topic since this arguably is very relevant for understanding another aspect of political economy and how this affects markets that are in need of government support through government policies and subsidies for further innovation and investments like the renewable
energy market. Also, by applying theories about political risk, behaviour and strategies to a current topic such as the politics of renewable energy, it can allow us to get a wider and more thorough picture of how political parties work in order to create and achieve their goals.

1.1 Research Question:

The objective of this study is to lead the reader through the current political situation in Australia by especially looking at party competition through behaviour and strategies, and how this has an impact on policies and legislations affecting the renewable energy market. This is also necessary in order to map the party driven political risk facing the renewable energy market, which is very valuable to possible investors such as DNB. Specifically, this thesis will especially focus on the carbon pricing law, since it is arguably the most important legislation in place to promote a stable renewable market with clear financial incentives for further investment, as well as being the main issue in a very muddy political debate dividing the two main parties in Australia. More specifically, the research question is:

*How does the carbon pricing law initiated by the Labor government affect the future of the renewable energy market of Australia? And what will it have to say for the carbon pricing law if there will be a change in government after the next election in 2013?*

In order to answer this question, an analysis where careful attention is being made to the political scene in Australia is essential. Going deeper into, and understanding how the different parties work and develop their behaviour and strategies and as an effect – their party platforms, will let us to be able to map the predictability of policies such as the carbon price. In addition, it is important to review the renewable energy market and understand its current movements so that one can see the real effects that the carbon price has on the market now and in the future.

1.2 Approach to Research

There will not be devoted a whole chapter on the methodology of this thesis, simply because this paper is not in need for such a chapter due to its content and writing style. This is carefully discussed with my advisor. However, a short
description of the method of research as well as who has been interviewed is outlined below.

This thesis is a qualitative study since the collected data is retrieved from indebt open-ended interviews, direct observations and from written documents (Patton 2002). It also includes a case study due to having its focus on one particular topic, namely the renewable energy market of Australia and the 2013 election. The data collected for this thesis come both from primary- and secondary sources. Yearly reports from the Government and the Opposition on policies, progression and goals have been useful, as well as reports on the development of the renewable energy market. Australia has quite a transparent system when it comes to publishing government reports and other political material, so it has not been difficult to find this online. Existing Australian legislations and policies regarding the renewable market have also been very valuable to my analysis as well as relevant theoretic books and interviews conducted throughout the process. Moreover, since the topic is so current, the media, through newspapers has been a source of interest as well. Yet, it is important to be critical to such sources – newspaper articles have often unknown primary sources and might have a biased argument. This is especially important because many of the main newspapers in Australia are politically attached to either the right or left side in politics and thus their articles are often in favour of the side they are supporting. Thus, when using secondary sources there has been a need to be careful when analyzing that information. Basing a lot of my research on journal articles, the material has mainly been gathered from databases such as JStore and Business Source Complete. Other than that relevant webpages and the prepared questionnaire have been useful for getting the data needed to complete this thesis. Using a range of different sources has allowed me to get a complete nonbiased picture of the topic I am investigating.

Most of the interviews were conducted in Australia, which I had arranged beforehand. On the way down I stopped over in Singapore meeting with the DNB office there that deals with Australia. The energy team included me in their views and thoughts on financing projects in Australia, which gave me a good platform for understanding their position in this matter before running the interviews.
The chosen interviewing style was standardised open-ended interviews. The questions were prepared in advance, and all the people interviewed within the same field were asked similar questions. This made it easier to compare afterwards. As the name predicts, the questions are open-ended which gave the interviewed a chance to really create an unbiased answer. The weakness with this form is that it may lead to a lack of relation between the interview and the specific individual when the questions are the same for all individuals (Patton 2002). Although, since the questions were changed up a little bit in order to suit each person being interviewed, some of this weakness was removed. Under all interviews a tape recorder was used so that no information got lost as well as making sure all answers were documented correctly.

My interviewing objects were:

- **Thomas Allen**, Energy and Carbon Policy Advisor of Jemena an Australian infrastructure company that owns and maintains a number of assets such as gas pipelines, electricity- and gas networks, gas storage- and transmission facilities and recycled water schemes (Jemena 2012).
- **John Falzon**, CEO of LMS Energy, one of Australia’s oldest renewable companies and a leader within renewable energy generation (Falzon 2012).
- **Mark Dreyfus**, Parliamentary Secretary for the Department of Climate Change and Energy Efficiency, member of the Australian Parliament, the Australian Labor Party. I received a letter on the topic written personally by him since he was unable to meet for an interview.
- **Dr. Andrew Leigh**, member of the Australian Parliament for Fraser, the Australian Labor Party
- **The Hon Greg Hunt**, Shadow Minister for Climate Action, Environment and Heritage, the Liberal Party of Australia
- **Associate Professor Peter Christoff** with specialisation in environmental studies, climate politics and policy, the University of Melbourne
- **Professor Robyn Eckersley**, with specialisation in environmental politics and policy and political theory, the University of Melbourne

The interviewed come from the energy sector, the renewable sector, from the party in government and the party in opposition, as well as political experts of the
field. This will give the reader a complete picture of the topic portrayed, as well as the other data collected. In addition, a survey distributed to 30 Australian citizens, where all responded, did give a sense of understanding on where the electorate was standing in the matter. 30 voters are not many, so the results could not be fully trusted. Nevertheless the people that answered come from a range of backgrounds, which do count for something. They were students, retirees and workers both from urban and rural areas of Australia. Thus the 30 people are very diverse – which is good. Also, the result from the survey was as expected before it was completed as well.

The motive for this chapter has been to provide the reader with a good knowledge of the topic to be researched in this thesis, as well as the research approach and how the data has been gathered.
CHAPTER 2

2. Setting the Scene: Politics in Australia

Australia is a stable country both politically and economically. So why can a discussion on political risk be relevant in such an established nation? This has to do with party strategies and behaviour – how political parties act and compete in order to reach one or more of their goals; votes, office or implementation of new polices and legislations. In such situations, the choices parties and politicians make, may affect exposed markets in need for political support. This can of course lean both ways, but if a market were to loose its government subsidies or see a change of policy with negative effects, it will again affect investment and financing in these markets. Renewable energy is in such a situation, and there is clearly a political risk in investing within renewables due to the occurring political disagreements that leads to uncertainty in the market. However to get a more thorough understanding of this one needs to look at the backdrop of it all – namely Australia’s political system.

2.1 Status Quo: The political system in Australia

Australia is a constitutional monarchy with Elisabeth II of United Kingdom as their head of state. It is divided up of six states and two territories. Being part of the Commonwealth and a former British colony, Australia has been hugely influenced by British political traditions (Lijphart 1999). One of these is the Westminster system of government. This system is a general model of democracy that got its name from the Palace of Westminster in London (1999). It usually encompasses a majoritarian election system and two parties are dominating the political picture with a “government versus opposition pattern”, and there is also usually the concentration of power by one party when in government (1999). The Parliament consists of both the Senate as the Upper House and the House of Representatives as the Lower House. The Senate represents all the six states and two territories with 76 evenly divided seats, while the House of Representatives is divided into 150 members, each representing a different electorate (Commonwealth of Australia 2012). The members of the House of Representatives are elected by the Australian population, and is therefore of
greater interest to this thesis than the Senate. A newly appointed government must have the majority of the seats in the House of Representatives. Conversely, this is where the similarities with Britain and the Westminster system end.

Australia bears signs of being a federal state due to its Constitution. This is unlike Britain, which has constitutional flexibility (Lijphart 1999). Unlike in the Westminster system, this creates a constitutionally guaranteed division of power between the central government and the local governments (Commonwealth of Australia 2012, Lijphart 1999). In Australia these local governments are divided up into both state and state-local governments (2012). To name their Upper House “Senate” is a tradition from the US system that Australia has adopted. In case there is a disagreement between the House of Representatives and the Senate regarding a Bill, Australia unlike the UK has something called a double dissolution election. When the Bill has failed to get passed through the Senate three times, the Prime Minister can ask the Governor-General to seek dissolution of the parliament, and it can lead to both houses being dissolved. After the double dissolution a new election for both houses are made, and a new government is put in place (Australian Electoral Commission 2011). Also, even though Australia has a majoritarian election system, it does not use the same voting mechanism as Britain. Instead of a first-past-the-post formula, Australia uses the alternative vote scheme (1999). The election system is of great interest when looking at party behaviour and strategies, and therefore the next section will be devoted to this matter.

2.1.1 The Alternative vote formula: Voters behaviour, inter-party links and party behaviour in Australia

Important for this thesis when considering how political risk can be defined through party behaviour and strategies is the electoral formula and the campaigning leading up to each election. The design of the electoral formula plays a big role in shaping how politicians and parties compete, and therefore it can have an effect on the party driven political risk that is being discussed in this thesis. What is essential to note however, is that political competition varies when encountering different electoral systems. It has an effect on the number of political parties in a country and how parties and their individual politicians behave (Lijphart 1994). Questions such as “How likely, based on this system, am I or my
party going to be elected?” “How much effort do I or my party have to put in to get a good chance?” “What is the cost of being elected?” These questions might have very different answers depending on the electoral system being used.

In the book “Electoral Systems and Party Systems” Lijphart describes three main types of electoral formulas and some of their subtypes:

- Majoritarian formulas (with plurality, two-ballot systems, and the alternative vote as the main subtypes)
- Proportional Representation (classified further into the largest remainders, highest averages, and single transferable vote formulas)
- Semi-proportional systems (such as the cumulative vote and the limited vote)

Australia uses the alternative vote formula when voting under the majoritarian model which is a very rare formula not often seen used in today’s democracies (Lijphart 1994). The alternative vote works in the way that voters rank their preferred candidates in order. If a candidate receives the majority of first preferences then he or she is elected. If not, the candidate with the lowest rank will be disregarded and in addition their ballots are redistributed to the remaining candidates according to these ballot’s second preferences. This continues until there is a winner (1994, 19). The alternative voting mechanism might be seen as a “refinement of the majority-runoff formula in the sense that weak candidates are eliminated one at a time and that voters do not have to go to the polls twice (1994, 19).”

This formula interestingly removes the aspect of strategic voting when going to the polls (Lijphart 1994, 97-98). Voters are often worried that their vote will be wasted and will rather vote for a larger party than a preferred smaller party when knowing it will have low chances of being elected anyway (1994). This can lead to disproportionality, where “the parties’ seat shares deviate much more from the pattern of the voters true preferences that from the actual vote shares (1994, 97).” Nevertheless in this alternative voting scheme, voters know that even though they
vote for their preferred party as number one, they can still secure a vote for their most preferred bigger party as well – putting them as number two on their list (1994).

In Australia, giving one’s first preference to a candidate of a small party is not a wasted vote because, if the contest is not decided on the basis of preferences, second preferences will be counted and may help to elect one of the major candidates (Lijphart 1994, 97).

However, such a system also leads to a lower number of parties than in a PR system, which Australia is a good example of (Lijphart 1994). Australia has two major parties – the Liberal Party of Australia (LPA) and the Australian Labor Party (ALP). One of these two parties will always be in office, due to their size. Yet, as stated above, Australia is not completely a two-party system. The Australian National Party and the Australian Greens are smaller parties who have gotten more influence now than ever, and today the Julia Gillard Labour Government is in a coalition with the Greens – the first minority government since World War II (Farnsworth 2012).

This leads us to describe the inter-party electoral links in the Australian political system, since this also occurs within the alternative vote scheme (Lijphart 1994). This formula actually encourages parties to make electoral alliances with like-minded parties rather than to merge (Lijphart 1994, 134).

These links permit parties to link up for maximum electoral gain by simply agreeing to ask their respective voters to cast first preferences for their own candidates, but the next preference for the candidates for the linked party (Lijphart 1994, 134).

In Australia, parties often take advantage of this opportunity (Lijphart 1994), and the best example is the inter-party link between the Liberals and the Nationals. These two parties have had an agreement for many years, and they still stick by it. Thus one can in many ways call Australia a two and a half party system (1994, 143). A great example of this are the elections of 1975, 1977 and 1996 where the Liberals won majority and still included the Nationals in all the three cabinets.
(Lijphart 1994). The two parties present themselves as “the Coalition” and if Liberals win the next election in 2013, the Nationals will most likely be apart of their new government.

In regards to environmental politics, Labor and Liberals have separate opinions on how to tackle this, and lead a very traditional separation between left and right. Labor is customarily more for environmental polices and have had more governments working for a higher focus on renewables and low-pollution goods and services. The Coalition is more pro-business, which also proves this thesis’ argument regarding the carbon pricing mechanism. This is also traditional, and to be expected from a conservative party. The Greens are obviously the most ideological party when it comes to environmental politics, and the carbon tax was a precondition for going into government with Labor in 2010. Labor has also had past policy proposals regarding a carbon scheme, which will be elaborated more on further down in this thesis.

This chapter has provided the reader with some important information on the political system in Australia where emphasis has been put on their electoral formula. This is because the electoral formula is an important factor in determining party behaviour and strategies and therefore also the complexity of the party driven political risk. Specifically, the alternative vote formula affects party strategies and behaviour especially through the creation of inter-party links as well as the special voting pattern. What electoral system that can have the most effect on party driven risk is arguable, whether it being a majoritarian, PR or the alternative vote, because it all depends on how the relevant parties and politicians respond to their given systems. In particular, European parties would most definitely create different strategies to that of an Australian party due to the effects of their different electoral formulas.

The following chapter will outline the renewable energy market as well as the most significant policies and legislations affecting the market. This is important in order to give the reader good background information before going into the analysis and discussion of the case study in chapter five.
CHAPTER 3


This chapter will first give a general overview over the market and will outline some of the main actors, current and future projects and finance options. The main focus will be on hydro, solar and wind since these are within DNB’s business strategy on “Power & Renewables” (DNB Asia 2012). Then the focus will be on the most important existing policies and legislations in place to promote further growth in this market.

3.1 Clean Energy: Ventures within Renewables

This section will provide the reader with valuable information about the Australian renewable market. The market’s current status both in regards to what resources are being utilised and explored will be outlined, who are some of the main players, where investment is made, and what projects are currently undertaken and in planning.

Figure 1: Percentage of each renewable source for electricity generation 2011

(Clean Energy Council 2012, 6)
As figure 1 shows, the majority of the renewable resources utilised for electricity generation today is hydro. The remaining are wind, solar photovoltaic and bioenergy (Clean Energy Council 2012). That hydro has 67% of the market might seem surprising considering Australia is such flat country, and have been hit by many droughts during the past decades. Nevertheless hydro electricity generation has been around since the late 1800s when it was introduced from England as a means to supply electricity to the secluded mines that were not able to acquire coal (Harries 2011). It did not take long until investors saw possibilities in the electricity source and thus the market developed rapidly. Today, there are 124 operating hydro power stations that can supply 2,8 million homes (Clean Energy Council 2012, 28). Currently most of the areas suitable for large-scale hydro plants are already developed and thus analysts believe there will be no growth in this part of the market, however there are a few small-scale projects in development (Clean Energy Council 2012). As a consequence wind and solar will be taking over (Harries 2011). This makes sense since Australia holds some of the worlds best wind resources and has the highest solar radiation per square metre than anywhere else in the world (Commonwealth of Australia 2012c).

3.1.1 Operating- and Emerging Projects

Table 1 and 2 below, illustrates both operating projects as well as projects in development. The reason for including these is for both the reader and DNB to get a grasp on how active this market currently is. Since 2010 there has been a boost of planned and completed projects thanks to new legislations, which will be outlined further down. That there is growth in the market also shows that the predictability and trust has grown among consumers, investors and suppliers.

The owners of these projects are both private and state owned companies. Large Australian electricity companies such as AGL Energy and TRUenergy have projects underway as well as BP Solar and Pacific Hydro. Some of these companies are of great interest to DNB. Additional to these, there are a number of smaller-scale energy companies and other businesses using renewables such as the University of Queensland. This proves great diversity.
In 2011 there were 14 new large-scale projects delivered, where the majority were wind and solar PV. Between 2012 and 2014 one can see additional 5 large projects being completed. These are all wind.

Table 1: Renewable energy projects delivered since October 2010

<table>
<thead>
<tr>
<th>Fuel Source</th>
<th>Location</th>
<th>Owner</th>
<th>State</th>
<th>Year</th>
<th>Installed Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wind</td>
<td>Hallet 4 (Nth Brown Hill)</td>
<td>AGL</td>
<td>SA</td>
<td>2011</td>
<td>132,3 MW</td>
</tr>
<tr>
<td>Hydro</td>
<td>Tumut 3 Runner upgrade</td>
<td>Snowy Hydro</td>
<td>NSW</td>
<td>2011</td>
<td>Additional 100 MW</td>
</tr>
<tr>
<td>Wind</td>
<td>Gunning</td>
<td>Acciona Energy</td>
<td>NSW</td>
<td>2011</td>
<td>46,5 MW</td>
</tr>
<tr>
<td>Wind</td>
<td>Hepburn (Leonards Hill)</td>
<td>Hepburn Wind</td>
<td>VIC</td>
<td>2011</td>
<td>4,1 MW</td>
</tr>
<tr>
<td>Wind</td>
<td>Mt Barker</td>
<td>Mt Baker Power Company</td>
<td>WA</td>
<td>2011</td>
<td>2,4 MW</td>
</tr>
<tr>
<td>Solar PV</td>
<td>St Lucia Campus, University of QLD</td>
<td>University of Queensland</td>
<td>QLD</td>
<td>2011</td>
<td>1,2 MW</td>
</tr>
<tr>
<td>Solar PV</td>
<td>Ilparpa (Uterne)</td>
<td>Alice Springs Consortium</td>
<td>NT</td>
<td>2011</td>
<td>0,97 MW</td>
</tr>
<tr>
<td>Solar PV</td>
<td>Carrara Stadium (Gold Coast)</td>
<td>Carrara Stadium</td>
<td>QLD</td>
<td>2011</td>
<td>0,25 MW</td>
</tr>
<tr>
<td>Solar Thermal</td>
<td>Mayfield</td>
<td>CSIRO</td>
<td>NSW</td>
<td>2011</td>
<td>0,2 MW</td>
</tr>
<tr>
<td>Wind</td>
<td>Waterloo</td>
<td>TRUenergy</td>
<td>SA</td>
<td>2010</td>
<td>111 MW</td>
</tr>
<tr>
<td>Solar PV</td>
<td>Nullagine</td>
<td>Horizon Power</td>
<td>WA</td>
<td>2010</td>
<td>0,2 MW</td>
</tr>
</tbody>
</table>

(Clean Energy Council 2012, 9)
Table 2: Major newly completed - and yet to be completed projects

<table>
<thead>
<tr>
<th>Fuel Source</th>
<th>Location</th>
<th>Owner</th>
<th>State</th>
<th>Year to be completed</th>
<th>Installed capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wind</td>
<td>Macarthur</td>
<td>AGL/Meridian Energy</td>
<td>VIC</td>
<td>2013</td>
<td>420 MW</td>
</tr>
<tr>
<td>Wind</td>
<td>Collgar</td>
<td>UBS ITT/REST</td>
<td>WA</td>
<td>2012</td>
<td>205 MW</td>
</tr>
<tr>
<td>Wind</td>
<td>Musselroe</td>
<td>Hydro Tasmania</td>
<td>TAS</td>
<td>2013</td>
<td>168 MW</td>
</tr>
<tr>
<td>Wind</td>
<td>Crookwell 2</td>
<td>Union Fenosa</td>
<td>NSW</td>
<td>2014</td>
<td>92 MW</td>
</tr>
<tr>
<td>Wind</td>
<td>Oaklands Hill</td>
<td>AGL</td>
<td>VIC</td>
<td>2012</td>
<td>67 MW</td>
</tr>
<tr>
<td>Wind</td>
<td>Hallet Stage 5</td>
<td>AGL</td>
<td>SA</td>
<td>2011</td>
<td>53 MW</td>
</tr>
<tr>
<td></td>
<td>(Bluff Wind farm)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wind</td>
<td>Woodlawn</td>
<td>Infigen Energy</td>
<td>NSW</td>
<td>2011</td>
<td>48 MW</td>
</tr>
<tr>
<td>Bioenergy</td>
<td>Victoria 2</td>
<td>Sucragen</td>
<td>QLD</td>
<td>2011</td>
<td>19 MW</td>
</tr>
<tr>
<td>Landfill gas</td>
<td>Woodlawn Bioreactor</td>
<td>Veolia Environmental Services</td>
<td>NSW</td>
<td>2011</td>
<td>1.1 MW</td>
</tr>
<tr>
<td>Solar PV</td>
<td>Carnarvon</td>
<td>EMC Solar</td>
<td>WA</td>
<td>2011</td>
<td>0.3 MW</td>
</tr>
</tbody>
</table>

(Clean Energy Council 2012, 12)

Table 3 illustrates two projects that are rather interesting. These are the first two large-scale solar projects under the government’s “Solar Flagships program”, which will receive funding in order to be completed and operating (Commonwealth of Australia 2012d). The Solar Flagships program “supports the construction and demonstration of large-scale, grid connected solar power stations in Australia (Commonwealth of Australia 2012d).” Starting in June 2011, the program accessed AU$1.5 billion for the first round to be split between the two projects. With these two being the first of their kind in Australia, a support network was needed, and the Australian Solar Institute (ASI) was created by the government to help “increase the cost effectiveness of solar technology and accelerate the capacity of solar institutes (Commonwealth of Australia 2012d).” The institute, in accompany with the Australian Renewable Energy Agency (ARENA) has the job of overseeing the projects and also manage the funding and administration (Commonwealth of Australia 2012d).
Considering Australia’s abundant supply of sun and flat geography, one will arguably see more of these large-scale solar projects in the future, of course depending on finance. Only for this first round of the Solar Flagships, there were 52 applicants, and if these will have a chance to develop further, they might be able to be included in the Program at a later stage (Commonwealth of Australia 2012d).

Table 3: Large-scale solar projects (Solar Flagships program)

<table>
<thead>
<tr>
<th>Owner</th>
<th>Technology</th>
<th>Name/Location</th>
<th>Expected Commission Year</th>
<th>Proposed Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Areva, Wind Prospect CWP &amp; CS Energy</td>
<td>Solar thermal compact linear fresnel</td>
<td>Solar Dawn Project, Chincilla, QLD</td>
<td>2015</td>
<td>250 MW</td>
</tr>
<tr>
<td>BP Solar, Pacific Hydro &amp; Fotowation Renewable Ventures</td>
<td>Single axis tracking solar PV</td>
<td>Moree Solar Farm, Moree, NSW</td>
<td>2015</td>
<td>150 MW</td>
</tr>
</tbody>
</table>

(Clean Energy Council 2012, 40)

3.1.2 Investment Focus

It can be quite helpful for understanding where the market is heading by looking closer at where current investment is being made in this market. Below, in table 4, the reader can find information regarding the investment focus, which also includes information gathered from the Clean Energy Council (CEC), the peak industry association body representing over 600 members from the renewable energy sector.

Looking at the table, the most interesting numbers to note is of solar, where investment has increased by almost three times in one financial year. This probably has a lot to do with Solar Dawn and Moree Solar Park, yet this is great news. Wind has gone down a bit, but still lies in the same range, while geothermal
also has increased. Small hydro has projected zero investment together with biomass and waste, which comes as no surprise considering the above discussion on hydro. Biomass might be low due to that investors would rather finance projects where returns can be made – namely wind and especially solar. All together total investment is increasing greatly. According to Nathan Fabian, Chief Executive in Investor Group on Climate Change:

Investment in clean energy has eclipsed that of traditional energy over the last three years and this shows no signs of slowing down. Investors have started to see clean energy as a safe and lucrative sector to invest their capital (Clean Energy Council 2012, 14).

Keeping in mind Fabian’s words, this have again a lot to do with the new predictability in the market due to stricter legislations such as the carbon law under the Julia Gillard Government, and the Renewable Energy Target (RET). A further discussed on this will come in the next section.

Table 4: Investment in small- and large-scale projects in US$m

<table>
<thead>
<tr>
<th>Sector</th>
<th>Financial Year 09-10</th>
<th>Financial Year 10-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wind</td>
<td>1837.6</td>
<td>1158.1</td>
</tr>
<tr>
<td>Solar</td>
<td>1257.1</td>
<td>4014</td>
</tr>
<tr>
<td>Biomass and waste</td>
<td>128.1</td>
<td>0</td>
</tr>
<tr>
<td>Geothermal</td>
<td>10.6</td>
<td>87.7</td>
</tr>
<tr>
<td>Marine</td>
<td>12.5</td>
<td>4.3</td>
</tr>
<tr>
<td>Small Hydro</td>
<td>27.1</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3273.0</strong></td>
<td><strong>5264.1</strong></td>
</tr>
</tbody>
</table>

(Clean Energy Council 2012, 14)

This segment has provided information that withholds the belief that this market is growing. Many projects are already realised and running, while new projects are planned and soon to be completed. The new Solar Flagships program will be exciting to follow, as its projects will undoubtedly prove important to this market in the long run. Increased investment that attests for a market where investors are confident does also most likely mean a growing market in the future. However, it
is important to take into account the boom and bust scenario in this market. John Falzon, CEO of LMS Energy Australia argues that firms invest hugely in times of government subsidies, however when they are removed these firms break down. “When Government subsidies are implemented, there is a rush of green business only too see subsidies being removed again and companies collapse (2012).” The next section will look closer at the policies and legislations that are in place not only to encourage such investment, but in many ways keeping the market alive.

3.2 Existing Policies and Legislations in place to promote Investment in the Renewable sector

There are numerous acts and legislations focusing on how to stabilise the future of the renewable energy market through both incentive- and market-based mechanisms that will encourage investment and innovation. Policies and legislations reviewed below are those believed to have meaningful positions in the future construction of the renewable sectors.

3.2.1 The Renewable Energy Target 2009 (RET)

The core of the RET is to ensure that Australia reaches its set goal of producing 20% of their electricity from renewable sources by 2020 (Dreyfus 2012). To reach this goal, it aims to boost generation of electricity from renewables, lower emissions from the energy sector and make sure that the renewable energy sources used are sustainable (ORER 2011). It is implemented mainly on the basis of the Renewable Energy (Electricity) Act 2000 and the Renewable Energy (Electricity) Regulation 2001. It is the Office of the Renewable Energy Regulator (ORER) who makes sure that RET is implemented the correct way according to the act, policies and regulations (ORER 2011).

As the reader might acknowledge these aims are quite optimistic, yet the RET deals with that by introducing renewable energy certificates (RECs) which electricity suppliers and other liable entities have a legal obligation to purchase an amount of each year (ORER 2011). These certificates are traded in the online REC registry managed by ORER, and according to them, it is these certificates that are the key to further innovation as well as increased financial incentives to invest into renewable energy power stations, hydro systems and smaller installations such as solar water heaters and solar panels (ORER 2011). This
makes sense since any entity liable having to purchase certificates will then try to make their businesses more energy efficient so that they will have to buy as few RECs as possible.

The 20% by 2020 target is the ground stone of all other legislative proposals being put in place, and serves as a reminder that governments need to find solutions that will ensure this goal. Both the current government and the Opposition are for this target (Christoff 2012). Parliamentary Secretary for Climate Change and Energy Efficiency Mark Dreyfus believes that the RET will:

> Speed up the adoption of renewable energy technologies and help smooth the transition to a clean energy future, while also encouraging the deployment of large-scale renewable energy projects such as wind farms, as well as the installation of small-scale systems, including solar panels and solar water heaters (2012, 1).

According to the government, their plan towards a cleaner energy future together with RET are expected to push 20 billion Australian dollars of investment and innovation to the renewable sector, yet mainly to the large-scale projects in regional and rural Australia (Dreyfus 2012). However, it may not prove to be as simple as Dreyfus puts it. As Falzon argues:

> The RET is a classic example of a policy that creates the boom and bust scenario. Whilst having support to 2020 may seem like a long time, it is actually not possible to receive funding for renewable energy projects, as we require financing for a minimum of 15 years. Since no one knows what will happen after 2020, we worry that minimal investment will occur (2012).

Regardless of their statements, what is certain is that we do experience an increase in investment, as seen in table 4, last section.
3.2.2 Large-scale Renewable Energy Target and Small-scale Renewable Energy Scheme 2011

In order to encourage further growth and innovation in both small- and large-scale energy projects, the RET was separated into two parts in 2011. These are called the Large-scale Renewable Energy Target (LRET) and the Small-scaled Renewable Energy Scheme (SRES) (Commonwealth of Australia 2012c). This change also divided the certificates into Large-scale Generation certificates (LGCs) and Small-scale Technology certificates (STCs), which were designed to help close the price gap between green and fossil fuel electricity in the same matter as the original RECs (Office of the Renewable Energy Regulator 2011, Clean Energy Council 2012). The RET of 20% by 2020 still remains after the separation, yet according to the government, it gives households, large-scale-, and small-scale renewable energy producers more certainty (Commonwealth of Australia 2012c).

**Figure 2: LRET**

1. Eligible renewable energy stations create LGCs from electricity produced from qualified renewable energy sources

2. The RPP calculates the annual amount a liable entity must purchase

3. Ownership of the LGCs are transferred through the REC registry

4. The bought certificates are made invalid when sold which creates new demand for next years supply of LGCs

LRET 2011-2030 Target of generated renewable energy

(ORER 2011)
Figure 2 is set up to simplify for the reader how the LRET creates incentives for renewable energy stations to produce energy. The LRET creates financial incentives from investors or owners to expand their renewable energy stations, build new ones or innovate technology (ORER 2011, 4). Through pinpointing a targeted amount of generated renewable energy each year until 2030, and creating a system where electricity retailers are liable of purchasing a given number of certificates, LRET has made a mechanism that works due to the push-pull strategy of supply and demand. Note that these yearly targets set for the renewable energy stations must not confuse the target of producing 20% of all electricity by 2020 from renewable sources.

The number of LGCs these retailers are liable of purchasing each year are calculated annually by the Renewable Power Percentage (RPP). To calculate this, the RPP takes account of three things; the minimum required amount of produced renewable energy of the given year (released by LRET), the estimated amount of electricity acquired by the responsible entity, their number of certificates used last year, while also taking into account of any exemptions a firm might have (ORER 2011, 6). When the number of certificates has been calculated for each electricity retailer, the entities must advice ORER about the number they are chargeable to. The LGCs are acquired straight from the renewable energy stations, however the ownership of them is traded through the online REC registry (2011, 7-8). The price is not fixed and depends therefore on the supply and demand in the market. Also, since each of the certificates become invalid after being sold, it leaves a constant need for supplying LGCs into the market. For a liable entity failing to use their set amount, it will result in a fine around AU$65 for each LGC (2011, 7). Consequently, due to being an ongoing push-pull demand/supply procedure with a clear framework, the process will keep repeating it self each financial year, which have been attempted to illustrate in figure two.

The SRES is quite similar to the LRET, but since it is small-scaled, the process has some noticeable differences worth noting. According to ORER and the government, the owners of these installations are usually households, small businesses and community groups, which give the Australian population an ownership to do something about their future in terms of renewables and emissions (ORER 2011, 8). These installations can be solar water heaters, heat
According to Member of Parliament Andrew Leigh:

Today hundreds of thousands of Australians have solar photovoltaic panels on their roofs with metres telling how many KWh has been produced that day. This gives our population a sense of what renewables are and how energy it is formed (2012).

The incentive of small-scale owners to install and purchase these systems is not only for their own production but also that they are able to produce STCs which electricity retailers are accountable of purchasing, just like the LGCs. These entities are accountable of surrendering these certificates on a quarterly basis and the amount each entity must purchase is calculated through the Small-scale technology percentage (STP) similar to the RPP (ORER 2011, 8) For households this becomes as an extra income source, and that alone is a great incentive to install solar panels as well as becoming more observant of the renewable market.

Conversely, unlike the LRET, there is no set yearly target of how much generated renewable energy will come from small-scale installations in the SRES. Yet, by legislating demand and invalidating the STCs after purchase it still leaves enough demand in the market for current and future suppliers such as homeowners to install these systems (ORER, 2011). Solar credit also induces the incentives by “multiplying the number of STCs for which the system would be normally eligible (2011, 12).” Thus it helps these owners with reducing the costs of these installations. The purchasing and price negotiations of STCs also happen outside of the REC registry, while the ownership, creation and registration is transferred though the registry as with the LGCs (2011, 14). However the SRES also includes a “STC Clearing House” where liable entities can purchase certificates for a fixed price which is guaranteed by the government at AU$40 (2011, 14), this also induces incentives into this market due to removing any uncertainty of the purchasing process.

According to the government, the RET through both the LRET and SRES are proving to be quite successful which together with the Act and regulations
outlining them create the basis for further investment and innovation in the renewable sector (Dreyfus 2012).

3.2.2 The Clean Energy Legislative Package

The Clean Energy Legislative Package that was passed by the Senate in November 2011 contains a number of Acts that surrounds the implementation and supervision of the carbon price mechanism or the carbon tax that was put into effect on July 1st 2012. It is aimed at encouraging the big polluters to become more energy efficient, and to make them rethink their current behaviour regarding energy consumption (Leigh 2012). According to the Carbon Market Institute:

The carbon price mechanism and accompanying legislation establishes a domestic carbon price by way of a fixed price start to an emissions trading scheme designed to provide price signals to incentivise new behaviours and encourage the adoption of low carbon alternatives (2011).

Concurring, the government says it will create incentives for these firms to reduce energy usage, use more renewables, implement technology that will better current energy effectiveness and invest in renewables such as solar and wind (Commonwealth of Australia 2012a).

The main legislation of this package is the Clean Energy Act 2011, which has the objective to follow Australia’s obligations regarding decreasing pollution overseas and at home. It sets up the mechanism that will reassure a cleaner energy future by using renewables rather than fossil fuels. This mechanism is the carbon price, which will be based on a fixed price, operation on a financial year basis starting July 2012 as mentioned above. From July 2015 this price will change to a cap-and-trade system where prices will fluctuate and traded in an auction under the supervision and administration by the Clean Energy Regulator set up under the Clean Energy Regulator Act 2011 (Act No. 163 2011, Christoff 2012). The Act outlines who are responsible for surrendering to the emissions units for each tonne of carbon dioxide, and also that the liable entities not applying to the rules will have to pay a unit shortfall charge (Act No. 131 2011, 7). The legislation furthermore sets out who are eligible for free carbon units. These are coal-fired
electricity generators and other emission-intensive trade-exposed activities under the Jobs and Competitiveness Program (Act No. 131 2011).

Other Acts under the Clean Energy Legislative Package that is worth noting is the Clean Energy (Household Assistance Amendments) Act 2011, Clean Energy (Income Tax Rates Amendments) Act 2011 and the Climate Change Authority Act 2011. The first mentioned addresses Australians who are eligible for household assistance due to the expected changes in the price of electricity after the introduction of the carbon pricing mechanism. This includes pensioners and other low-income earners that already receive social security payments (Act No. 141 2011). The second embodies the new tax-free threshold for all eligible Australians. The current threshold of AU$6000 will be increased to AU$18 200 for the year of income 2012-13, while from 2014-15 it will increase again to AU$19 400 (Act No. 150 2011). Thus, this will result in more money for many low- and middle-income earners that would normally be above the current AU$6000 threshold (Eckersley 2012).

The last Act sets up the Climate Change Authority (CCA) who is an independent body consisting of a board made up of specialists within economics, emission trading, investment, business and science. These people will give unbiased advice and suggestions to the Australian government on issues surrounding the climate change policies in order for Australia to reach its goal in 2020 and its long time goal by 2050 (Commonwealth of Australia 2012b). The CCA also has a responsibility of keeping the public well informed of what is going on regarding current and new policies and legislation as well as reviewing the RET and the carbon pricing mechanism on a regular basis (2012b). Thus the CCA will be a very important body for the present and coming governments towards 2020 and onwards.

These policies and legislations outlined above makes the future of the renewable energy market more predictable, which again creates incentives to invest in new stations and technologies. However, regardless of the current policy situation under the Labor government, there is still a political risk to finance projects in a market so dependent on government support and subsidies, which there will be a quick introduction to in the next section of this chapter, as well as the election in
2013. There might be reasons to believe that some investors feel that the renewable market is too risky leading up to the election and awaits their move until knowing who wins office. Thus a lot is leaning on the risk event – namely the election of 2013.

3.3 Why can it be Politically Risky to Finance projects/Invest in the Renewable market when the Country is both Politically – and Economically stable?

Chapter two started by outlining why there can still exist political risk in a country that is both politically- and economically stable. This again translates to why it is politically risky to invest in markets that are reliant on government support when policies can change so rapidly due to that party behaviour and strategies can deviate from one election campaign to the other. For each federal election, which for Australia is every 3 years, different strategies from parties are expected in order for them to reach their set goals. By looking specifically at the renewable market in Australia, both the Opposition and the Government agree on the RET, however, the problem is that the parties disagree on how to reach the goal of 20% by 2020. Consequently, the party driven political risk for the Australian renewable market lays here. It is the unpredictability of the methods being used, in addition to where future government subsidies will fall.

Firstly, it all depends on which party- or parties that are in government knowing what methods and policy tools that will be applied. This is very relevant for Australia’s case since the current Government and the Opposition have two totally different policy platforms to create a cleaner energy future (Commonwealth of Australia 2012a, Liberal Party of Australia 2010, Christoff 2012). The government’s plan is a lot better formed and planned out, and has numerous aspects that can induce incentives into the market, while the Opposition’s plan as it stand today is messy and loose. When the Coalition is the favourite for the next election in 2013, the market gets nervous due to knowing that renewables may not have the best policy tool available. Thus, that a new federal election is coming up can make investment drop due to uncertainty of who will be in office and what their strategies will be.

Secondly, how are innovation and investment going to blossom when investors do not know where they would get the best return for their money?
If one government decides to go for solar, and companies have already invested all their money in wind, it becomes rather risky. According to Thomas Allen, Energy and Carbon Policy Advisor of Jemena:

> The problem with renewable energy policy in Australia thus far is that the Government picks ‘winners and losers’ in which industries they decide to subsidise. This does not provide certainty for investors, and creates a turbulent industry whereby it may grow very quickly while the subsidies are available and then slows even quicker when the subsidies run out (2012).

These two issues include the core of why it can be politically risky to invest in such a market. Again, it proves that it all depends on the behaviour and strategies laid out by the government, and for the Australian case it is the policy tools resulting from these strategies and the outcome of the next election that are the real threats. And since renewables are such a touchy topic these strategies can change quickly based on what the politicians need to do in order to get votes and popularity. My interest lays on this debate.
CHAPTER 4

4. Party Driven Political Risk and Strategic Patterns

It is necessary create a good theoretical platform before one can go further into the debate mentioned above. This chapter will be devoted to that, and will first define political risk and its connection to this thesis’ focus – namely the party driven political risk through party behaviour and strategies. Secondly, three theories that can explain how parties compete in order to reach their goals will be presented as well as explaining how these three theories fit into the definition of party strategy. A fourth theory will also be presented, namely how a government can “tie the hands of their successor” so that a new incumbent is unable to change their policies due to the constraints by the former government. This can be translated to the current carbon law. Lastly, attention will be made on two patterns of party strategies, explicitly the catch-all – and cartel party models, and how these are evident in Australia.

4.1 The many Faces of Political risk

This section will look at what constitutes political risk in regards to investment and project financing. However in order to answer such a question there is a need to give a general definition on what political risk is, and how that ties in with my extended definition of it – namely party driven political risk. Yet first, one needs to define risk, which Bremmer and Keat argues to be:

Risk is the probability that any event will turn into a measurable loss. It is composed of two factors, probability and impact. How likely is the risk to occur? And if it occurs, how big of an impact will it have (2009, 4)?

One may believe that this general definition suits in any situation where there might be some kind of loss, thus it is a suitable definition when further explaining the political risk – as well as the party driven political risk in this thesis. Bremmer and Keat also introduce the thought that within risk there is always a “causal chain” leading up to a “risk event”. For any “risk event” to occur there must be situations leading up to it that can have an impact on the event and the eventual
outcome which is the causal chain. A certain cause (or causes) can increase the chances that a specific event will occur, and once it does it will have consequences (Bremmer and Keat 2009, 5).”

For this thesis, the risk event is the 2013 federal election, and the impact it will have all depends on who wins and how the new government will deal with environmental issues. Thus, current party strategies and behaviour by both the government and the Opposition as well as their behaviour during the election campaigns can arguably be seen as the “causal chain” to the “risk event” of the election in 2013. And it is the casual chain together with the risk event that creates the party driven political risk that is believed to affect the renewable energy market.

Looking closer at the definition of political risk, there are according to Mark Fitzpatrick, four different categories regarding international business worth noting (1983). The focus here will only be on the first three, since the last one is very similar to the third and will have no impact on the discussion. The first one considers the risk extracted from “unwanted negative consequences of government interference or sovereign action from a one-event incident (Fitzpatrick 1983, 249).” The second identifies political risk “in terms of occurrences of a political nature, usually events or constraints imposed at the specific industry or firm level (Fitzpatrick 1983, 249).” This can usually be change of government under events of violence or riots. The third offers a more operational definition:

Where political risk in business exist when discontinuities, which are difficult to anticipate, occur in the business environment as a result of political change. These changes in the business environment constitute risk if they have the potential to affect to a significant extent the profit or other goals of a particular enterprise (Fitzpatrick 1983, 250).

The third definition really justifies what is regarded as political risk in regards to this thesis and its analysis. Here one can really draw parallels between the election of 2013 and the future of the carbon pricing mechanism for instance. What will occur in the renewable- business and market environments if unforeseen changes
in policy happen? In addition, Bremmer and Keat argue that “political risk is the probability that a particular political action will produce changes in economic outcomes (2009, 5),” which can also be a good addition for political risk in this context as there can be both loss in profits for the renewable market it self, and for investors such as DNB if there would be political changes due to altered strategies for example.

Keeping the problem definition of this thesis in mind, changes in polices like a possible removal of the carbon pricing mechanism will definitely change the economic outcomes for an investor. Consequently the interesting aspect is the party driven political risk since it affects strategies and behaviour, which again affect public politics such as policies and legislation, which again can affect possible investment and finance decisions. What will it have to say for the attractiveness of the renewable energy market in Australia if policies and legislations change with a new government? Or are the current policies so stable that they will survive a government switch? Can the market retain as attractive without these policies?

Considering political risk from an investor’s point of view, no investor is willing to finance or invest into a project or company if the market it belongs to has an unreliable future. Loosing money or getting no return on an investment for a bank or any other funder is not a wanted situation, especially in the weak economic times of today. In regards to renewable markets this is very essential since these types of markets need stable mechanisms and government subsidies to create reliability. As Lars Ellergård, Head of DNB Energy Singapore outlines:

When governments are involved we face political risk. Banks have lost money on changes in regulation more than once. This is why the mechanisms for either subsidy, forced usage of electricity from renewable sources, or tax on polluting production is important to understand, and in addition the political system, regulatory regime, stability and other issues is of outmost importance to have a thorough insight to, and comfort in, before making a financing/investment decision (2012).
Thus, for a bank such as DNB, political risk in regards to energy projects is highly important to map and thus it is included in their risk hierarchy, which they use for mapping the overall risk before entering a project (Kreutz 2006).

Finally, Bremmer and Keat outline four strategies for decreasing the chance of a risk event to occur. A risk manager can either try to eliminate the threat, minimize its likelihood, isolate the event or avoid the risk all together (2009, 192). Considering the first three strategies there is not much DNB as an investor can do due to this being solely an Australian political situation, so if the risk is too high or if it poses a real risk as Verzberger defines it (1998), their choice would be to avoid the risk by not investing. Whether the risk is too high will be discussed in the next chapter.

The remaining of this chapter however, will be devoted to the causal chain of the risk event of this thesis. Theories that can explain what affects party competition through strategies and behavior will be presented.

4.2 Party Behaviour, Strategy and Competition: Rational Choice Theory

4.2.1 The Office-, policy-, and vote-seeking party

Two books that are very appropriate for explaining party behaviour and strategies are are “Policy, Office, or Votes” by W. Müller and K. Strøm from 1999, and “Parties, Policies, and Democracy” by H.D Klinemann, R. Hofferbert and I. Budge from 1994. As the reader might acknowledge these books are not that recent, however, being theoretical books, they are still very relevant. A number of journal articles on party strategy that has some great points about party strategies and behaviour have also been appropriate.

Since I am looking at these issues from a political economist perspective I will mainly use theories from this field. My main focus will be devoted to concepts within party strategy and behaviour since I argue that a party’s behaviour and strategy, and what that strategy is dependent on - and formed by, automatically predicts the parties’ goals and policy decisions. These again predict the level of the party driven political risk. It is a lot like a domino effect.
The most recent theories on party behaviour and strategy have mainly been influenced by the rational choice- and public choice traditions in political economy (Müller and Strøm 1999). The book by Müller and Strøm present three rational choice models that are appropriate for this thesis:

1. The Office-Seeking Party: Riker argued that parties maximise “their control over political office benefits” and in order to do that they need to win office (Riker in Müller and Strøm 1999, 5).

2. The Policy-Seeking Party: A party that fits into this model is a party that seeks to maximise its impact on public policy. These parties are often more ideological that the office-seeking party. However, one must note that party leaders can also seek certain policy goals due to other reasons that can benefit them (1999, 7).

3. The Vote-Seeking Party: These parties’ want to maximise the number of votes. Developed by Downs, this theory argues that “parties formulate policies in order to win elections, rather than win elections in order to formulate policies (Downs in Müller and Strøm 1999, 9).”

Party strategy can be defined in several ways, yet Porter defines it “as a broad formula for how a party is going to compete – a combination of what its ends should be and by which means it should be pursued (Porter 1980/1998 in Sitter 2003, 242).” By defining the “means” as the tools used to reach the “ends” being either one – or more of the goals described above as well as below in figure 3, one can directly tie this definition up to this papers’ discussion on party strategies.

Figure 3: Party strategy

(Müller and Strøm 1999)
Another relevant article that also discusses the importance of policy, votes and office as well as taking the discussion about party strategies even further, is the 2003 article “Euroscepticism as party Strategy: Persistence and Change in Party-Based Opposition to European Integration”. Sitter argues that a party’s pursuit of office and therefore votes is one of the main arguments for the development of a party’s strategy, in addition to the need of implementing policy, which again leads us to the requirement of maximising votes (2003, 241-243). What this argument implies is that the three goals of policy, office and votes are often intertwined, and by reaching one goal, a party might reach another one at the same time. To further explain it, regardless of whether a party is a policy- or office-seeking party, it needs to collect enough number of votes in order to reach these goals. Thus it is important that the strategies created balance the goals of policy, office and votes. Sitter’s definition is similar to mine as he argues that these three goals shape party strategies where the electorate plays an important role (2003). Sitter also argues that there is a fourth goal – namely the survival of the party through party organisation (2003). This is interesting and should be accounted for, however there will not be further discussion on it since it is not included in the above definition of party strategy.

Furthermore, there can also be situations where some parties are even open to get into coalitions with parties they would not normally work with in order to reach one of these goals (Sitter 2003; Strøm 1990). Though, it is important to note that not all parties go to the same length as others might do, due to costs. “Policy goals may be achieved without formal participation in coalitions, and formal participation may actually entail costs in terms of association with unpopular policies (Strøm 1990, Sitter 2003, 241)”. Thus some parties might not want to sacrifice a place in office if the costs are too high, and thus they will not focus more on policy rather than office or votes. This is usually the case of multi-party systems where coalition parties are normal, which is different to the case in Australia where there is a two-and a half party system. Therefore this argument might not hold to the same level as it does in European countries. Additionally, one should note that tackling internal party feuds is another aspect when developing a common party strategy, which can have an effect on the policy outcomes.
To see whether the main political parties in Australia can be explained by the outlined theory above, one can look at the current political situation and the parties’ policy platforms. Firstly, when Prime Minister Julia Gillard managed to create a minority government with the Greens in 2010 it was only possible on one condition and that was to propose a carbon pricing scheme. This was not initially one of Labour’s policy goals, but to be able to get into office, Labour needed the Greens, and by promising the carbon policy, they got what they wished for. From this example one can argue that Labour is an office-seeking party rather than a policy-seeking party. However, it is also a vote-seeking party because in order to get into office it needs to have the electorate on board, and by allying with the Greens the party could also reach out to more of the electorate. The Greens shows signs of being both office- and policy-seeking, as well as vote-seeking.

Secondly, why are the Liberals against the pricing of carbon? Ideologically they are more pro-business than environment, and can in this example be seen as policy-seeking rather than office-seeking. However, another reason to why the party is so against it can be because they know that their supporters are against it as well. And without their supporters, there will be no votes. Many core supporters of the Liberals are powerful businesses and coal suppliers – and thus they know that by accepting a tax that will hurt their industry, they will loose valuable financial support –and votes. Consequently from this example, one can argue that the Liberal party is also an office- and vote-seeking party.

The current situation in Australia is a good example of how parties act in order to reach their goals, and the question whether there should be a carbon price or not is just intensifying this. These two examples prove that parties are willing to do a lot to tailor their policy platforms to whomever they need to please. It also demonstrates that the three goals of policy, office and votes often are intertwined when parties create their strategies. From this, one can analyse the level of political risk these situations create, and put it up against the attractiveness of investing in a market reliable on stable government support both through subsidies but also through reliable policies and legislations.
4.2.2 The Effects of Voter Behaviour and Public Financing

Another factor that is interesting to look at is the importance of voter’s behaviour and motivations. For instance, is Australian voters behaviour *instrumental* or *expressive*? Instrumental behaviour implies that the voter focuses on the expected benefit associated with the outcome of the election (Hamlin and Jennings 2011, 2). Thus, the voter understands that voting can be costly and irrational since he/she knows that their vote does not count for much. The expressive behaviour implies that the voter looks away from this irrational thought and votes because it actually cares for a cause or is ideologically attached to that particular party. The voter feels good by voting – “and are motivated by concerns other than the concern for the outcome of the election (Hamlin and Jennings 2011, 2).” If parties are vote-maximisers and know that their voters behave either by expressive behaviour or instrumental behaviour, they might tailor their party strategies in order to gain more votes (Müller and Strøm 1999). Yet, since the federal election in Australia utilises the alternative vote system, the notion of strategic voting is small and one can argue that the electorate’s behaviour is not as important here than for example in a PR system.

Another issue that can also affect party behaviour and strategies is public financing of political parties. Financing through electoral campaign support, free television time and support for auxiliary groups are some examples that has increased in many countries (Müller and Strøm 1999). Similarly, this has also been the fact in Australia after increased capitalisation and professionalization of electoral campaigns (Müller and Strøm 1999). Parties rely more on these types of financial support today than they have ever done, and thus the incentives to please likely sponsors grow as well. Acknowledging the presence of it and that it can affect parties is important, yet due to time and space limits as well as the difficulty of finding relevant information about this in Australia, there will not be further discussion around the topic.

4.2.3 Tying the hands of the successor

How a government can strategically affect the next incumbent’s choices is a theory worth noting. In the “presence of disagreement between current and future policy makers (Alesina and Tabellini 1990, 403),” and when the current government knows that the government most likely to replace it, has different
legislative objectives (Persson and Svensson 1989) a government can try tie the hands of their successor. It can in many ways be seen as a principal-agent problem where the current government is the principal, and the future incumbent is the agent, because “the behaviour of the successor enters as an incentive-compatibility constraint in the decision problem of the sitting government (Persson and Svensson 1989, 341).” Put it more simply, like a principal, the current government will influence the next governments’ decisions based on its’ actions in office.

The theory can be used in this thesis due to the position and size of the fixed price on carbon. The fixed price or tax that was introduced 1st of July 2012 will bring in around AU$8-15 billion annually, and consequently serves as a constraint on the decision making for the next government. Why? Because it will be extremely hard to remove due to the impact it will have on the Australian society.

Alesina and Tabellini (1990) and Persson and Svensson (1989) have developed two models within this theory where they look at the use of strategic debt to control future tax revenues of the next government and find two solutions. Alesina and Tabellini find that on both the left- and right side of politics “public debt is used strategically by each government to influence the choices of its successors (1990, 404).” Persson and Svensson also find that debt is used strategically, however they argue that there are only signs of debt accumulation from a right-hand side government and that the opposite is occurring from a left-side government (Petterson-Lidbom 2001). A later study performed by Petterson-Lidbom finds the same result as Persson and Svensson (2001).

The example of the use of debt to control the next incumbent is not what is occurring in Australia. The carbon tax portrays in some ways the opposite picture because it brings in revenue to the government. However, this can also tie a state and therefore one can argue that the carbon pricing mechanism acts as a constraint. Consequently, it is almost impossible to remove this carbon scheme for a new government due to these revenues. Thus, there is evidence that an incumbent policy maker can affect the state of the world inherited by its successors – especially when that government is expecting a possible defeat in the next election (Petterson-Lidbom 2001, Persson and Svensson 1989, Alesina and
Tabellini 1990). Persson and Svensson outline the more general principle: “as long as the current government can affect some state variable (in an essential way) in its successors decision problem, it can affect the policy carried out by the successor (1989, 326)”. The carbon law can have this effect on the next government in 2013, which will be a good thing for the renewable market.

4.3 Labor, Liberals and their Political strategies

4.3.1 Patterns of Party Strategy: Catch-all Parties Versus Cartel Parties

People joining politics usually join because they either believe in a cause or want to change something. These individuals often have strong ideological attachment to certain issues and beliefs, and by joining a party that shares these views becomes obvious. Yet today, a party creating a strategy based only on their ideology is often not enough in order to win office. Therefore logical politicians understand that just going after their ideology will not be enough to get the votes they need (Shepsle 2010). Thus, in order to become the next party in government the parties in electoral competition have to find smart ways to beat the others – and thus different patterns of party strategies have developed. Sitter presents this in his article using examples from Europe (2003), yet this also can be seen in Australian politics.

Parties recognise that they have to have a well-defined plan in order to capture votes to win office or get their policies through. Therefore, it seems to be a development of an “electoral professional party” that is overtaking the ideological party, where more effort is made on winning the actual competition, rather than just fighting for ideological issues (Sitter 2003, Economou 2012). According to Panebianco (1988, 220-226), these parties tend to customize their image to appeal to the swinging voter and median instead of their ordinary member, and therefore displace the ordinary member as the most important part of their party structure (in Economou 2012, 138). The result has become an evolution of catch-all- and cartel parties from the normal mass party structure (Sitter 2003, Economou 2012). How can the Australian parties in question, namely Liberals, Labor and the Greens fit into this narrative? The answer to that will be discussed further down in the chapter 5, while the theoretical models will be presented here.
The catch-all party model developed by Kirchheimer is very relevant when looking at party strategies. As the name suggests, a party that fits into this model is mainly concerned with getting a large part of the electorate, and in order to do that they tailor their policies to suit the majority (1966, 138).

"The catch-all party emphasis on appealing to as broad a range of voters as possible in pursuit of executive power. Politics thus becomes a contest between two barely distinguishable predominant parties who seek to win government for its own sake. Thus we see social democratic and liberal conservative parties converge on a range of policy issues (Economou 2012, 138)."

This can be comparable to what happens through the median-voter theorem applied to electoral competition by Downs (1957). The median-voter theorem suggests that parties converging their policy platforms closer to the median-voter’s preferences would give them greater chance of winning the election. Thus the parties end up with similar policies in the long run. This is also called the centripetal force (Persson and Tabellini 2000, 51, 99), and is especially occurring amid office-seeking parties. Catch-all parties have also other signs such as “emphasis on charismatic leadership and the pursuit of mass popularity at the expense of developing ideologically based policy platforms (Economou 2012, 138),” and putting their focus on professional politicians rather than activists (Sitter 2003).

As well as the notion of policy convergence, the cartel party model by Katz and Mair additionally argue that colluding parties become agents of the state through state financing (1995). The name cartel is taken from the economic term due to representing similarities to the economic phenomenon (Economou 2012). As Economou argues:

Based on the notion of predominant political actors eschewing competition (the allegedly have converged on matters of policy) and using mechanisms to buttress their predominant position while seeking to exclude players outside the cartel (Economou 2012, 139).
By receiving state subsidisation they supplement for declining membership and becomes arguably more a representation of the state than of the society (Sitter 2003, 241-243, Economou 2012). This is completely opposite from the older theory of the mass party where the society was represented through mass membership and where members could influence policy-making (Economou 2012, 137-138). Clearly there is a move from the notion of mass parties towards more electoral professional parties, and many catch-all parties today are moving further towards the modern cartel party pattern (Katz and Mair 1995, Sitter 2003, 241) This is most likely due to increased state financing and shrinking membership. Arguably, a modern cartel party is a party that also has converging policies in order to capture most of the electorate as well as also being reliant on state financing.
CHAPTER 5

5. Findings and Analyses: Is the Price on Carbon Here to Stay?

This chapter will firstly present the expected findings as well as establishing the focus of the thesis and how data will be analysed. Then the next four sections will present the actual findings though an analysis of the gathered data. The second section discusses the choice by the major Australian parties of focusing on renewable energy in their policy platforms and consequently why this has become perhaps the most important issue of competition between the two. The third section will discuss whether Liberals, Labor and the Greens shows signs of being cartel parties through their strategic patterns, and section four will look at the predictability of the carbon pricing scheme. Trying to understand how stable and solid the scheme is, will be very important, based on both economical and political objectives as well as on the political debate presented in section two. Here one will also show the reader the current impact the carbon tax as well as the RET has had on the renewable market. Lastly, section five is devoted to the next federal election in 2013 – or the “risk event” of this thesis. There will be presented four likely outcomes of the election, and an attempt to analyse the effect these outcomes has on the carbon price, which is debatably one of the most interesting sections of this thesis regarding future investment decisions in the renewable market.

5.1 Expectations to Data and the Direction of my Study

During this research process the goal has always been to understand the ongoing political game affecting environmental policies and legislations in Australia, in order to get a clear picture of what this will have to say for the attractiveness of the renewable market in Australia through the political risk and especially the party driven political risk it creates. If there will be changes to the policy tools, how will this affect the choices of current and future investors? Especially focusing on the discussion around the carbon pricing mechanism, which is currently the main tool in Australia to encourage investment and stability in this market, what happens if this is removed or altered? The carbon price mechanism
has become law, but how stable and solid is it? Will it last a change of
government? This is a very controversial topic, and apart of a very muddy
political game where the two main parties are using this law as one of the
principal issues of division in this political competition. The Liberal party is as
mentioned highly against the law, but is for the RET, and they have been very
clear that if they win office in the next federal election, they will remove the
carbon law. This will lead to uncertainty in the market as to where it is heading
due to new and changed policies and legislation though the Liberals “Direct
Action Plan”. On the other side, if Labor were to win, they will continue their
“Clean Energy Future” which will provide further stability and growth for the
renewable sector.

To find support for that the carbon tax is here to stay is expected due to the
immense political complications it would take to remove it by a new conservative
government, as well as the difficulty the Liberals would to fill the hole in the
government budget due to not attaining the revenue stream Labor has created
through the carbon scheme. One can also expect to discover that investors and the
players such as (business and project owners) in this market are more confident
now when the future seems more reliable. This is of course due to the Government
putting a price on carbon, yet the RET has a lot to do with this behaviour as well.
The reason to believe that the RET has a lot to do with this confidence, is because
the target is supported by both the current Government and the Opposition. Thus,
regardless of who wins the next election in November 2013, the target will still
stand. Subsequently, as this is previously legislated, the Australian electricity
market is expected to deliver the target of producing 20% of their electricity from
renewable sources by 2020.

Before starting the research process, there was some uncertainty on what to
envisage regarding the future of the carbon pricing mechanism. Nevertheless,
through the process of collecting and analysing the data, it has become quite clear
that the belief of whether this law will stay into the future regardless of a new
government or not, is not that far fetched.
The analysis and discussion of the research question is done on the back of the data that have been collected, which are the interviews conducted, and also the background information presented in the previous chapters.

5.2 Party competition and Policy platforms: The choice of focusing on Renewable energy and the Price on Carbon

Renewable energy and environmental politics has with no doubt become a heated topic both nationally and on the world stage politically. Emission intensive countries such as the US, China and Japan has to this date failed to introduce national emissions trading schemes (ETS). In Japan where their scheme was due to be introduced in 2013, became in 2011 postponed until earliest 2014 due to debates, lobbying and strong opposition from core industry leaders (Tournemille 2011). According to Tournemille, they also argued that this had to do with their collaboration to China and India since they were not able to introduce such schemes as of yet (2011). The US however, has on state and regional level some successes such as the ETS in California and the Regional Greenhouse Gas Initiative (RGGI) in the Northeast and Mid-Atlantic states (RGGI 2012, Commonwealth of Australia 2012e). Although, that is as far they have come, and there will probably be a long time until anything on a national level happens. Europe is currently the only continent with a functioning ETS, until Australia introduces their carbon pricing mechanism July 1st, which will go over to becoming a properly functioning ETS in 2015. “Internationally, the failure of the Copenhagen summit in 2009, and the fact that China and the US does not want to sign the continuation of the Kyoto Protocol leaves the rest anxious for what is to happen (The Telegraph 2010).” Why should smaller nations commit to a target, when two of the worst emitters do not? Even though the Cancun Climate Conference resulted in a common agreement by various developed countries to extend the protocol after 2012, “the target will not be set before all parties cut emissions, and this can take forever because of the parties involved and their national interests (The Telegraph 2010).”

Looking at Australia’s national interests as being the 13th biggest polluter in the world, why do they introduce a national ETS when the larger emitters do not (Christoff 2012)? Will it make a difference globally? Also if one consider their future plans for increasing both coal and gas (natural and coal seam) exploitation
and further export of these non-renewables because of the growing demand from Asia, then Australia will in 10-20 years lay on a 4th place of global emitters after China, the US and Russia (Christoff 2012). Consequently as Christoff argues, the political picture is a bit schizophrenic where they on one hand want to cut emissions and on the other hand they have large plans of exploring more options for fossil fuels (2012).

Considering the dilemma between one of the main sources of income for Australia, and the much-needed growth within renewables, there is no doubt that renewable energy and a price on carbon is a painful topic in Australian politics. If you add on the international focus that this issue has had in the last decade, plus an Australian electorate that is positive to further research and growth in the area, politicians see this as a major “selling” point to get attention running up to an election. Renewable energy has become an important focus in election campaigns due to its current status and relevance. Thus it is a smart tactic to have this matter as one of their main policy issues running up to the election. The interesting aspect in Australia is that both sides of politics have committed to the RET, which means that they both understand the importance of a larger renewable market, and also that Australia has one of the worlds best solar and wind resources. What they disagree on however lays as mentioned on the policy-tools they use to get there.

Looking at the Liberal party, they believe that they can still reach the goal of 20% by 2020 though incentive mechanisms and not by imposing a price on carbon (Hunt 2012). Due to the close connection Liberals have with the business sector and especially the mining sector, the party has never been a strong environmental party due to the possible fear that they will lose potential votes from supporting a price on carbon, as well as being afraid that such a policy will harm the Australian economy due to being so reliant on the fossil fuel markets (Christoff 2012). However the claims that the carbon price is going to harm the Australian economy in the long run is not based on real facts. According to Christoff “the minerals sector which will be utterly untouched by this. This has a lot to do with the high Australian dollar (2012).” However he does mention that any additional price increase can hurt Australian domestic manufactures in the short run, as this is only natural due to the transition to more effective technologies and behaviour (Christoff 2012). Also, according to the Garnaut Review, introducing a carbon
price will lead to some structural changes, yet this is expected where some jobs and perhaps also investment in high carbon intensive firms might be lost, but there will also be new jobs and new investments in lower carbon emission businesses (Garnaut 2011, 90). The same view is held by the modelling report from 2010, *Strong Growth, Low Pollution: Modelling a Carbon Price* (the SGLP report), which Mark Dreyfus mentions in his letter:

> Pricing carbon will drive structural change in the economy, moving production towards less emissions-intensive industries. The structural change in the economy driven by marked-based carbon pricing mechanisms will be modest compared to other changes facing the economy, such as those driven by the terms of trade and demographic change (2012).

Drawing on these findings the carbon price will have no negative permanent consequence, because it will in the long run drive efficiency in the whole Australian economy as well as induce growth, especially in the renewable sectors of the economy. The report further states that both jobs and real income per person will increase under a carbon-pricing scheme by 2020 (Dreyfus 2012). In regards to ALP’s expected 10% increase in electricity prices, Christoff believes it will not even be that much. “This is partly due to the domestic economic circumstances and energy efficiency changes, yet we are also seeing a decline in energy demand in Australia (2012).” And when demand falls so does the prices. He also adds on by saying that the way Labor has modelled this price increase is not clear since it has not taken in all these factors. Thus, he would not count on prices going up (2012). Consequently, if Christoff’s calculations are correct, the fear of the prices going up might not be such a big deal after all (2012). Also as the return on the carbon tax will provide more money in the pockets of retirees, low- and middle-income earners in addition to a higher tax-threshold, consumers will not bear the burden (Eckersley 2012). The Australian population will understand this after the 1st of July 2012, as well as the Liberals and Tony Abbot will see that it will not harm the economy to the extent they argue (Hunt 2012).

Looking at Labor, ever since Kevin Rudd was prime minister in 2007, a national emission scheme has been on the agenda. Labor believe in a market-based
mechanism where changing the relative prices on high carbon intensive goods will “lead people to switching to a less carbon intensive bundle of goods, and firms doing the same through choosing new greener technology, changing their input mix, working more efficiently and so on (Leigh 2012).” However the Labor cabinet was split between the policy tools to use to reach the RET in 2010, which was the reason to why Rudd had to resign the same year. As Eckersley argues:

Renewable politics have in recent history been a core distinguishment between the two parties, and was one of the reasons to why Kevin Rudd won government in 2007. When Julia Gillard threw out the Rudd Government, she wanted to pros pone the carbon emission scheme. She tried to cancel it out. Yet it was the presence of the Greens that put it back into the election. Yet, Labor has always had a stronger renewable policies that the liberals due to them being more pro business. It has remained a core of a very ugly debate in Australian politics (2012).

Since Julia Gillard was at the forefront of this debate it was a huge surprise that she changed her game to create a coalition government with the Greens in order to get into office. She was showing signs of being office-seeking rather than policy-seeking, and this only heated the debate further between the two major parties and has probably made it even harder for them to come to a common agreement on how to reach the RET.

Therefore as the carbon emission scheme is a core distinguishment between the two parties it falls naturally that it becomes a core issue of competition in their election campaigns. The reason to why they choose such different ways of going about it has arguably a lot to do with what part of the electorate they are trying to please, and which politicians or parties they are trying to satisfy. Also, due to the mistake by Julia Gillard right before being elected, it has become one of Liberal’s selling points and a major drawback for Gillard’s trustworthiness. Consequently by focusing so much on this slip by Labor, Liberal’s cannot come around supporting a price on carbon because it would then ruin their reliability as well.
5.3 Labor, Liberals and the Greens: Signs of Being Modern Cartel Parties?

Since the 1990s Labor and the Liberals have been in the spotlight for moving from typical mass parties to modern cartel parties. The two parties are both facing a drop in memberships while correspondingly becoming more dependent on state financing (Holland 2011, Errington and Miragliotta 2010). They have also in the last few years showed a convergence on most policy areas, trends in campaigning, inter-party competition- and organisation which is identical to the model developed by Katz and Mair (Marsh 2006, 10,11). That the major parties also manage to squeeze smaller parties out of competition is visible in Australia where they manage to allocate state funding to the major parties. Yet, the Greens is an exemption and has been able to become quite important in the political scene the last few years (Marsh 2006). The Nationals is another example, yet they are under the protective wing of the Liberals and that might be the reason for their survival. Thus Australian political scientists have also argued that the Greens are slowly adapting to cartel behaviour as well (Marsh 2006). However, being an environmental and agrarian party it still has more specific ideological traces in its policy platform than the two major parties. Yet the party shows traces of becoming “softer” to suit more of the electorate, which shows similarities to the behaviour of the Norwegian Centre party. Proving this point further, after the financial crisis hit, Labor and Liberal developed a common policy ground. This time it was on financial issues, where policy convergence resulted in a neo-liberal framework for financial- and social policy (Marsh 2006). According to Economou, Australian academics argue that the differences between Labor and Liberal’s policy platforms are few, however there are some issues that they highly disagree on (Economou 2012). The interesting aspect here is that one of the main policy areas these parties cannot see eye to eye on is environmental policy.

There are definite traces of a cartelised party system in Australia, both Labor and the Liberals are office-, and vote seeking parties showing rational behaviour through moving towards the median-voter and showing signs of policy convergence on topics regarding financial and social issues. However what is very interesting – and especially for this thesis is that this strategic pattern does not completely hold for environmental policies. Arguably the aspect of state financing still holds, but policy convergence does not seem to be the case here. A competition along the left versus right on this policy dimension is clearly...
developing. Liberals are acting like a protest-party trying to “capture general protest against the mainstream consensus (Sitter 2003, 240),” while Labor changed their policy platform to suit the environmental policy of the Greens on order to get them on board to form a government (Christoff 2012). On this issue Labor shows signs of choosing office in front of ideology and policy, while Liberals chooses policy and ideology as well as votes.

5.3.1 Mandate Theory, Negative Election Campaigns and Policy Platforms

Mandate theory that “measures the congruence of policy to the individual and collective agendas of the major parties (Klingemann, Hofferberg and Budge 1994, 91)” can perhaps explain this behaviour. They mention that for the Australian case negative mandate often occurs – which is the extent to how policies are formed taking account of the Coalition’s program. They then note that there seems to be a “vigour partisan competition” in Australia (1994, 91), which is the case on environmental politics. The Government and the Opposition do not agree – and as soon as one of the parties presents new policies, the others are out to criticise it. The Opposition runs negative campaigns between elections telling the electorate what the Government is doing wrong and also what policies they are against and want to change (Christoff 2012, Eckersley 2012, Klingemann, Hofferberg and Budge 1994). Consequently, there is no focus on the Opposition’s actual policy platform until the run-up of the election, because they are too busy on focusing on what the sitting Government is doing wrong. This is exactly what is happening in regards to renewable politics in Australia. Tony Abbot and the LPA are running a negative campaign focusing on what harm the carbon-trading scheme will do to the mining sector and the Australian economy. They are also claiming that the Australian population will be worse off due to having to bear the burden of the tax through higher electricity prices without having the numbers to stand up for it. Abbot is only basing this argument on what has already happened in the market, and claims that this has to do with the upcoming costs projected from the scheme. Experts argue differently (Christoff 2012, Eckersley 2012, Allen 2012). “Prices have increased by 5-10% per annum the last 10 years. This has to do with the structure of the Australian energy market, and has nothing to do with the new carbon price (Christoff 2012).”
By running such a scare campaign deprived of correct research to back up their claims, it should be hard for the Liberals to win over the electorate. Yet, many Australians seem to be torn over whom to trust whether it is the Government or the Opposition. This has arguably a lot to do with lack of information and education on the topic, where many Australia’s does not understand what such a carbon price and an ETS actually entails. However, what is evident is that the Government is responding to the Liberal party’s scare campaigns with good information and actual numbers to show that this is the correct way a head. The Garnaut review is a good example of this, which independently projects and explains Australia’s response to a cleaner energy future the next 10 years (2011).

Considering the policy platforms regarding environmental issues of the two parties from the last election in 2010, it is very clear that ALP has the upper hand. Liberal’s “Direct Action Plan” is as mentioned earlier based on incentive mechanisms and evolves actions such as a “Green Army” where the Coalition is going to fund training and education where the focus area is on environment remediation, the Green Carbon initiative which includes carbon storage, land- and rainforest recovery plans, establish a AU$10.5 Emissions Reduction fund and so on (Liberal Party of Australia 2010, 6-18). All these policy proposals will cost millions of dollars and the party has no plan on how to cost it all. As Christoff claims:

The Liberals proposal is not costed which means no revenue stream to support what they intent to do. They are unable to say where they would go with this and with no clear indication on how they would raise funds it is very hard to see that they have no clear plan (2012).

Thus, putting the “Direct Action” up against the Government’s comprehensive climate change package “Clean Energy Future” which involves the already discussed Clean Energy Legislative Package embracing the carbon price and other initiatives such as ARENA and CEFC, it is easy to see what policies will drive the most investment and create stability in the market regardless of the RET. Since the carbon pricing mechanism is especially in the centre of this, the Opposition is running protest campaigns in order to scare the electorate. By arguing for the complete opposite of the sitting Government, the Opposition might
be able to capture some of the voters, and when the election gets closer then they shift to more policy-based arguments rather than what “the Government does wrong” arguments (Christoff 2012). That Liberals will switch to more policy-based arguments leading up to the election in 2013 might be correct, yet agreeing with the carbon price will most likely not happen.

All in all, the main Australian parties show clear signs of having adapted to the strategic pattern of a cartelised party. State funding and policy convergence is evident, as well as minimising the importance of party ideology in order to reach the given party goals of office, policy or votes. Yet, when considering environmental policies Liberals diverge from this argument.

5.4 The Predictability of the Carbon Pricing Mechanism: Politics Versus Economics

The fixed carbon price or carbon tax, which will in 2015 be turned into an ETS, is now law. Yet, as the reader has acknowledged it is still a very controversial topic between the major parties and also the electorate. Therefore the question to discuss is how stable and solid is this law? Can investors rely on the Australian ETS now and in the future, or will it be removed after next election if LPA wins office?

There are two factors that need to be taken into account when answering the questions of stability and how solid the law is, the economical aspect and the political aspect. In some cases economics and politics may come to very different conclusions, however in this case it does not. Why? According to the Shadow Minister for Climate Action, Environment and Heritage of the Liberals, one of the first things the Liberal party is going to do if they win office in 2013 is to repeal the carbon tax (2012). However under the interview there was no explanation on how the party was going to be able to go through with it. That is possibly because there is almost no chance that they are going to be able to do it. Yes, in theory it might seem simple:

The Coalition would introduce a bill to cancel the legislation, get it passed through both the Senate and the House of Representatives, and after getting a Royal Assent, the tax would be gone (Macintosh 2012).
But empirically it is not that easy. The new government would get the control over the House of Representatives, but for a government controlling the Senate is almost impossible in Australia. This has a lot to do with the Senate’s use of the proportional representation (PR) election system. This method gives more room for political diversity than what the alternative vote formula allows for in the House of Representatives. Under PR, voters know that smaller parties have a higher chance of capturing a seat, which is unlikely in the alternative voting mechanism. This also makes it almost impossible for a new government to score the majority of the seats since it competes with all the smaller parties in Australia as well, that has no possibility of getting into the House of Representatives.

Without a majority of the Senate in the next election, the Coalition will not be able to get the bill passed due to the hostility of the Labor party and the Greens (Christoff 2012). Thus, if the Senate rejects the bill twice, as it most likely will, the Liberal party can call for a double dissolution election, where the Governor General dissolves both houses and calls for a new election. This is highly risky for a party that has not been in government for 6 years (Christoff 2012, Macintosh 2012). Yet, regardless of a new government, the current Senate has voted for the carbon pricing mechanism and if, in the most unlikely event, the new government would take control over the Upper House, Abbot would have to wait until a new Senate is appointed before he would repeal the scheme, which would be in 2014-15 (Macintosh 2012). Arguably, has this debate fallen dead by then anyway (Christoff 2012, Eckersley 2012).

Economically it is as convincing. First they must be looking to find AU$8-15 billion each year to fill the budget. This is the calculated revenue the scheme will bring in to the Government starting 1st of July 2012. According to Eckersley, there is almost no chance that they will be able to remove the tax due to this new income stream (2012). Christoff says it is not happening (2012). Eckersley continues on by saying that people will find that they will get more money up front than before the tax. And that is exactly the clever twist with this scheme: more money up front, increased tax limit and help to the low- and middle-income earners (Eckersley 2012).
However, something that Eckersley does not mention, is that as this tax will lead to increased prices on goods affected by it, removing the scheme would also lead to a decrease of these prices again. Consequently, low- and middle-income earners will not need the support as much as they would with the scheme. Nonetheless, as Abbot also promises, he will still keep some of these benefits regardless of the carbon price, and where he will find that money is hard to tell. However, the Coalition has said they will have to push back the new tax-free threshold of AU$18,200 to its original level, which most likely will be rather unpopular among the electorate (Macintosh 2012). Regardless, if Abbot was to repeal the law on carbon, and keep the welfare to the level he promises, there would be a whole in the budget and the welfare of Australia would actually go down (Eckersley 2012). “They will not afford it and even though they have a better chance of winning the election, they will not do anything to the carbon policies, Eckersley argues (2012).” Christoff goes as far as saying: “it would take a huge accident in politics if it will be removed. There is stability in climate policy now. The Liberals will not remove it (2012).” Believing two of the most prominent experts on the area, there is a very small chance of the scheme being removed.

Tying the question of how predictable the future of the carbon tax is, to the theory by Alesina and Tabellini (1990) and Persson and Svensson (1989) mentioned in chapter four, there is clear evidence that the Julia Gillard Government can strategically affect the next incumbent’s choices. Firstly, there is a “presence of disagreement between current and future policy makers (Alesina and Tabellini 1990, 403), and the policy in question is so strong that it will work as a hurdle for a government wanting to change it. Thus, Julia Gillard and her Government can possibly tie the hands of their next successor. The carbon scheme will bring in large revenues, and to lower Australia’s welfare, as well as pulling out such reserves from the renewable sector is no option (Eckersley 2012). There will be too many jobs lost, as well as projects spilled (Christoff 2012).

Bearing in mind the positions the parties have taken during this campaign and the recent history of renewable politics, it is quite interesting what has happened. On both sides there has been feuds regarding this issue, which has also affected the final carbon policy product. For the Liberal Party it started with a split cabinet when the former leader Malcomn Turnbull fronted the argument that he was
positive to a national ETS. The majority of the party proved not to be, and Tony Abbot used this to his advantage in order to get elected as the new leader of the party (Eckersley 2012). For the Labor party the same happened with the past leader Kevin Rudd in 2007, the majority of his Government was against his carbon trading scheme. The overthrow by Julia Gillard resulted in a minority government with the Greens on board, and a “gentler” carbon scheme. Therefore, it would have been interesting if Kevin Rudd had been able to go through with the original scheme because it arguably had been even better for the renewable market. Christoff argues that the best thing for the carbon policy was to be implemented under the Rudd Government. He argues that due to the shift in government, as well as lobbying and protests by a number of mining companies, the current carbon pricing mechanism has some faults in its engineering (2012). He goes on by saying:

It was a horrible mistake not to have put the carbon levy in by the former Labor government. If they had done that they probably would have had a stronger scheme today. As a result, this one suffers from too much compensation to both export- and national intensive emission industries due to the way politics have been handled. This has resulted in that there is less money that could have been made originally for the renewable market and for the transition period (Christoff 2012).

Therefore one can argue that internal party feuds have had a part in shaping the final carbon scheme product. Had Rudd been able to go through with his policy proposition in the first place, Australia might have had a better scheme inducing more investment and innovation that the final one. And had the Liberals been in majority of a national ETS and kept Turnbull as their leader, Australia would not have had the muddy political debates going on today. One would have had the two major parties fighting the same cause of introducing a national ETS.

Christoff also believes that there are some concerns regarding the set price of one tonne of carbon and how the Australian trading market in the future may or may not link to the European Union ETS. He argues that since EU prices are currently quite low, it may create the anxiety that the linkage will cause the prices in Australia to collapse and leaving a whole in the market (2012). This can result in a
poor and low carbon price in a market where things will not work very well. For instance, Labor’s calculated expenses to household benefits as well as new innovation and projects in the renewable sector are based on a AU$23 a tonne price. If the price were to drop, the budget might not hold and this might lead to a halt in the market. He therefore suggests that when the carbon price moves over to an ETS, it should have a permanent price floor under it rather than an enormous flexibility (Christoff 2012). However, whether this is an issue or not will not be evident before after 2015 when the tax goes over to becoming an ETS.

Of course there will always be some concerns around new laws and especially tax laws. However, introducing a carbon price is not new to an economy, as it is working in Europe. Political positions, internal party feuds and price nervousness will most likely not come in the way for this market when the law is already functioning. As long as there are stable and predictable policies in place, there will arguably still be incentives to invest.

Both economical- and political proof has been presented above to show that it would be very hard for the Liberal party to remove the carbon price after a win in 2013. The next section take it further and look at all the possible outcomes that the federal election can bring, and how this can affect the carbon pricing law and how that again will affect the renewable market. What will it really have to say for the scheme if there is a change in government in 2013? And how will this possible change affect the renewable market and its attractiveness for possible investors? This is the core of the research question, and an analysis of the possible outcomes is very relevant for this thesis. Further down one will be looking at what is believed to be the most likely outcomes from the 2013 election that can affect the future of the tax. The majority of these involve the Liberal party winning, and therefore this section will be used to underline that argument.

5.5 The 2013 Federal election and the Carbon Pricing Mechanism

Even though the next election in November 2013 is still quite far away politically, it is still interesting to offer some thought to the possible outcomes of the election, and how this can affect the carbon pricing law and how that again will affect the renewable market. What will it really have to say for the scheme if there is a change in government in 2013? And how will this possible change affect the renewable market and its attractiveness for possible investors? This is the core of the research question, and an analysis of the possible outcomes is very relevant for this thesis. Further down one will be looking at what is believed to be the most likely outcomes from the 2013 election that can affect the future of the tax. The majority of these involve the Liberal party winning, and therefore this section will be used to underline that argument.
As polls done by the media, as well as the survey and the research done by political experts, there is to this date a high chance of the LPA winning the next election, bringing the Nationals into a coalition government (Kirsebom-Aronsen 2012, Christoff 2012, Eckersley 2012, Franklin 2012). A poll done by the market and social research specialist Newspoll for the newspaper *The Australian* in May 2012, shows that Labor only has got 27% of the primary vote while Liberals has got 51%. For LPA, this is their highest result since 2001 (Franklin 2012). Still the interesting aspect is that even though the electorate seems to prefer the Liberal party in office, they seem to dislike the party’s leader. However, they dislike Julia Gillard even more (Christoff 2012). This indicates that Australia has two party leaders unpopular by the public, and one must wonder if the parties will do anything about that before the next election to increase their support. Perhaps Rudd running for leader of the ALP again can change the situation, however, arguably this could be even more devastating to Labor as it would just make them seem even more unstable (Christoff 2012). However, one might see Turnbull back as leader for the Liberals, since Abbot has in many ways buried him self by running a negative game, “it would seem ridiculous if he were to turn and play positive Christoff and Eckersley argues (2012).” Another interesting aspect is that even though Labor’s policy platform seems a lot stronger and reliable than Liberal’s, the majority of the electorate still support the LPA (Christoff 2012).

Taking account of the points above indicating a likely win for the Liberal party, what is next in line is to look closer at the all possible outcomes of the 2013 election. Three outcomes where LPA will be in government are presented, while the fourth represent an outcome where Labor wins and continues to sit in office. Andrew Macintosh, Associate Director of Australian National University Centre for Climate Law and Policy has written an interesting article on this matter for *The Conversation*, which is an independent database of analysis and commentary by Australian researchers and experts. He also believes there are three political scenarios that can be likely if the LPA wins office, yet he has not analysed whether ALP has a chance of winning. Using the gathered data in addition to the article by Macintosh four suggestions has been developed.
1. The first outcome, but perhaps the least probable, is where there will be a new government with Tony Abbot as prime minister, having the control over both houses as mentioned earlier (Macintosh 2012). Then they are able to repeal the carbon pricing mechanism after introducing a new Senate, as well as moving towards the 2020 target with their “Direct Action Plan”. As discussed above, this scenario is very unlikely due to the economical- and political aspects. However, if they were to succeed, it could really stir up the renewable market because the incentive-based mechanisms under the Direct Action Plan is not enough to reach the RET (Garnaut 2011, Christoff 2012). This would be the worst scenario as investors would lose confidence in the market and funding would fall through (Falzon 2012).

2. Second, the Coalition would not get control over the Upper House, yet Labor will accept the new bill of repealing the scheme due to a major loss which may have resulted in a new leader for Labor. This leader might agree to accept the new bill as a matter of understanding their defeat (Macintosh 2012). How likely this is, is debatable since it would leave Labor looking even more unreliable.

3. The third scenario however can be reality in 2013. It portrays the same situation as the second one, where the Coalition wins control over the Upper House. However the Labor party, together with the majority of the Senate will vote against Liberal’s new bill, which is repealing the carbon price mechanism (Macintosh 2012). If the Liberal party would still try to get the bill passed, the next step would be a double dissolution election. Yet, this can be rather dangerous for the Liberal party, because they could risk not being re-elected and lose their place in office (Macintosh 2012). If Abbot were to go a head with such an election, one can argue that he is much like a policy-seeking politician rather than a vote- or office-seeking candidate since he is offering his place as a prime minister for this bill to go through.
Since scenario 3 seems most likely, figure 5 illustrates the different choices and outcomes that the Coalition has and may encounter. The government does not have control over the Senate, and have to choose whether to go a head with a double dissolution or not if the Senate votes against the bill that will repeal the carbon law.

**Figure 5: The possible options of a conservative government after the election in 2013 not having control over Senate**

In the event of Abbot, choosing not to go ahead with a double dissolution, he has two options. He knows he will not be able to fully please his voters, but still he can keep his promise of “removing” the tax by going straight to an ETS (Macintosh 2012). This means that he will eradicate the fixed price of $AU23 a tonne intended to stay until 2015, and jump straight to a flexible price as intended in 2015 (2012). Since the international prices are currently so low as well, it would decrease the price for the businesses and also households (2012). Yet, it could also lead to a collapse of the market as Christoff argued (2012). Secondly, he can keep the full original pricing scheme and understand that this is the way to go. But then, the electorate would most likely see him as a fraud after saying that he would remove the tax since 2010.
In the case of asking for a double dissolution, there are again two situations that need to be addressed. Firstly, the Coalition will win the new election after the Governor-General has dissolved both houses, and the Senate will pass the bill of removing the scheme. Then we are back to the scenario of the first outcome where the conservative government will implement their “Direct Action” approach. Thus, the government will have to figure out how to solve the economical problems not getting the revenue from the tax anymore. The last situation is where the electorate punishes the Liberal party for asking for a double dissolution as well as behaving irrationally and Labor wins again. The electorate has understood that the carbon scheme is not as bad as first thought. Whether Labor will be alone or create a new minority government with the Greens is unsure, yet what is guaranteed is that the Clean Energy Act and the carbon pricing mechanism will continue to operate as is.

4. A fourth scenario not mentioned by Macintosh is the case of a win to Labor in the federal election in 2013. This scenario will have a similar conclusion to the last situation in scenario three above. Labor will win the election, and keep the Clean Energy Act the same, using the market-based mechanism to reduce pollution by making the polluters pay.

Looking at all the scenarios that can arise from the election in 2013, it is a higher chance that the Coalition will win. Nonetheless, and maybe the most important, the future of the carbon price seems quite bright, and that is great news to investors, financiers and the market itself. Still, even though the scheme seems to be here to stay in one way or another, weakened or the same, one may wonder that if it were to come to a double dissolution, it would without a doubt stir up the renewable market due to its future being unpredictable. Investors and financial institutions must bear this in mind when calculating the party driven political risk of this market, yet it can be argued that the main concern is removed.

5.4.1 A Changed Renewable Market

Looking at what effects the RET and the Government’s carbon pricing mechanisms have had on the renewable energy market are significant. Information in chapter two proves that good policies have resulted in an investment-boom though new projects that are being planned both by the Government and
independent energy companies as well as smaller actors. That there are both economical- and political grounds to believe that the carbon price has come to stay has moreover changed the market’s prospects to the better for the future. The fixed price on carbon has got Australia is on the right path towards expanding a market that has got so many possibilities due to being based in a country with some of the worlds best renewable resources. The most important proof that there is increased trust in the market, is the market it self. According to CEC:

The industry is expecting that the Federal Government’s carbon price package will signal the beginning of a new era of policy stability that will secure commitment to major clean energy projects (2012, 10).

The carbon price mechanism has had, and continues to have a massive positive effect on the renewable energy market through showing possible investors that the current Government believes in this market. The industry as represented by CEC believes that this is the start of a stable market where investment can grow due to lower risk politically (Clean Energy Council 2012). Additionally, as Falzon the CEO of LMS Energy, argues, “once there is a price on carbon it will allow some certainty for investors and financial institutions. Access to funding is extremely important to the future of our projects (2012).” Thus, regardless of the RET, the renewable industry relies on the carbon law to be a focal point for future development, due to policy stability and especially its projected revenues used by the government to subsidise new projects and firms because the RET does not produce an income stream in the way the tax does. Consequently, the carbon price, Australia has seen a changed renewable market through this law.

This section has looked at the predictability of the law that will put a liability on the biggest polluters to pay for their emissions, as well as discussing the likeliness of the tax being removed. It has also looked into the fact that internal party feuds have had an impact on the current scheme and also on the existing positions the parties have taken in this political debate. Nevertheless, the carbon tax and the RET has already proved to have an effect on the market as seen in 5.4.1.

For a financier, knowing that the political frames around their considered investment projects have low risk is very important, yet there are also other issues
to consider before making the investment. Since this thesis is based around political risk, it is not possible to devote much time for these concerns, yet the following and last section of this chapter will be devoted to this due to

5.5 From An International Banking Perspective

The likelihood of a larger renewable market, leads also to further demand for funding and new liquidity into the market. As the result of new policies and legislations, there will be an upsurge of new projects that need support from investors. Thus from an international banking perspective, looking to fund projects in the market, this projected uprise of renewables in Australia can give easier access to the banking sector in Australia due to supply and demand. New projects need all the funding they can get. Australia is an open economy where international players have been based for years (Hunt 2012, Leigh 2012). Leigh also argues that a large well functioning banking sector is seen as very important due to increased competitiveness and keeping prices low (2012), which again leads to increased effectiveness (Wu 2008). Yet, there is still a clear dominance of four major banks in Australia.

Australia has a similar banking pattern to countries like China, Ireland, the US and the UK where there are four major banks dominating the market. In Australia, these are Westpack, Australia and New Zealand Banking Group ANZ, National Australia Bank NAB and the Commonwealth Bank. These four banks are through the “Four Pillar Policy” not able to merge, which has been a heavy discussed topic since its introduction in 1997 (Bouris and Joye 2012). Yet, empirical evidence shows that there are efficiency gains by keeping the law (Wu 2008), and many also argue that this is one of the reasons to why Australia managed so well during the Financial Crisis of 2008-09 (Durie and Gluyas 2009). However, having an “oligopoly” divided between four major players worth AU$ 50 billion each and controlling around 90% of all financial transactions across Australia (Bouris and Joye 2012), one might ask how easy is it to enter the Australian banking market for an international player such as DNB. Believing Hunt (2012) and Leigh (2012) it should not be too difficult since Australia promote such competition, still this “big four” picture might imply something else. Does it exist a belief among Australian firms that receiving funding these banks as being more reliable than
international- and less-known actors? And will this again lead them to choose to do business with “the big four” rather than a bank such as DNB?

One may think that this will not be the case in the renewable sector in Australia. There is such a high demand for funding that DNB would not have any problems with that if they found projects they were interested in looking closer at. When interviewing Peter Christoff he confirms my belief and argues there are great investment opportunities- and also the willingness for players in this market to receive funding from a bank such as DNB (2012). He also mentions that return horizons by Australian banks are quite short, and says that if DNB is willing to increase their horizons above what is normal in Australia and among the four banks, they are more likely to gain great returns in the long run (Christoff 2012). However, talking to Clarence Andre and Morten Kreutz in DNB, banks wants short-term tenors due to the financial (and political risk) of being involved for longer (Andre 2012, Kreutz 2012). Bloomberg New Energy Finance similarly mentions this in a report regarding the European renewable markets in March 2012 (McCrone 2012). Currently, the majority of banks are reluctant of offering more than seven- to ten year tenors, and this leaves the borrowers unsure of what to do when they have to refinance after such a short amount of time (McCrone 2012, 1). So the chance of DNB giving longer horizons might be little, yet one may believe this market is in such need for funding that investors and other business and project owners will accept short tenors to start of a project than not get any funding at all. When banks are only willing to give short term tenors, one may believe that funding in renewables that already have well developed technologies might be a good thing to consider since these projects will have a lesser chance of not be delayed by faults and testing as other projects might do. Retaining, the faster the project is operating, the quicker the revenue stream will come.

The last section in this chapter has arguably been a small side track from my main analysis, still it is important to mention these issues as it is interesting for DNB to get an impression of the banking sector in Australia.
CHAPTER 6

6. Concluding Remarks

6.1 Summary of the Research Study

The purpose of this thesis was to understand what effects policies and legislations have on the attractiveness of the renewable energy market in Australia due to possible investment-, and funding decisions by DNB Energy Division. In order to do that, studying the Australian political scene, especially through party behaviour and strategies has been very valuable for understanding the current debate on the carbon pricing mechanism, as well as understanding the market it self and the effect this carbon price has on the market. However it was also an attempt to contribute to the literature of political economy, put more specifically, to the areas of political risk and party strategies- and behaviour, by especially looking at the connection between the two. As I called it: the party driven political risk.

6.2 Answering the Research Question

The research question that was presented in the start of this paper was: How does the carbon pricing law initiated by the Labour Government affect the future of the renewable energy market of Australia? And what will it have to say for the carbon pricing scheme if there will be a change in government after the next election in 2013? Answering this research question has been done through building a complete understanding of the political frame around the renewable energy market. A market so reliable on government support is especially susceptible to changes in policy structure because it can lead to fatal consequences where investment and funding is removed due to the political risk in the market. Thus, it was important to portray this to the reader before going into the policy in question – namely the fixed price on carbon.

The carbon price mechanism presented by the Labor Government and introduced to Australia on 1st of July has created a more predictable future for the renewable energy market due to induced financial incentives which has led to increased investment and funding as shown in chapter two. It has together with the RET
rebuilt the confidence in the market, even though the muddy political debate and Liberal’s scare campaigns have been strong and left the electorate divided as to whom to believe. Even though the price on carbon has definitely changed the renewable market, the concerns however are many. How stable is the law? Is it too soft to induce enough investment? And how it will react to the EU emission trading market in 2015 when it is moving over to becoming an ETS? Yet, the main concern is the 2013 federal election, which this thesis argued to be the “risk event” for the carbon price’s future. There are clear signs that Australia will see a change in government after November 2013, and if the Liberal party is able to go though with removing the law, the renewable market will deflate. However, this thesis has showed that it is very little chance that this will happen due to economical- and political circumstances making it hard too remove, and if something were to happen, it would probably not be a complete removal of the package.

The Australian party strategies and behaviour are the reasons to the current political situation and also how the final carbon policy is constructed. Internal party feuds in the Liberal party ended up with a leader against the tax rather a leader for putting a price on carbon, and for Labor’s case, internal party feuds led to a new leader first promising not to put a tax on carbon, and then in order to get into office, changed her mind. Therefore, had the policy been implemented under the Rudd Government it had been a stronger scheme than what it is today. Also, had both parties supported a future ETS to reach the RET the scheme would have been portrayed even more predictable by the market and future investors.

Lastly, party competition and internal party feuds have played a big part in shaping the final product of the carbon pricing mechanism, and will also generally continue to shape the parties’ election campaigns leading up to November 2013, where the carbon pricing scheme will play a big role. Consequently, as this thesis has shown throughout, party behaviour and strategies are very important when analysing such a vulnerable market, due to the party driven political risk these actions create. However, as this thesis has shown, the risk in this market seems bearable.
6.3 What does this tell us about the Pricing of Carbon and Party Competition in Australia?

Generally this study has shown us that putting a price on carbon comes with many complications, which portrays very well with what is happening on the international scene where most nations, and also the world community finds it hard to come to a common solution. When fossil fuel markets are liable of paying a price on the carbon they emit, there will be structural changes in the economies these markets are a part of. Prices on goods and services affected by non-renewable energy will increase to some extent, which is to be expected. In the short run while the economy is adapting to the changes, some jobs will be lost in high emitting sectors, yet in the long run many new jobs will be created, especially in the renewable sector where new investment is making it possible for innovation and growth.

Where the Australian carbon pricing mechanism stands out is that the revenue of the tax will go back into the renewable market, help households and also some of the high intensive polluters. Thus, if it goes as planned and the transition into an ETS is smooth, it will make the changes to the Australian economy as little as possible.

A market-based mechanism as putting a price on carbon or introducing an ETS seems as the way to go in decreasing pollution, yet it is necessary to get the international community on board. That a few countries manage to introduce an ETS and “shifting” pollution among them selves through buying and selling certificates is in the end not enough, and therefore it is a need for a global scheme. Nevertheless, introducing national carbon schemes is important because it puts pressure on high polluting sectors making them shift to less carbon intensive technologies as well as pushing them work more efficiently to decrease their carbon costs. This will lead to a reduction in carbon emissions in the long run.

Looking at party competition in Australia, and the strategies the parties have chosen, this thesis has shown us that the Liberal party, Labor and in many cases the Greens show signs of being modern cartel parties. Increased proofs of policy convergence, state financing as well as a decline in memberships are more or less visible for all parties. However, what is interesting is that not all three parties
show signs of policy convergence in terms of environmental policies. Even though Labor has always been a more environmental party than Liberals they were against a carbon tax being introduced at this time. Yet, Julia Gillard was willing to bend her election promise to create a government with the Greens. So conclusively, the Labor party show strongest signs of being an office-seeking cartel party.

6.4 What does this tell us about Public Policy and Political Risk in general?

Public policy and the actions by government to address difficult issues in society though legislating laws and making policies proves necessary especially regarding markets that is not able to work efficiently alone. Often are these issues very controversial, and both politicians them selves, as well as interest groups, the electorate and others with a special interest in the matter, try to affect public policy and the direction of it.

The renewable market in Australia is a good example of such an issue, and therefore the current situation in the country provides us with some insightful information about the workings of public policy. This thesis has shown that party strategies and behaviour are affected by the goal of the party whether that is office-, votes-, or policy, and that again will have an effect on the final policy platforms of these the parties. These policies might not be those of ideological originality, but policies created to please interest groups, voters and other political parties in order to win the election. The professional party affects public policy to a large degree in today’s political scene.

Political risk has an essential position in risk- and security analysis when businesses make investment decisions. Nevertheless the main focus is on political risk that involves possible corruption, political instability and similar issues. The party driven political risk that encompasses party behaviour and strategies is not that prominent in today’s analysis, yet it is very important, which this thesis hope to distress. Understanding how politician’s work is very important especially when making investment decisions in markets so reliable on government support as well as predictable and stable policy and legislations.
6.5 Recommendations for DNB

Lastly, since this thesis is written for DNB, some last recommendations to the bank might be of interest. The Australian renewable market has definitely a brighter future ahead, because the chances of the carbon pricing scheme being removed is very small. Therefore the political risk in this market seems bearable when also taking into account the RET, as well as the booming investment in the market. Yet, the sector that seems most interesting for future funding is large-scale solar PV projects. Due to the Solar Flagships program it will be new projects in the future. Solar is also more reliable than for example wind and the technologies used have come a long way. However, what is maybe most interesting is that both politicians as well as experts in the field believe solar is the way to go (Christoff 2012, Dreyfus 2012, Eckersley 2012, Leigh 2012, Allen 2012).
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Political Risk and International Investment: The Renewable Energy Market in Australia and the 2013 Election

Preliminary Thesis Report

for DNB Bank ASA - Energy Division

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Content

CONTENTS .................................................................................................................................................. 1
SUMMARY ................................................................................................................................................. II
1.0 INTRODUCTION ................................................................................................................................. 1
  1.1 PRELIMINARY REPORT: OUTLINE .............................................................................................. 2
2.0 BACKGROUND: WHY THE CHOICE OF TOPIC ............................................................................. 2
  2.1 STUDENT’S PERSPECTIVE ............................................................................................................. 2
  2.2 DNB ENERGY DIVISION’S PERSPECTIVE .................................................................................. 3
      Table 1: Risk Hierarchy DNB Energy Division .................................................................................. 4
  2.3 CURRENT TOPIC .............................................................................................................................. 4
  2.4 OF ACADEMIC INTEREST .............................................................................................................. 5
3.0 RESEARCH QUESTION AND SUB-SECTION QUESTIONS: THE PRELIMINARY LAY-OUT ................................................................................................................................. 6
  3.1 SECTION 1: GENERAL INTRODUCTION TO THE THEME ....................................................... 6
  3.2 SECTION 2: THE CURRENT AUSTRALIAN GOVERNMENT, THE OPPOSITION, POLICIES AND
      LEGISLATIONS .................................................................................................................................. 7
  3.3 SECTION 3: ANALYSIS OF THE FUTURE POLITICAL SITUATION IN AUSTRALIA IN REGARDS
      TO THE RENEWABLE MARKET ..................................................................................................... 8
4.0 THEORY: PRELIMINARY LITERATURE REVIEW .......................................................................... 8
5.0 METHODOLOGY AND THESIS PROGRESSION ....................................................................... 12
  5.1 DATA COLLECTION ....................................................................................................................... 12
      5.1.1 Primary Sources ...................................................................................................................... 13
      5.1.2 Secondary Sources ............................................................................................................... 14
  5.2 ANALYSIS OF THE 3 SECTIONS ................................................................................................... 15
6.0 FINAL COMMENTS ......................................................................................................................... 15
BIBLIOGRAPHY ....................................................................................................................................... 16
Summary

This preliminary thesis report will outline the main topics of the master thesis “Political Risk and International Investment: The Renewable Energy Market in Australia and the 2013 Election.” It will give the supervisor Nick Sitter and DNB Energy Division an image of how the final product will look like. It includes an introduction to the chosen topic, the objectives of the thesis, theories envisioned, data collection, and progression plan.

- Cecilie Kirsebom-Aronsen
1.0 Introduction

Renewable energy is high on the agenda, and yet governments and industries around the world have a hard time getting their heads around how to unravel its future development. It is a vicious circle – in order to develop the renewable energy sector one needs financing, however financing will not happen to the extent needed, if there is no exact future in these markets. Without strict government legislations and policies inducing industries to lower their non-renewable energy use and focus on renewables, there will consequently be no incentives in financing these markets either.

My thesis will go beyond this, and look specifically at the backdrop that affects the required legislations and policies that are needed to affect incentives in the renewable markets, namely party behaviour and strategies. What are the parties and the sitting government affected by? Interest groups such as labour unions and environmentalists, public finance and other financial supporters, voters, party ideology to name a few. How does this impact the policy platforms produced by the parties? And in the end – how does this affect the political risk of the given market?

It is worth noting that there are many dimensions of political risk, for instance the term political risk is often regarded as the same as political instability (Robles 2011). This is not the case here, since I regard political risk in terms of the risk it has on the attractiveness of the renewable energy market due to current and future policies and not in terms of political risk affecting the quality of governance in a country. It is also important to define the word risk when dealing with it in terms of investments (Robles 2011). According to Verzberger (1998:18), there are three types of risk: real, perceived and acceptable risk. If it is so that a market has acceptable risk – then there still might be incentives to invest. Does it have real risk then the stakes might be too high to go into that market. This is something I will elaborate more on in my thesis.

Australia’s renewable energy market will be the case study in the thesis since it captures exactly the situation presented above. It is written for DNB Bank ASA –
Energy Division, and will specifically look at what consequences current and future legislation and policies will have on the attractiveness of the renewable energy market in Australia, seen from an international bank financing perspective. If the real political risk is too big, the incentives to finance projects might be greatly reduced.

1.1 Preliminary Report: Outline

This preliminary thesis report will outline my pilot idea for how I plan to write my master thesis. I will outline why I have chosen the given topic, secondly there will be a presentation of the research question and the following sub-questions, and thirdly I will go on to introduce the preliminary literature review of the theories I expect to be using. Subsequently, I will outline the methodology and the way forward for my thesis. However it is worth noting that these theories and the selection of them might change from this preliminary report to the final end product in September.

2.0 Background: Why the Choice of Topic

2.1 Student’s Perspective

There are four reasons to the choice of topic. Firstly, while studying Political Science and Economics at the University of Melbourne in Australia and also currently studying Political Economy at BI Oslo, I have developed a great interest in energy economics, party strategies and political risk. The effect political risk has on different issues is often mentioned when considering new or changing policies, when governments are involved in decision-making, and when new governments are appointed. What will happen to the current policies and legislations in such situations? Political decisions in regards to renewable energy are arguably one of the areas that are very reliant on a balanced and predictable political situation for it to develop. Since without this, there are no incentives for businesses and financing institutions to invest in such a market.

The current political situation in Australia portrays a good example of this, as both the opposition and the government knows that something needs to be done in terms of pollution. However the problem is how they are going to solve it. Each
Australian emits more carbon each year than almost any other country in the developed world (Rehn 2011). Australia is also heavily reliant on coal, since 84% of their energy use comes from this source (Rehn 2011). It is besides that one of their main export goods, which has increased heavily since 2007 (Department of Foreign Affairs and Trade 2008).

The two major political parties, The Australian Labor Party and the Australian Liberal Party disagree on how to tackle the future of the renewable energy market, and how to create incentives for it to grow and develop in the long run. Labor, who are in a minority government with The Greens, has got both the Senate’s and the House of representatives approval to enforce a carbon tax that later will be turned into a quota system (Alstadheim 2011). However, if this is enough to induce incentives into the renewable energy market in addition to the current legislations and policies is hard to know. One of the reasons is that the opposition is very against the tax. As Tony Abbot, the leader of the opposition said after the government had the tax accepted by the Senate; “the carbon tax will be removed if I win next election” (Alstadheim 2011). Due to my knowledge of this country and also my interest in the above I have chosen to focus on this in my master thesis.

2.2 DNB Energy Division’s Perspective

Secondly, I am writing this thesis for DNB Energy Division, which has a great interest in the Australian renewable energy market for financial reasons. We developed the topic together matching their interests for the market with my knowledge of the country and academia. For DNB, which are making possible financing decisions within Australian renewable energy projects, it is very important that they understand the future of the market and thus the political processes shaping it. When financing projects within energy, the bank has a risk hierarchy they follow where political risk is one of the mentioned ones as seen in the illustration below (Kreutz 2006).
Thus, there are many reasons to why this project is of high relevance to DNB Energy Division.

As Lars Ellegård, Head of DNB Energy in Singapore outlines; “When governments are involved we face political risk. Banks have lost money on changes in regulation more than once. This is why the mechanisms for either subsidy, forced usage of electricity from renewable sources, or tax on polluting production is important to understand, and in addition the political system, regulatory regime, stability and other issues is of outmost importance to have a thorough insight to, and comfort in, before making a financing/investment decision.

DNB has ambitions in Australia, and for reasons outlined above a study on the Australian regime is beneficial to us. Much of our Asian exposure is within the Oil & Gas sector. Renewable power financing will diversify our portfolio. The bank has a green profile and strategy and will not finance coal-fired power plants that are the main source of electricity in Australia. Our support to renewable power production is helpful in shifting to more clean production (2012).”

2.3 Current Topic

Outlining why this topic is interesting for me as a master student and for a financial institution such as DNB is important, however it should also be current and academic. Renewable energy and the politics surrounding it is a popular and
up-to-date subject. Everybody have an opinion about it and knows how important it is. Yet, governments and industries around the world have a hard time finding solutions to the problems, since we are so reliant on non-renewable energy sources. The problem is that we are not able to decrease the use of these energy sources to the extent we want before we have something else to cover for it. Also, with emerging economies such as the BRIC-countries that will need more energy supplies than ever, the world is at a hard place concerning renewables and its development to become more accessible and less expensive.

Another reason to its current interest is that we in are about to witness what can be the beginning of a closer collaboration between Norway and Australia. Just recently the prime minister Jens Stoltenberg and selected Norwegian industries visited the country in order to start talking about a future association (Press Office: Prime Minister of Australia 2011). Thus, this thesis is also relevant in that it highlights important aspects of the political scene in Australia – valuable to any Norwegian company wanting to establish there.

2.4 Of Academic Interest

Finally, this thesis should also be of academic interest. Hence, can this thesis contribute to the literature on political risk – especially in relation to party behaviour and strategies? There has not been much written about the connection between party behaviour/strategies and political risk in earlier work, so this thesis will definitely be of relevance academically (Müller og Strøm 1999). It will in addition be easily relatable to anybody, when combining such an important political issue up against a topic most people are familiar with and have an opinion about. I also believe that it is important to understand how party behaviour and their strategies affect political risk. Consequentially, by applying theories about political behaviour and strategies to a current topic such as the politics of renewable energy, it can allow us to get a wider and more thorough picture of how political parties work in order to create and achieve their goals.
3.0 Research Question and Sub-Section Questions: The Preliminary Lay-Out

The main research question I will investigate in my thesis is;

"From an international bank financing perspective (DNB), how will the consequences of current and future legislation and policies affect the attractiveness of the renewable energy market in Australia?"

This question is quite broad in itself, yet it captures everything that is important to capture. It allows me to go deeper into the determinants of policies and legislations to explain the political risk in this market. Yet it will in addition give DNB Energy Division a conclusion in terms of what these current and future policies and legislations can do to the attractiveness of the market in regards to future financial decisions. It also lets me acknowledge both the short-run and the long-run factors of the market, in regards to what policies Australia have today that affect the market, and how it will look in the future based on the next election in 2013. Nevertheless, in order to produce a good answer to the research question, I will investigate a number of sub-questions in different sections of the thesis as seen below (note that these sections will come after introductory sections etc.):

3.1 Section 1: General introduction to the theme

1. Status quo: Give an overview over the renewable energy market – how is the market organised?
   - Look at firms, industry structure, current projects, finance options

2. Status quo: Give an overview over the political system in Australia
   - Julia Gillard government vs. Tony Abbot’s opposition
   - Westminster model of government
   - The Senate and the House of Representatives
   - Proportional representation election system
   - 3 year terms – next election in 2013
   - Party program trends
3. Why can it be politically risky to finance projects/invest in the renewable energy market in Australia?

4. What constitutes political risk in regards to investments and project financing?

This thesis argues that political risk in a country depends largely on party strategies and behaviour. This again depends on a number of issues presented below, which will be discussed thoroughly.

- Party ideology and ideological density
- How large part of the party wants the given policies presented?
- Does the electorate want this – are the parties vote-maximisers/make decisions based on the voter’s opinions?
- Interest groups such as labour unions and other followers (industries, investors) financing election campaigns and/or other support materials. They most likely want something in return – if the financial support big enough, can it shift a party’s views on different issues to suit these?
- Negotiations among parties in government can change promised future polices – coalition governments

3.2 Section 2: The current Australian government, the opposition, policies and legislations

5. What are the existing polices and legislations in place that promote incentives to invest in the renewable market?

- The Renewable Energy Act of 2000
- The Carbon Tax approved by the Senate and the House of Representatives in 2011, which will be in place by 1. July 2012. If everything goes to plan, it will shift to a trading scheme in 2015 similar to that we have in Norway.
- The Mandatory Renewable Energy Target – legislation that was adopted in 2001 to induce further investment into the market. It was renewed in 2009 to the Renewable Energy Target (RET)
- In 2010 RET was separated into two parts – LRET (Large-scale Renewable Energy Target) and SRES (Small-scale Renewable Energy Scheme). This was put in place 1. January 2011
• Solar credits and support for households installing renewable energy systems etc. (Department of Climate Change and Energy Efficiency 2011)
• Etc.

6. Party competition and policy platforms – why does the current government and the opposition choose to focus on renewable energy? And why do they choose such different ways of going about it?
   • Review party platforms and policy proposals for next election
   • Use party competition theory

3.3 Section 3: Analysis of the future political situation in Australia in regards to the renewable market

7. What is the likelihood that the Liberal Party wins the next election? And if so, what are the chances that they will then remove the carbon tax?
   • The cost of implementing the carbon tax – too costly to remove for the next government?

8. The Dilemma of the Liquid Natural Gas projects in Australia – can this change future policies?

4.0 Theory: Preliminary literature review

The first step towards finding which theories I will focus on for this thesis has been by reading two books I find very relevant. These two are Policy, Office, or Votes” by W. Müller and K. Strom from 1999, and “Parties, Policies, and Democracy” by H.D Klinemann, R. Hofferbert and I. Budge from 1994. As the reader might acknowledge these books are not that recent, however since they are theoretical books I still find them very relevant. I have also read a number of journal articles on party strategy such as “The Effects of Alternative Power-Sharing Arrangements: do “moderating” institutions moderate party strategies and government policy outputs?” by J. Adams and S. Merrill from 2007 which had some great points about party strategies and behaviour.

Since I plan to attack this from a political economist perspective I will mainly use theories from this field. I will devote my main focus to concepts within party
strategy and behaviour since I argue that a party’s strategy, and what that strategy is dependent on - and formed by, automatically predicts the parties’ goals and policy decisions. These again predict the level of political risk in the given policy decisions. It is a lot like the domino effect.

The most recent theories on party behaviour and strategy have mainly been influenced by the rational choice tradition in political economy (Müller og Strøm 1999). In the first book by Müller and K. Strøm the authors draw from this as well, and present three rational choice models I find very appropriate:

1. **The Office-Seeking Party:** Riker (in Müller og Strøm 1999:5) argued that parties maximise “their control over political office benefits” and in order to do that they need to win office.

2. **The Policy-Seeking Party:** A party that fits into this model is a party that seeks to maximise its impact on public policy. These parties are often more ideological than the office-seeking party. However, one must note that party leaders can also seek certain policy goals due to other reasons that can benefit them (1999:7).

3. **The Vote-Seeking Party:** These parties’ want to maximise the number of votes. Developed by Downs, this theory argues that “parties formulate policies in order to win elections, rather than win elections in order to formulate policies” (In Müller og Strøm 1999:9)."

The authors later comment that politicians might pursue party goals either intrinsically – since they believe in the cause, or instrumentally which indicates that they are just doing it in order to gain some other goal – for example voter support. They also criticise the models by saying that they do not take account of this instrumental environment that is often found in real life examples. This type of environment may repeatedly lead to biased behaviour - and strategies. As a result parties develop policy goals that can be shaped by this environment and not by their true ideological beliefs.
I believe all these three models can be used separately or together as one in my thesis. By applying it to the current situation in Australia and place it up against the parties’ policy platforms, I can see whether they fit into any of these boxes. For example when Prime Minister Julia Gillard managed to create a minority government with the Greens – it was only on one condition – to propose a Carbon Tax. The tax was not initially one of Labor’s policy goals, but to be able to get into office, Labor needed the Greens, and by promising the carbon tax they got what they wished for. Thus one can argue that Labor is an office-seeking party.

Also, why are the Liberals against so the carbon tax? Most likely due to that they know their supporters are against it – and therefore their voters are against the tax as well. Many core supporters of the Liberals are powerful coal suppliers – and thus they know that by accepting a tax that will hurt their industry, they will loose valuable financial support – and votes.

These two examples show’s us that an instrumental environment is very prominent and also that parties are willing to do a lot to tailor their policy platforms to whomever they need to please. And from there we can analyse the level of political risk these situations create, and put it up against the attractiveness of investing in such a market.

Another factor that has been discussed in the literature lately is the importance of voter’s behaviour and motivations. This can also be valuable to my research. For instance, is Australian voters behaviour instrumental or expressive? Instrumental behaviour implies that the voter focuses on the expected benefit associated with the outcome of the election (Hamlin og Jennings 2011:2). Thus, the voter understands that voting can be costly and irrational since he/she knows that their vote does not count for much. The expressive behaviour implies that the voter looks away from this irrational thought and votes because it actually cares for a cause or is ideologically attached to that particular party. The voter feels good by voting – “and are motivated by concerns other than the concern for the outcome of the election (Hamlin og Jennings 2011:2).” If parties are vote-maximisers and know that their voters behave either by expressive behaviour or instrumental behaviour, they might tailor their party strategies in order to gain more votes (Müller og Strøm 1999).
Another important issue is the way institutions affect party behaviour – especially the public financing of political parties. I plan to devote some time in my thesis for this issue, since I believe that financial support can shape parties’ strategies and policy proposals. Strøm and Müller argue that political institutions affect party behaviour in two ways – direct and indirect. Party behaviour is affected directly if a party leader has “different incentives in different institutional settings,” for example in terms policies before and after an election (1999:19). In regards to indirect effects, we see that “electoral rules may affect party leadership decisions through their impact on party organisation or candidate selection (1999:19).” It is due to these indirect effects we see the link to public financing. This can be electoral campaign support, free television time, support for auxiliary groups and so on (Müller og Strøm 1999). We see that this has had a boost in many countries, and also in Australia after increased capitalisation and professionalisation of electoral campaigns (Müller og Strøm 1999). Parties rely more on these types of financial support today than they have ever done, and thus the incentives to please these supporters grow as well.

The book by H. Klingemann, R. Hofferbert and I. Budge (1994) has an Australia chapter where they present the country’s institutional and political context. They go especially deep into “Party-program-to-policy congruence,” which deals with how similar the actual party program at pre-election is to the final policies set out by the government in office (Klingemann, Hofferbert og Budge 1994). I think that this is very relevant for my thesis. There are especially two interesting theories regarding this that I am considering using, which are the salience and mandate theories. Mandate theory includes models that “measure the congruence of policy to the individual and collective agendas of the major parties (1994:91)”. They mention that for the Australian case negative mandate often occurs – which is the extent to how policies are formed taking account of the opposition’s program. They then note that there seems to be a “vigour partisan competition” in Australia, which I think is correct. The government and the opposition hardly ever agree on anything – and as soon as one of the parties presents new policies, the others are out to criticise it.
Salience theory states that “parties are more likely to select their own peculiar areas of emphasis, to the exclusion of those of their opponents, rather than to line up on the opposite side of the same inventory of issues (1994:91).” It also mentions that during post-election the new incumbent “punishes” the former government by “de-emphasising” policies in the latter’s program. The first point regarding the opponent choosing totally different focus areas to the incumbent does not suit for the issue of renewable energy in Australia. Both the government and the opposition emphasise on this – just in different ways. However, the second point can be essential after the next election. If the Liberals win – will they then “punish” the Julia Gillard government by de-emphasising or shutting down the carbon tax policy?

5.0 Methodology and Thesis Progression

The next in line for me now is to continue doing research and really get a good understanding of the political system in Australia and the renewable energy market. I need to read the parties policy platforms thoroughly to find similarities and differences between them. Public financing will be high on the agenda to find out who support what party, and how that influences these parties. I am also very lucky to be able to travel to Singapore and Australia in order to get hands on information from DNB Singapore that deals with Australia, and moreover conduct interviews of important actors in Canberra and Melbourne. Thus one could argue that I will employ more than one sampling strategy – I will use various types of documents, books and interviews. This is called triangulation. The positive with triangulation is that it strengthens the thesis by combining different methods (Patton 2002).

My thesis will be of the qualitative sort since I will collect data from in debt open-ended interviews, direct observation and from written documents (Patton 2004). It will also include a case study since I focus on the renewable energy market of Australia and the 2013 elections. I will deal with both primary and secondary data. This leads us to data collection.

5.1 Data Collection

The core of the next few months will be to gather enough data to get a full picture of the situation in Australia. This is necessary since it will allow me to be able to
analyse the political risk of the market. My main source of data in regards to the government and the opposition will be from the Australian government - and the Liberals webpages. I am lucky in the sense that Australia is very open when it comes to government documents and so on. However, for this thesis to be of best quality I need to perform interviews, as already mentioned, to gain primary sources.

5.1.1 Primary Sources

In order to write a decent thesis one needs good primary resources. Yearly reports from the government and the opposition on policies, progression and goals are important, and also reports on the development of the renewable energy market. Legislations are in addition necessary primary sources I need to look into, as well the interviews. In regards to the interviews, I plan to use a tape recorder so that I know I will manage to include everything the interviewed has been saying. There are many types of interviews, however I intend to use standardised open-ended interviews. I will have prepared the questions in advance and all the people I am interviewing within the same field will be asked the same questions. This makes it easier to compare afterwards. As the name predicts, the questions are open-ended which gives the interviewed a chance to really create an unbiased answer. The weakness with this form is that it may lead to a lack of relation between the interview and the specific individual when the questions are the same for all individuals (Patton 2002). I intend to use one especially related to politics and one especially related to the people working in the renewable energy industry.

Persons/organisations I have already contacted are:

- The Norwegian Embassy in Canberra
- Tim Wilson - Director of Climate Change Policy and the Intellectual Property and Free Trade Unit at the Institute of Public Affairs
- Ben Raue – former Greens candidate in Sydney who has an important political blog in Australia
- Clean Energy Australia – Australian government
- Scott Brenton – Professor in Australian Politics and Public Policy Making at the University of Melbourne
- Peter Christoff – Associate professor in environmental studies
• Robyn Eckersley – Professor in environmental politics, justice, democracy and difference and political theory

I will contact more professors and also more politicians. I do not want to book a trip before I know that I have someone to interview. Regardless, going back to my University would not be a problem, however it would be good to be able to meet with some politicians and representatives from the renewable energy industry as well. I have found it more challenging to contact Australian politicians compared to Norwegian ones. They do not have direct e-mails, so I believe my only way is to call the front desk and hopefully get some e-mails through that.

I am in addition going to contact owners of firms dealing with renewable energy to get their point of view – do they see a future in this market? Another valuable experience would be to have a questionnaire on the streets in Australia asking the population if they are for or against the carbon tax – and whom they would vote for in next election. Then I would get some sort of picture of how the voters think.

In terms of risk – it is hard to know whether pre-election promises will follow through. I will see if Australia has any track record of this kind – how much does pre- and post election policies fit? If I am able to find that, I can get a picture of how predictable their policy platforms are. Lastly, DNB has methods for calculating political risk. I need to understand these as well, so I can incorporate some of their methods in my thesis.

5.1.2 Secondary Sources

Furthermore I need to find all the theory I want to use and incorporate that with the rest. I will find this through research articles and books. These might be either secondary or primary resources. Similarly, since the topic is so current, there will most certainly be important information to gather from media. Newspaper articles and television interviews will be relevant – yet, it is important to be critical to such sources – newspaper articles have often unknown primary sources and might due to that be biased. Also in Australia, many of the main newspapers are politically attached and thus their articles are often in favour of the party they are supporting.
5.2 Analysis of the 3 sections

The three planned sections will all be answered differently to some extent. The first section is somewhat historical and descriptive. It will explain the status quo of both the political situation and the renewable energy market. It is also important here to briefly explain the context to why Australia has the government it has today. The second section will likewise be descriptive in terms of outlining the current policies and legislations, yet it will in addition be comparable in its analyses when discussing party competition and policy platforms. The third and final section will be a comparable analysis around the believed outcomes of the next election. It will be a discussion around that, based on all the data I have gathered. The discussion will also include the dilemma on the LNG projects.

6.0 Final Comments

After I have got the feedback on this preliminary project and gathered all my data I will be ready to write my thesis. I look forward to the experience!
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