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(05)13

IEA Commends the Efficiency and Security of the Australian Energy Market But Cautions on Environmental Sustainability

8/9/2005 **Paris** --- "Due largely to pioneering market reform, Australian energy markets have low prices and high levels of security of supply. The competitive and transparent Australian markets could serve as a model for other countries," said Claude Mandil, Executive Director of the International Energy Agency (IEA), today in Canberra at the launch of "Energy Policies of IEA Countries – The Australian 2005 Review" He added, "Environmental sustainability represents Australia's greatest energy challenge with high and growing carbon dioxide emissions." The recently announced Asia-Pacific Partnership on Clean Development and Climate is a welcome development in this regard. All options to address climate change should be kept open at this point, including technology development, emission trading and improved energy efficiency.

Market Reform

Australia has been one of the leaders in energy sector reform and should be commended for its vision and implementation of a liberalised market. The country has one of the most transparent and competitive electricity markets in the world and could well serve as a model for other countries. The efficiency of this market, combined with low-priced domestic coal, give Australia some of the lowest electricity prices in the IEA and the world. The successful response to the August 2004 transformer failure in New South Wales demonstrates that liberalised markets can have high levels of security. Current reforms are giving the electricity sector more of a national scope. Changes include creation of two national regulatory bodies and improved decision-making on inter-state transmission investments. These moves are welcome and encouraged. Other areas for improvement include greater demand-side response and elimination of any appearances of conflict of interest in cases of state ownership.

Energy Security

Australian energy security is sound, bolstered by abundant domestic fuels, an extensive energy infrastructure and good access to world markets. The government recognises the importance of this issue and will have a biennial review of the energy security outlook. One area that may warrant further attention is oil stocks. While Australia still easily meets its IEA obligation to hold oil stocks equal to 90 days of net imports, rising import levels and reduced domestic refining capacity will likely mean that necessary stock levels are to be increased in the coming years.

Australian energy production enhances not only domestic energy security but also global energy security. As the world's largest exporter of coal, a top uranium exporter and a major and growing exporter of liquefied natural gas (LNG), Australia provides a stable source of fuel for many countries. This production is also a crucial part of Australia's economic success and the government rightly creates policies that foster a stable, transparent investment climate.

Climate Change Strategies

Environmental sustainability represents Australia's greatest energy challenge. Although Australia has chosen not to ratify the Kyoto Protocol, it is still on track to meet its Kyoto target of 8% emission growth from 1990 to 2008–2012. Australia will meet this target mainly through large emission reductions in the land use and forestry sectors. Emissions from the energy sector are projected to grow by more than 40% from 1990 to 2010, in line with projected economic growth. Australian CO2 emissions per unit of GDP are 43% above the IEA average. This is due to the widespread use of coal and the country's generally high energy intensity, which results in part from the presence of numerous energy intensive industries. The country will have to substantially alter future energy supply and/or demand behaviour if it wants to moderate emission levels and work within any future global climate change mitigation programme.

Australia is taking a technological approach to reducing emissions from its energy sector. The government has recently announced a number of programmes to promote cleaner energy technologies. Initiatives such as the A\$ 500 million Low Emissions Technology Demonstration Fund and COAL21 demonstrate effective collaboration between government and industry. While new technologies will be a key component in tackling the long-term problem of climate change, there is no certainty when and to what extent the necessary technologies will be developed. Such technologies would most likely require a carbon price signal to facilitate their implementation. An emission trading system can be an effective means of introducing a price signal and the government is encouraged to re-appraise as required the costs and benefits of a national emissions trading scheme, particularly in light of developments regarding further international and domestic climate change frameworks and technology advancements.

Energy Efficiency

Improved energy efficiency offers an important, immediately available tool for cutting GHG

emissions. Greater efficiency also enhances energy security, contributes to economic competitiveness and delays costly infrastructure investments such as those Australia is facing in the electricity sector. The government's June 2004 energy White Paper states that improved energy efficiency can increase both GDP and employment. Australian primary energy use per unit of GDP is currently 35% above the IEA average. While such high energy use is explained largely by low energy prices and numerous energy-intensive industries, the case for government efforts to improve efficiency remains strong. Such policies can help overcome existing market failures and help capture the many positive externalities associated with improved efficiency, such as reduced emissions, enhanced energy security and improved economic competitiveness. The government is currently pursuing energy efficiency improvements through measures contained in the Energy White Paper and the National Framework for Energy Efficiency. It is encouraged to strengthen this policy. The transport sector, which accounts for 40% of national final energy consumption, could particularly benefit from such efforts.

Public Information Office: (+33) 1 40 57 65 50 ; e-mail IEAPressOffice@iea.org