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JOINT STANDING COMMITTEE ON TRADE AND INVESTMENT GROWTH

Prudential regulation of investment in Australia's export industries

(Public)

TUESDAY, 27 JULY 2021

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JOINT STANDING COMMITTEE ON TRADE AND INVESTMENT GROWTH

Tuesday, 27 July 2021

Members in attendance: Senators Rennick, Van [by video link] and Dr Allen [by video link], Mr Christensen [by video link], Ms Kearney [by audio link], Dr Mulino [by video link], Mr Ramsey [by audio link].

Terms of Reference for the Inquiry:

To inquire into and report on:

The Joint Standing Committee on Trade and Investment Growth will inquire into and report on:

The domestic and foreign investment opportunities and challenges for Australia's export industries and their associated businesses, arising from changes in prudential standards and practices across banking, insurance and superannuation institutions, in addition to publicly-listed companies, with particular reference to:

1. The existing and future contribution of Australia's export industries;

2. The investment guidance and advice provided by Australia's financial regulators, including the Australian Prudential Regulation Authority (APRA), the Reserve Bank of Australia (RBA) and the Australian Securities and Investments Commission (ASIC), to banking, insurance and superannuation institutions, and also to publicly-listed companies, in relation to investment in Australia's export industries;

3. The approach and motivations of our financial institutions, including banks, insurers and superannuation funds, as well as publicly-listed companies, to their investment in Australia's export industries;

4. The consequential impacts of (2) and (3):

a) For legitimate. law-abiding businesses connected to Australia's export industries;

b) On regional and rural economies that are reliant on Australia's export industries, particularly in light of the COVID-19 recession;

c) Our national economy, particularly in light of the COVID-19 recession;

5. Any other related matter.

WITNESSES

BLIGH, Ms Anna, Chief Executive Officer, Australian Banking Association [by video link]

Committee met at 09:01

CHAIR (Mr Christensen): I declare open this public hearing of the Joint Standing Committee on Trade and Investment Growth for its inquiry into the prudential regulation of investments in Australia's export industries. I welcome witnesses from the Australian Banking Association. Thank you for joining us for. This hearing is a legal proceeding of parliament. The giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. Evidence given today attracts parliamentary privilege. Ms Bligh, I now invite you to make an opening statement before we proceed to discussion.

Ms Bligh: Good morning. Thank you to the committee for the opportunity to give evidence here today. Australian banks have a long and proud history of backing the export businesses of our country. For more than a century, the earliest banks understood their role in supporting enterprise, and that spirit continues to imbue the industry today. As many of you will know, many of our most successful exporters have been able to grow and thrive in world markets because they have had the backing and support of their bank. As I'm sure you are also aware, Australian exports span a very wide range of industries, products, goods, services and across the broadest possible span of regions.

[Inaudible] ecosystem system of start-ups and established players. It includes the education exports of our university sector, our minerals and resources and, of course, our agriculture. Australia boasts a vibrant modern economy. It's made up of businesses that are building, investing and selling products across the globe. Banks value the role they play in supporting the nation's export effort. One of the reasons that banks can play this role is because they have years of experience in prudent, risk based decision-making, backing their customers to take a risk, while at the same time protecting the strength and stability of their own institution and the system as a whole. These efforts by banks have been enhanced by successive Australian governments and regulators, who have prioritised and protected the strength and stability of Australia's banking system as a whole. In the past year, we've seen the pay-off of these efforts. During a global pandemic, strong and stable Australian banks have been able to step in with the financial fire power to absorb the economic blow for their customers. As we see lockdowns continue, banks are doing that again this year.

Central to a strong and stable banking system is a prudent approach to risk. It might seem like a very simple statement, but every decision a bank makes is a decision based on prudent risk management. Banks want to lend money; that is their core business. But when they do so, they are lending the money of other people; that is, their depositors—you and I—the money of their investors and that of the shareholders. So taking into account all forms of risk is critical, both to the millions of Australian account holders and to the millions of Australian shareholders, all of whom rely on prudent and diligent decisions made by banks every day.

Australian banks consider risk across a number of forms: credit risk—that is, the risk that a lender will default; liquidity risk; operational risk; strategic risk; market risk—to name just a few. Climate risk is increasingly another factor that banks have to consider in their lending decisions. This risk is approached in a calm, clear-eyed manner by banks, applying a strategic and risk based mindset to the threats and to the opportunities presented by a changing climate. It's worth stressing the transition to a low-emissions future does present enormous opportunities for Australia, including Australian exports. Ultimately, every bank has its own policies, and I know you will have the chance to explore these individually with banks when they appear before you later this morning.

Broadly speaking, banks are considering three elements of climate risk: firstly, physical risk—that is, the prospect or risk of direct damage to assets or property due to a change in climate; secondly, transition risk—the disruption to business from the adjustment to a low-carbon economy, including changing policies, not only from Australian governments but from those around the world, new technology and changing markets; thirdly, liability risk—the potential for litigation if directors and boards do not adequately consider or respond to the impacts of climate change.

This framework is consistent with the Financial Stability Board's taskforce on climate related financial disclosures, or as it's become known, the TCFD. This framework is recognised by regulators here in Australia and globally. It's also a framework that is well understood by domestic and global investment communities. In other words, the way that our banks are thinking about this area of risk is aligned with the regulatory and the investment environment both here and abroad. As outlined in our submission, Australian regulators have made abundantly clear their concerns in this area, and have been doing so for a number of years. ASIC, APRA, the Reserve Bank, the ASX, as well as international regulators, are all expecting banks to act, not only here but globally.

Secondly, the world's largest investors are also doing the same. This is not about a few activists or troublemakers at AGMs, as some would assert; this is about some of the biggest investment and fund managers on the planet. They too recognise the financial risk of a changing climate and are moving with or without Australia. These are all relevant factors for the committee to consider as part of this inquiry. The bottom line is: the banks, as I said earlier, are in the business of lending. They don't make their decisions based on a whim or a fad; instead, they weigh up the full gamut of risks and opportunities, the commercial considerations of every business seeking a loan, and they do all of this in accordance with the requirements and expectations of regulators, governments and investors, here in Australia and globally. I am very happy to take the committee's questions.

CHAIR: Thank you very much for that, Ms Bligh. It is the ABA's contention that, to meet climate risk, banks need to withdraw finance and services from the resources sector, in particular the thermal coalmining sector?

Ms Bligh: As I outlined, banks take a very broad range of factors into account when they're assessing the risk of lending into a particular business, a particular customer or a particular sector. It would be far too wide sweeping to say that banks would have an exit strategy in relation to all of the resources sector. There are many resources that present great opportunities in the world of a changing climate. But, as you point out, thermal coal is a particular resource that investors globally and domestically have increasingly wanted to shift away from.

Australian banks have been very transparent in this regard. Every bank, in their annual reporting, publish, as required, an environmental sustainability statement, and they have identified their time frame for exiting out of lending to the thermal coal sector. Australian banks will exit over a period of about 11 or 12 years, ranging from 2024 to 2035. It's important for these sectors to have a very clear line of sight about which financial institutions they can seek funds from, if they are seeking to expand or take on new business projects.

So, yes, Australian banks have undertaken a very comprehensive analysis of the exposure to thermal coal on their lending books. Each have reached their own conclusion about their risk appetite and the time frame for how quickly they might move out of the thermal coal sector. And, as I've said, that will start happening from 2024, depending on the bank, through to 2035.

CHAIR: I take it from that answer that the ABA endorses actions from banks in apparently mitigating somehow climate risk by exiting the coal sector, the thermal coal sector.

Ms Bligh: Well, like every industry association, the Australian Banking Association is made up of its member banks and represents them in forums such as this and others. So, yes, our member banks have undertaken their risk analysis—as I think members of the public would expect them to do. On the basis of their knowledge not only of the individual companies on their books, but their knowledge of the movement in global investment markets and the movement in global climate change policy, they have taken the view that this industry presents a growing risk on their books. It faces an increasingly uncertain regulatory future, and, in that light, yes, Australian banks are seeking to be diligent and prudent and to meet the expectations that their shareholders, their investors, the public and their regulators would expect.

They also are looking to ensure they align with the government's commitments to the Paris climate agreements. If we are to reach the targets set in the Paris Agreement, then we will need every business, including banks, to make sure that their activities can align with those risks over the next five, 10, 20, 30 years.

CHAIR: I appreciate that, but you talk about the government's Paris commitment. The government hasn't actually legislated a 2050 target. More so, the government's policy is not that coalmines must phase out in order to meet any sort of target under Paris or any other realm. You mentioned an uncertain future in terms of regulatory action. I'm just curious as to what is the regulatory action you're thinking causes an uncertain future for thermal coalmining? I don't know of any. There is speculation from outlier parties that will probably never form government, but if you're aware of any proposal that would undermine the economics of a coalmine, I'd be interested to hear it.

Ms Bligh: Certainly. My comments in that regard were made in the context of global shifts in this area. Regardless of where you might be positioned on this issue, it would be a very fair observation that this is a rapidly shifting field globally and that uncertainty does prevail about how particular jurisdictions may deal with these issues going forward in some cases. In other cases, some jurisdictions have made very clear their intention to bring about quite significant change. I will outline a couple of examples in the global arena.

Take the G20, for example. At the last G20 meeting at which Australia was represented, in November 2020, the G20 nations stated that the Financial Stability Board is continuing to examine the implications of climate change on the stability of the financial system. G20 leaders also pointed out that, while recovering from the pandemic, G20 countries are committed to protecting the planet and building a more environmentally sustainable and inclusive future. The G20 nations endorsed the circular carbon economy platform. And, basically, as I said, that's a very clear indicator to the Financial Stability Board, which sets some of the global architecture for banking.

I want to draw your attention to two things that have happened as recently as July, and show just how quickly some of these things are shifting. Firstly, the European Parliament issued, in July, a report called *Towards a WTO-compatible EU carbon border adjustment mechanism*. This document indicates it is the intention of the European Union to effectively impose a tax on any imports into European Union countries from countries that do not have an emissions trading scheme. That currently describes Australia. They've also indicated that they are looking at ensuring that is imposed not only on the direct import, but potentially from the products or processes that have contributed to that product. So Australian resources going into Japanese steel, for example, could incur a tax at the European end when they export into the EU. Now, there's a lot of uncertainty around that, but it would be quite foolhardy of banks not to be at least considering things like that in their contemplation of a five- or 10-year loan to a company in those sectors—not that they wouldn't make the loan, but they would be taking that into account.

Secondly, it is not only governments and parliaments that are acting in this regard. You may be aware of a very significant case heard in the Netherlands courts—I think it was in June or July—relating to Shell, which, I'm sure you're aware, is one of the largest resource companies on earth. That court held that the company's own emissions reduction targets were insufficient to meet the Paris Agreement, and that they had to accelerate their emissions reductions so that they reached a 45 per cent reduction by 2030. The court further held that the company was liable not only for its own emissions but also for the emissions of its supplier companies. Shell is going to appeal that court decision, and it may well win the appeal, but there are more than a thousand similar court cases in jurisdictions around the world along similar lines, all looking to courts to rule on these sorts of cases. So, it's not just government policy or regulator action that creates uncertainty.

This is a time of incredible change and disruption, and banks have an obligation to behave conservatively because, unlike other financial lenders, they have a licence to take a deposit and they have a special obligation to protect the depositor. So their appetite for risk is always going to be lower than financial institutions that lend money but do not take deposits, and that's okay. It's okay to have a financial system where you've got some players who have significantly more obligations because they are authorised to take the deposits of citizens and businesses, and they have then a special obligation to be more conservative when they look at their risk appetite over a period of time.

CHAIR: Which would include the deposits of coalminers and people that rely on that industry too, Ms Bligh. I'm wondering whether the ABA understands that exiting the Australian coal market simply means that the demand for that coal will be filled by other seaborne producers—Russia, for instance, and Indonesia—where we know there is consistently lower quality coal that is being used or being exported from those countries that will lead to more carbon dioxide production. So I hear all the stuff about international fora as well and what other countries may or may not be doing, but don't you think that that displacement argument, which actually is not an argument as it's a fact—it already is being displaced in countries like China—along with the highly profitable nature of the Australian resources sector should have the ABA arguing to its international counterparts and international fora and standing up for a key Australian industry?

Ms Bligh: I will start with the very opening premise of your question, which is that if Australian banks over the next 15 years gradually, transparently and in a very orderly way reduce their exposure to the thermal coal industry that somehow that means the thermal coal industry in Australia will fall over. I would completely dispute that. Firstly, the Australian coal industry has had significant support from Australian banks. There's no doubt about that. But Australian banks have never been the sole funding source for Australia's coalmining industry or, indeed, any other part of the resources sector. There are, as I said, many other financial lenders who do not have the same obligations as Australian banks do, to have a conservative risk appetite and to consider the financial risk that they can tolerate in order to protect their depositors and the interests of their shareholders. So I would expect to see that there may well be other financial institutions that come into this space. But, remember, part of the reason why banks have identified this area of economic activity as potentially risky for their shareholders and for their depositors is because the market is predicted to decline over a period of time. We are transitioning. I'm not saying it's about to disappear tomorrow, because it's not, but there is a transition happening and that transition is going to gradually see a decarbonisation of our energy sector globally and of our economy, and Australian banks would be negligent not to be taking that into account as they think about how much exposure they want to have to an industry that is shifting over a period of 10 to 15 years. You'll have bankers here before the committee later on, and you'll have a chance to talk to them about some of the specific things they have taken into account, but, as I said, Australian banks are not the only source of funding. I think we can expect that we will see thermal coal play a role in the world's energy mix for some time, but they do have particular obligations that do not rest on the shoulders of other financial players. I think this is a really important point for the committee: Australia is a net importer of capital. We always have been. Our banks—our financial institutions—rely on global investors to invest in our banks so that they can then lend money into a range of businesses, into things like the housing market, and can support the financial wellbeing of Australians and the growth of the Australian economy.

We put that at risk at our peril. The global investment community—and I can't stress this enough—is shifting, and it is shifting fast. The weight of money is moving out of this sector, and Australia cannot afford to ignore that. It is not going to happen overnight, but if you look at the time frame, banks have indicated that they will be reducing their exposure gradually to a point where they are not in the thermal coal lending business anymore. That will be over the next 10 to 15 years. If the global investment community did not have confidence that Australia was being serious and that Australian banks were being serious about their exposure to fossil fuel in a world that is decarbonising, then we would put some of that at risk.

As I said, this is money that can move anywhere—and it does move. And some of the biggest investment funds in the world have been indicating that they will not be investing in businesses or in other investment vehicles that have exposure to fossil fuels. Again, they've put their own time frame on that, and our banks would be foolhardy to ignore the fact that some of their investors are not going to be in this business in the foreseeable future.

Ms KEARNEY: You've really answered, so far, most of the questions I was going to ask. But I'm just going to start with that last point you made about Australia being a net importer of capital and your point that, as we all know, capital is extremely mobile. From my past experience in the labour movement, I know that labour is not mobile like capital is. Is it your view that if we don't take notice of the signals that are coming through from capital at the moment, as you just described, then there could in fact be a severe impact on banks in Australia and an impact on the economy, and we may indeed find that many people in this country, particularly workers, are worse off? And of course many of them are your customers.

So, that's the first part of the question—the impact of not taking climate risks seriously or attending to them properly, as you've described—the impacts perhaps on unemployment or on labour in this country. What would be the impact on individuals directors? I note that in your submission you quote the Hutley opinion. What is the risk for directors on the boards of our financial institutions? And, just broadly, what would be the consequences of not factoring in climate change broadly for the banking industry? You've outlined some of those already, but I'm wondering whether you could expand on those things.

Ms Bligh: Thank you for the question, and I'll try to answer it sequentially. On the first part of your question, about capital, it might be helpful if I quote from a recent statement from BlackRock. I'm sure most of the committee have heard of BlackRock, as one of the largest global funds. They have $7 trillion worth of funds under management. So, they are not an insubstantial player. Along with Vanguard, they are one of the two largest funds in the world. Recently they put in writing that this is their current statement of where they see these issues. First of all, they believe that a 'fundamental reshaping' of global financing is occurring and they say, 'BlackRock does not see itself as a passive observer in the low-carbon transition.' That is, they are going to be an active player, not a passive observer. And how are they going to be an active player? This is directly from their documentation. First of all, they are going to see sustainability as 'integral' to portfolio construction. So, as they're building portfolios they are going to be looking for sustainability. Secondly, they will be exiting high-risk investments such as thermal coal producers. Thirdly, they will be launching new investment products that screen fossil fuels. These are not things to be taken lightly by the Australian businesses, including banks, who rely on international investment. I don't believe we're at risk of the Australian banking system falling over, because we do have responsible bank boards, responsible banking executives and responsible regulators, who are making sure that these risks are adequately taken into account and that it can be demonstrated to global investors that banks are taking the actions that could reasonably be expected of them.

On the consequences, it's easy in these sorts of conversations, where we're facing a lot of change, a lot of unknowns and a lot of uncertainties, for us to see the problems. Of course, we've got to understand the challenges and make sure we've got the transition right, but it would be a great loss for the Australian people and for our economy if we didn't also see this as an incredible opportunity. Australia has some great innovators, and we've played our role in transitions in the past. I'm an optimist. I'm very confident about our ability to do that. The deputy chair would no doubt be aware that we have very rich reserves of resources that will need to play a very big part in the batteries of the future, for example. But I'd also draw your attention to the agricultural sector. We have a growing number of incredibly innovative farmers, and we have banks that have been putting in place entirely new forms of lending contracts. A number of banks, for example, now have contracts that are based on sustainability performance—this is, obviously, some of the larger players in agriculture. They sit down with their borrowers. They've identified that sustainability performance reduces risk, and that both parties should share in the benefits of that. So as part of the loan, they might agree to fund particular infrastructure on-farm that will add to the sustainability of the farm—for example, to make it more drought proof in the future, to make it possible to get the same yield with less-intensive impact on the property. Interest rate costs, for example, might reduce over the life of the loan when the sustainability benefits have been realised. That's just one example of a very innovative financial instrument that is making a big difference right now, on the ground, and I think we'll see a lot more of that.

Very briefly on the risks faced by directors, of course directors have an obligation to consider their legal liabilities, the sorts of expectations that their shareholders will have of them. In this space, that expectation is growing. Directors are not just driven by fear of litigation—that is one of the things that have to be taken into account by any responsible director—but are primarily driven and motivated by 'what is the best thing for my business, what is the best thing for my customers and what is the best thing for my shareholders, because if I get those three things right, I'm going to be a board director of a very successful business'. Protecting your customers and your shareholders from unnecessary risks that are foreseeable and actionable is one of those responsibilities that, I think, board directors take very seriously.

Ms KEARNEY: Thank you very much. Touching very quickly on your second-last point about assisting the agriculture sector, do you think there is a role more broadly for banks to advise their customers on how to transition to a low-emissions future? Do you see that happening actively with your members?

Ms Bligh: I thank the member for the question, because the example I gave is just one example of literally hundreds that are happening right now. All of the banks who have large emitting customers are in the process of working with all of them to make sure that they have sufficient transition planning in place and that where they have identified risks and exposure, particularly in global markets, they have mitigation, adaptation and transition plans in place. Now, in many of the cases, banks are working as active partners to assist those customers to identify a transition plan and period of time during which they can reduce their risk, and banks can continue to support them with lending. So, yes, there is a very important role for banks to play. They are, right now, in the process of doing that. If you have a look at all of their public documentation, you will see that just about every bank that I've read has identified their role in helping their customers transition. Their role in helping their customers identify the risk to consider ways to mitigate that risk and to have sufficient transition planning in place is very much a role identified by banks as something their customers would expect of them, and they are developing and building capability in that area so they can meet that growing expectation and customer demand.

Ms KEARNEY: Thanks, Anna. I don't have any more questions.

Senator RENNICK: I guess my first question is: the banking industry has a social licence, does it not?

Ms Bligh: Yes, like all businesses.

Senator RENNICK: Isn't part of that social licence to protect jobs and support Australian industry?

Ms Bligh: Yes, I think you could argue that that's part of that licence, wherever possible.

Senator RENNICK: Well, wherever possible. If there's a legal product—coal at this stage is still a legal product in this country and it's still legal to export it—isn't it effectively discrimination to say that you're not going to lend to a coal company on the condition that their financial metrics stack up?

Ms Bligh: Thank you for the question. I know this has been an issue that has been discussed in the committee with previous witnesses. I think it's very, very important for the committee to understand that Australia's banking system, as I indicated earlier, is based on the prudent assessment of risk. If we were to move to a situation where banks were somehow required to provide credit to any business merely because it was legal, then I think we would very quickly find ourselves in a very difficult position. The central basis on which banks lend in this country is an assessment of the creditworthiness of the potential borrower, the borrower's ability to service the loan and the commercial viability of the business that the borrower is seeking the funds for. That is legally an expectation of all major investors and all regulators globally. If we were to move away from such a system, we would be a very serious global outlier, and the consequences of it, I think, should not be underestimated.

Senator RENNICK: I would have to say there's a little bit of hypocrisy in that statement because last year the federal government funded a $200 billion term funding facility to underwrite authorised deposit institutions—banks in Australia. So why is it okay for the banks to be underwritten by $200 billion in Australia and now they're going around applying free market principles when they themselves are effectively being underwritten by the Australian taxpayer?

Ms Bligh: Well, I would encourage you to think about the context in which the federal government made that decision. In fact, it was a decision by the Reserve Bank and it mirrored similar decisions around the world. At that time, we were in the grip of a global pandemic. At the beginning of last year, when it first broke, nobody globally really understood what it would mean for all of our economies. The Reserve Bank put in place a funding arrangement because of the massive disruption in the early stages of the pandemic to wholesale funding markets. If they had failed to do that, the cost would have been borne by Australian citizens and Australian businesses. The RBA moved simply to stabilise a system that was at risk of serious disruption in the context of a global pandemic. I would stress to you that the funds—

Senator RENNICK: Thank you. So you don't think shutting down the coal industry is going to be borne by Australian businesses and workers as well?

Ms Bligh: If I can just finish my comment in relation to your previous question, the funds that were accessed by Australian banks through the RBA's term fund had a three-year term, so they will have to be refinanced, and Australian banks will refinance them, and they will be refinanced at market rates. So, as I said, the Reserve Bank in Australia did precisely what other central banks did, and that's what we have central banks for—to stabilise systems when they're at risk of considerable destabilisation.

As I think I've tried to say—

Senator RENNICK: Okay. Just as a matter of interest—

Ms Bligh: what's happening in the coal industry—

Senator RENNICK: Okay, thank you. Thank you.

Ms Bligh: has not been caused by banks. It is happening globally, and banks are responding to a rapidly changing global environment, where governments, regulators, investors—the world collectively—are moving to decarbonise the economy between now and 2050, and, in that context, some products, some resources, are not going to be there.

Senator RENNICK: Okay. I know you keep referring to international markets, but it is worth noting that other central banks around the world keep rolling over a lot of the government funded bailouts of their domestic banks. We'll see, in time, whether banks actually repay that term funding facility, but that's a conversation for another day. When was the last time the ABA board visited Central Queensland, the Hunter Valley or the Latrobe Valley?

Ms Bligh: First of all, can I say there's not been a bailout of any Australian bank, so I think we should be careful about using that kind of language, because it hasn't happened in relation to this pandemic—or in fact the global financial crisis. Australian bank boards and particularly lenders, people who are in the lending part of a bank and the institutional part of a bank, are regularly in the locations of their customers and their businesses. The ABA board is made up of bank CEOs. I don't keep their diaries, but I know that many of them travel into regional Queensland, regional New South Wales and regional Victoria, and, in fact, all parts of regional Australia, when they can. When CEOs aren't there, certainly the heads of their lending, their local lenders, the heads of their institutional banks are often out onsite talking to customers.

And I think we need to give those customers credit, with the amount of change that is happening in the resources sector to reduce emissions and the amount of change that is happening in the ag sector. Banks are very close to their customers on this, and they understand that all of these sectors want to do their best to make sure they're ready for the disruption and the change that is happening around them.

Senator RENNICK: Has the ABA done a cost-benefit analysis of renewables in regard to their generation, transmission, storage, security and recycling? I'll just make the comment that the head of the CSIRO said in estimates that the cost of recycling batteries will be three times the cost of the materials that go into batteries and that, effectively, to provide security to the energy market, you will always need base-load energy to provide frequency control and inertia control. If, for example, we get better coal-fired power stations in Queensland, what will underwrite the security of the energy market in terms of volatility and delivery?

Ms Bligh: I would just have to say to the member that those are matters for both state and federal governments, and, hopefully, one day, a national energy policy that will provide certainty on exactly those sorts of questions. I should be clear that the ABA does not direct its members in how they lend. They make their lending decisions, as I've said, based on well-established principles around a range of risks, including credit risk, liquidity risk, operational risk—and climate risk is one of those risks that they take into account. It's not the only risk; they take into account a whole raft of risks. That's the basis on which our system has grown and thrived, and the ABA is not about to change it.

Senator RENNICK: This is my last question. Do you believe in climate change and that climate change is caused by increasing emissions?

Ms Bligh: I'm always wary of the word 'believe' in this context. The word 'believe' is generally something related to matters of faith. Climate change, in my view, is a matter of science. I don't think my personal view on it is particularly relevant to this committee, but, for the record, I don't have any hesitation in saying that the science on this issue is in, and it would be, as I said earlier, negligent and foolhardy for our businesses not to take account of not only what the science is telling us but what our own government is wanting to happening here by 2050 and what governments around the world are working towards. I hope that answers your question.

Senator RENNICK: In regard to the science: the science says that carbon dioxide absorbs and emits energy. The climate change science says that coal traps heat. That's not right; it absorbs and emits, just like every other molecule on the earth. I'd certainly question the climate change science before you start believing it.

Senator VAN: Thank you for appearing, Ms Bligh; it's very kind of you. You mentioned earlier that the ABA and its members were considering, as part of these decisions, not lending to coal and to other resource companies, which we have heard ample evidence of in previous hearings. Most of the EU's discussion about border closures has been relatively recent, yet a lot of your members' announcements about getting out of lending to coal predate all those conversations. How can you say that one was leading to another or a contributing factor to the other?

Ms Bligh: Thank you for the question, and I'm sorry if I have in any way confused that issue. I gave you that as an example of a very recent change in EU policy. It didn't come out of the blue; the EU has been very active in these areas for probably more than a decade. As I said, I gave it to you as an example of a very recent policy. Banks have been observing global jurisdictions, moving in these directions for some time and drawing their conclusions based on what they know about their own customers, the markets and changing policy, and how they can ensure they are meeting their own risk appetites in the interests of their customers. As I said, it was one recent example. I can't pull another one out of the air for you now, but I don't think anyone who has been watching the global conversation on this could mistake the direction in which it's been heading.

Senator VAN: What percentage of our coal gets exported to European countries?

Ms Bligh: I don't have that figure in front of me, but, as I said, we need to be mindful that this isn't just about what goes into European countries; it's about what goes into Asian countries that then export into Europe. That's where some of this is heading and that's how quickly it's moving. It's not just the European countries; the whole world has got together on this issue on a number of occasions. It culminated most recently in Paris. The world has made an agreement to reduce emissions by 2050. That is not going to happen unless we see those things that emit play a smaller part in our energy mix and our economy. That's a pretty straightforward assessment to make. We are not going to be the doing the same; it's not going to be BAU. How do we prepare for the change?

Senator VAN: I don't disagree with you that at some point coal will be uneconomic, but at the moment it is very economic. We've got record export prices and great demand for our clean coal. Why is the ABA and its members driving investors out of coal? You've gone to great lengths to talk about the risks; people not being able to pay back loans et cetera. We're currently seeing better economic conditions than ever before in coal, so I'm not sure that your evidence follows the facts.

Ms Bligh: As I've said, every decision is based on particular customers, and every coal customer has different markets and a different mix. Coalmines have different life expectancies. I'm sure you're aware that every mine is finite.

Senator VAN: I'm well aware of that. I've worked in the mining sector and I understand it and its economics very well; hence my questions. You seem to be signalling the end of an industry before its economics actually—

Ms Bligh: As I said before, this is not about predicting the end of an industry; this is about assessing the risk and the uncertainty and whether banks want to have that exposure on their books and where that fits with the expectations of their investors and shareholders. There's not an obligation to fund every industry or to do everything that every potential customer wants a bank to do. Banks need to look at their whole portfolio. It's not just about how much coal they might have; it's also how much of their mortgage book they have in volatile weather environments and how much of their book is in agricultural sectors that have experienced extreme droughts? It's all of that together. It's a good question. It's important to understand. I hope that the lenders on the next panel will be able to bring that to life a bit more, because it's not just about looking at coal.

Senator VAN: So, Ms Bligh—

Ms Bligh: We have massive exports across the books of every bank. You say that they might be moving out of an industry. They're moving away from some of their customers. Some of those customers have mines that are finite and are going to be finished.

Senator VAN: Of course, that makes sense, but that's not the announcement that your organisation or the banks have made. What other industry have you or other banks announced they're exiting?

Ms Bligh: They have been very public and transparent. They have identified thermal coal as one of the highest risk areas.

Senator VAN: What other ones?

Ms Bligh: They have very publicly indicated that they are currently giving consideration to gas, oil and other fossil fuels.

Senator VAN: What are the non-energy industries they have done those sorts of assessments on?

Ms Bligh: I think you're better off asking them directly, but to the best of my knowledge they're the industries they have identified in the first instance as high risk because they are fossil fuel industries.

Senator VAN: So you're saying that fossil fuel industries are the only industries at risk over the next 30 years?

Ms Bligh: No. I'm saying that every bank will be looking at their entire lending book and ensuring that they have an appropriate level of risk. I'm not familiar with any of the other areas—

Senator VAN: Nor am I; hence the question.

Ms Bligh: but I would expect them to be looking beyond the energy sector, yes.

Senator VAN: If you, the head of the banking industry association, are not aware of other industries that are being targeted for divestment by the banks, it clearly doesn't exist. I'm not aware of it. I've never heard of any. So it seems like one particular industry is being targeted for reasons that this inquiry has set out to uncover.

Ms Bligh: I don't think you're correct on that.

Senator VAN: That's what the inquiry is set up to do.

Ms Bligh: Yes, and I'm identifying for you that, over the next 12 months, Australian banks will be undertaking for the first time what's called a climate vulnerability assessment. That assessment will be undertaken across the entire lending portfolio, so it won't be any particular industry. It will be every single industry and sector on the book. It will look different at each bank because they have different sized and shaped exposures to particular industries. They will be looking to identify climate risk on every part of their book.

Senator VAN: Why only climate risk? Don't other risks exist?

Ms Bligh: Absolutely, and they can tell you right now what those risks are on every part of their book. They're looking to bring climate risk in line with their assessments on credit risk, liquidity risk, operational risk, strategic risk et cetera. It's about incorporating climate risk into an existing risk framework overseen by board risk committees and by a risk framework that is very well understood globally and by investors and by shareholders. So climate risk won't be sitting out there on its own as, maybe arguably, it has just a bit as everybody has got more used to thinking about how to deal with it. This is very much about bringing it into the mainstream risk assessment of banks.

Senator VAN: You mentioned shareholders and investors. What's driving their behaviour?

Ms Bligh: Well, as I said, I think if you have a look at the major investors globally—I can't speak for them, but my observation would be that they have been looking at how governments globally have collectively taken action and set targets on these issues. Those investors all have different risk appetites. There are certainly some investors that will continue to want to invest in these products because they will see them as high risk and therefore high return. Banks are not in that sector of the financing markets. Banks, quite rightly, are at the more conservative end. So I can certainly see private equity taking a bigger stake in some of these activities, but those major investors globally are looking to de-risk their own portfolios over the next 15, 20 or 30 years; 2050 is 30 years away. Australian banks are still in the thermal coal business until 2035, so it's halfway. I don't think that's—

Senator VAN: Some are.

Ms Bligh: That's right.

Senator VAN: Most will be out before then.

Ms Bligh: Yes, but most are in between 2030 and 2040.

Senator VAN: Thanks, Chair.

CHAIR: Are there further questions? I'm happy for this to go on, but members need to know we are going to eat into our break time. Dr Allen.

Dr ALLEN: Thanks, Ms Bligh, for your witness summary and your very good submission. Thank you for making the note that you believe the Australian banks are alive to regulatory investment frameworks both here and overseas, and thank you for contextualising our international situation and making note that capital is mobile. My question goes to the carbon border adjustment mechanisms. Obviously these are being touted. They will be significant in changing the certainty about investment for Australia and Australian banks, and obviously they will be important. Keeping in mind that capital is mobile, how do you advise the Australian banks about where this risk may be? The CBAMs are going to be quite uncertain at this point in time, so how do you provide advice to your members about how to quantitate that risk and model it, I suppose? You did talk about a lot of different risks—of course, for banks, that's their business. Their core business is looking at risk and understanding it. You've done that very well, talking about physical transition and liability, operational and strategical risks of climate change. So one of those practical ones is with CBAM. I'm wondering: how do you advise the banks with regard to quantitating that risk, knowing we don't know what it will look like? Where do you think the CBAM will go and what will that impact be for Australia?

Ms Bligh: Thank you for the question, Dr Allen. I probably should clarify, the ABA don't have deep expertise that banks would be consulting with us. It's not our role, if you like, to provide advice as such. Our role is to coordinate our member banks where it's appropriate to do so, and there are many areas where it's not appropriate to coordinate them. You want them to be out competing with each other, not coordinating. But, where it is appropriate for banks to have a consistent and coordinated approach, our role is to bring them together and, wherever we can, to provide access to expertise to ensure that we get a good outcome across the board and across the industry for customers.

In this particular area, you're right; the CBAMs are a relatively new proposal and are as yet an untried and untested instrument, but the EU have indicated that they would be wanting them to be implemented by 2026. So it's not very far away. It would be, I think, a fair observation that across the globe, and definitely here domestically, everybody is still developing capability in this area. How do we measure it? What are the right metrics?

One of the areas where we play a role is, for example, on climate change disclosure. Every bank has signed up to the TCFD to disclose their exposure to climate risk. That's not very helpful to investors if there isn't some consistency in how they report. They might all report honestly and transparently, but it's almost impossible to do apples versus apples. So we've played a role in bringing them together and trying to get as much consistency as appropriate in the way that they report.

The APRA exercise at the moment around the climate vulnerability assessment that I spoke to with the previous questioner is another good example. We are convening meetings with chief risk officers regularly to ensure that we cross-fertilise expertise in the interests of getting good, consistent, transparent material that not only is helpful to the regulator but will be helpful to the market, to the public and to government when they report it.

There is a lot of expertise growing globally, and we're going to have to tap into it. If Australia is going to do this well, we've got to be very clear eyed about what the project is and what expertise we're going to need and how we bring it in and grow our own capability. Some of this is very measurable. Some of it is going to challenge our ideas and what a good metric is. We're going to try some things that maybe don't work, and we'll have to go and refine them. But I'm pretty confident that we've got smart cookies out there who are doing a lot of good work, and a lot is happening in the resources sector and in ag—in some of the industries that are going to be challenged the most. Necessity is breeding invention.

Dr ALLEN: The issue about this in some ways speaks to market shift and investment shifts, depending on regulation. When you go to a global regulatory environment, of course, each country will interpret that regulation to its own benefit, you could argue. Do you see that there is a potential for leakage around CBAMs, and what is that risk for Australia and its lending environment?

Ms Bligh: Ultimately there's still a long way to go before we really understand how CBAMs will work and how the EU will apply them. They've certainly indicated that they are considering applying them in a way that would impose a penalty on imports which have been used in their production materials and have not been subject to some form of emissions tax. From their perspective they're trying to create what they call a level playing field. If you're taxed on the product that you emit from in Europe then they think anything coming in should be done in that way. As you'd be aware, there are lots of arguments to and fro about all of that, but it's probably not unreasonable to observe that, when particular jurisdictions try to put walls up just around their jurisdiction, you often end up with distortions and leakage, some of which you might be able to predict and plan for but others of which you won't be able to predict or plan for. That just adds to the uncertainty. If you've got a whole bucket of money to invest, you can invest it in something where you know exactly what will happen in the next 20 years and be confident of your return or you can invest it over here where you don't know what's going to happen with CBAMs and Europe's imports of Japanese steel. You can see why investment moves. Some players will go for that high risk, but it's by no means the majority. Banks for all the reasons I tried to outline—and I'm sure you're aware of them—like to play inside the more conservative guardrails. I think the public can be grateful for that.

Dr MULINO: I had a couple of very quick questions. I'm happy for the substance to be dealt with on notice given that we're now way over time. Thank you for providing evidence today. You've provided evidence in relation to a range of international stakeholders like BlackRock and the big international investors. I'd be interested in your perspective on some of the other international stakeholders along the lines of the Financial Stability Board—some of the monitoring and quasi-regulatory bodies which are playing a growing role. I think the Financial Stability Board came out of the G20. That's the first question. The second question is a follow-on from Senator Rennick's discussion about banks having access to the term 'funding facility' and perhaps some obligations arising from that. Another dimension of the regulatory arrangements which have led some to argue for broader social obligations arising from the banks, and arguably them being an essential service, comes from the deposit guarantee. Are there are any additional comments you have in relation to that, and are there some assertions that that creates broader obligations?

Ms Bligh: There's quite a lot there. In relation to the Financial Stability Board, you're right; this is a creation of the G20. I stand to be corrected, but it was an initiative taken partly as a result of the experience in the GFC. I think what we learnt in the GFC is how deeply interconnected the banking system is globally, the importance of global cooperation and the setting of global standards to ensure the safety and security of the system. I think it's a fair observation that the activities of the FSB and the Basel committee have seen a significant strengthening. We now have much better capitalised banks. They are much more able to withstand external shocks and crises, and that is a good thing for all of us. The Financial Stability Board is fundamentally fixated on risk, and climate risk is one risk that they have identified and which they will be continuing to work across the world on to ensure that it is adequately taken account of in the activities of banks. 'Taken account of' doesn't necessarily mean you exit from all sectors. It can be that you take account of it by holding more capital, pricing in the risk and requiring customers to take certain steps over a period of time to mitigate their own exposure.

On your second question, yes, I've heard a number of assertions that somehow banks are subject to an Australian government guarantee and that, if they're not funding certain sectors, they shouldn't get access to that. I think it's really important to understand which guarantees banks have. Firstly the deposit guarantee, which is a guarantee by the federal government, is not a guarantee to banks; it is a guarantee to depositors. It basically means if the bank that you bank with falls over then you will get from the Australian government a maximum of $250,000 depending on what deposit you have. So it's a protection for the depositor, not for the bank. If the bank does fall over—

CHAIR: But surely that gives banks a government backed level of protection in terms of their consumers that no other industry really has.

Ms Bligh: I'm not aware of any other industry that holds the life savings of their customers. It would take a very courageous member to suggest that the government abolish such a guarantee for mums and dads.

CHAIR: I'm certainly not suggesting that. The point is that you have the government backed security there to ensure your customers keep on going to you.

Ms Bligh: It doesn't apply to a particular bank; it only applies to all deposit-taking institutions. So there's competitive neutrality in that respect. It doesn't matter which bank you bank with. I do want to stress that if a bank does fall over and their customers do access that guarantee—remember: it's up to $250,000—some customers who had deposits greater would still lose out. But, if that guarantee is accessed, the government then has a claim on the sale of the assets in the winding up of that bank. So, ultimately, banks do pay—and will pay, in those circumstances—for some or all of the guarantee. So the legislation covering that guarantee gives the government the right to recover the costs, and it's really a way of protecting individual customers from having to go through that process and recover it themselves. So I think it's a good scheme—

Dr MULINO: Just on that point, where the guarantee exists in other countries, is there an obligation on banks to lend to every sector?

Ms Bligh: I'm not aware of any jurisdiction where there is a legal obligation on banks to lend to any business or any sector. Certainly, all of the countries with whom we would trade—particularly, the countries in the OECD—are based on a risk based system that makes an assessment on the basis of the creditworthiness, the commercial viability and the serviceability of the customer, and I think they would all be very alarmed if Australia were to move away from that.

Dr MULINO: Thanks.

CHAIR: Any further questions, committee members? There being no further questions, thank you very much, Ms Bligh, for coming before us today. I'm not sure whether you've been asked by any of the committee members to provide any additional information, but, if you do have any, please forward it to the secretariat by Tuesday 10 August. You're going to be sent a copy of the transcript of your evidence. You'll have an opportunity to request any corrections to errors in that transcript. I thank you. If I could end on a cheeky note, the people of the Mackay region thank you for being a former Labor Premier who approved so many coalmines in our region. Thank you for those economic and employment rewards for the region, Ms Bligh.

Ms Bligh: I thank you and the members of the committee for being so interested that you've gone way over time. Thank you for the opportunity.

CHAIR: Thanks, again.

CORBALLY, Mr Kevin, Chief Risk Officer, Australia and New Zealand Banking Group Ltd [by audio link]

GALL, Mr David, Group Executive, Corporate and Institutional Banking, National Australia Bank Ltd [by video link]

HINCHLIFF, Mr Andrew, Group Executive, Institutional Banking and Markets, Commonwealth Bank of Australia [by video link]

MILLER, Mr Anthony, Chief Executive, Westpac Institutional Bank, Westpac Banking Corporation [by video link]

WHELAN, Mr Mark, Group Executive, Institutional Banking, Australia and New Zealand Banking Group Ltd [by audio link]

[10:12]

CHAIR: Welcome. This hearing is a legal proceeding of the parliament. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by Hansard and attracts parliamentary privilege. Given that we've got representatives from four of the banks here and this is probably more an open forum than a normal hearing like we just had with Ms Bligh and the ABA, I'm not sure how we want to handle this. We can start with the CBA and run through the group, if people want to provide an opening statement. Is that what you wish to do?

Mr Hinchliff: Happy to, if that's what you would like.

CHAIR: Let's do that. Let's keep the opening statements short, given that we've got four to run through, so we can get to discussion. Go ahead, CBA.

Mr Hinchliff: Thank you, Chair. Good morning. At the Commonwealth Bank, our purpose is to improve the financial wellbeing of our customers and communities. The success of the broader economy is central to the Commonwealth Bank's success. We support a wide variety of Australian exporters. We also lend to many businesses that sell goods and services to those exporters across the economy and in every Australian jurisdiction. We have grown our lending to business considerably in the last 18 months, outpacing growth in lending to business across the economy at large. We believe we have an important role to play in preserving the benefits of over two decades of growth. We're a leading participant in the government's small and medium business loan guarantee scheme, Show Starter Loan Scheme and HomeBuilder scheme and a founding member of the government's Australian Business Growth Fund. All these initiatives have as one of their objectives to support businesses to invest and grow.

When making a decision about whether to lend we take a range of risk considerations into account. The types of risks we must consider are broad and varied. They include credit, liquidity, operational and strategic risks. We must be cognisant not only of the current operations of a business but its future trajectories. Business models are constantly evolving. We work actively with our customers as they adjust to changes in their sector and respond to dynamics in global markets. It is vital that we continue to make careful decisions around lending and the allocation of capital. We must do this for our depositors and investors, and we must do it for the business to which we lend so that they are not put in a position of being unable to meet their future loan obligations.

As you know, we must meet the requirements of the prudential framework that governs deposit-taking institutions as well as fiduciary obligations to shareholders which apply to all public companies. If we were to ignore risk in any material aspect, we'd quickly find ourselves unable to attract the capital we need to lend. This would undercut growth, and it would have negative implications for workers, families and communities across the country. For these reasons, we make each lending decision carefully, conscious of its implications and based on the best available inputs about the future of the economy. Thank you.

CHAIR: Great. Thank you so much. We'll move over to NAB.

Mr Gall: Thank you, Chair. NAB exists to serve customers well and help communities prosper. We lend to support good investment, help businesses grow and create jobs. Export industries and associated businesses are a significant part of our portfolio, and the biggest segments include agriculture, education, natural resources, manufacturing, defence and professional services. As Australia's largest agribusiness bank, we provide about one in three dollars linked to Australian farmers. That now totals $31 billion. We have banking relationships with 90 per cent of Australia's universities and are the leading bank to the sector. We provide debt and other banking services to natural resources businesses, totalling $8.4 billion. With Australia's flagged $200 billion investment in defence, we're collaborating with government to put capital into the domestic supply chain. In 2019 we committed

$2 billion in lending over five years to help emerging technology companies and innovators grow their businesses into new markets. We've already lent over $1.5 billion of that commitment. NAB supports the government's focus on generating opportunities for exporters, including expanding existing markets and pursuing new markets. As a financial partner, we also support customers across many industries to find new markets and grow sustainably.

NAB is committed to a net zero emissions lending portfolio by 2050, consistent with the goals of the Paris Agreement. Access to finance and innovation will be critical as customers adapt through an orderly transition. In Australia, we're the No. 1 bank for global renewable transactions and we have arranged over $10 billion in renewable energy project finance since 2004. We're backing our customers as they pursue opportunities in clean energy exports and newer technologies.

We remain very optimistic about the future for Australia. We'll keep working with customers across export industries to fund good business investment and grow into new markets. Thank you, Chair.

CHAIR: Thank you very much. We'll move on to Westpac.

Mr Miller: Thank you, Chair. As one of Australia's major banks, we recognise our important role in supporting Australian exporters and the economy. Within our risk appetite we support all of Australia's major export industries. Our focus is on building longstanding relationships with our clients and helping them deal with the challenges and risks they face. In addition to the Australian major banks, we've observed that the global capital markets are willing to support Australia's key export sectors. We see strong appetite from both debt and equity financiers. This includes a large group of international banks.

At Westpac, all our lending decisions are all made in accordance with our risk management framework. Our risk appetite is informed by our ability to measure and adequately manage any risk and our obligation to deliver the right return to shareholders, while making sure that we meet our regulatory and community obligations, is a constant balancing act. Put simply, we lend money to those we think are the right risk for the bank, balancing all the inputs into what informs our risk appetite. We don't do this based on ideology; we do it because it is our job to manage risks, to make returns for our shareholders and to act according to what the market and our regulators expect of us. As new risks emerge, such as the financial risks of climate change, we consider the impact of that risk to clients we lend to and prospective clients we are considering lending to. As anyone involved in assessing risk knows, this is not an easy task. We can't please everyone all the time, but what guides us is helping our clients. We therefore aim to be transparent and direct so clients and potential clients can manage their needs and risks. I would be pleased to provide more detail on our approach in response to your questions today.

Mr Whelan: Yes, thank you, Chair, and for inviting us to this hearing. ANZ has been working with the Australian exporters for almost 200 years. The Bank of Australasia was set up in the 1830s to finance the sheep trade, and we have banked the Australian resources sector since the gold rush of the 1850s. Today we continue to back the nation's exporters with the support of more than $30 billion to agriculture and over $14 billion to resources. We are firmly committed to these exporting sectors and others, including manufacturing and tourism, for the long-term. This commitment to exports is reflective in our offshore focus.

One of our core objectives is to help customers who want to move goods and capital around our region. We use our network across more than 30 markets to connect customers with export opportunities. For example, we take farmers and small businesses into Asia to help them understand the market and, more importantly, make connections. In line with this committee's report on trade diversification, we'd be happy to assist the government in helping businesses access markets through our region. Together with supporting exporters, we are also helping our customers take advantage of a low-carbon economy. We are backing our customers with $50 billion to fund new energy efficient operations, low-emitting transport and resilient infrastructure. This will support the government's goal of Australia becoming a low-emissions technology leader. Thank you, and we welcome your questions.

CHAIR: Thank you all very much for those brief introductions. I might kick off with some questions. I'm sure some people may have questions that all of you can answer, whereas others might direct them specifically to particular banks. I might start with the ANZ. In your submission, you state that the ANZ provides $14.2 billion in support for resources companies globally. How much of this support is provided to the Australian coal sector?

Mr Whelan: Thermal coal, particularly thermal coalmining, our numbers that we published, both half-year and full-year, reflect around a $500 million commitment at this point in time.

CHAIR: So $500 million into the thermal coalmining?

Mr Whelan: Thermal coalmining, correct.

CHAIR: In Australia?

Mr Whelan: Yes, that is correct.

CHAIR: In your climate change statement that was referenced in your submission, you state that you support industries undergoing transition. You specifically referenced thermal coal. We hear this transition term a lot but how does the ANZ come to the conclusion that thermal coal is an industry in transition, when thermal coalmining companies are enjoying higher prices, they're cashed up, they are very profitable, and demand for their products, particularly in the Asia-Pacific market, is set to increase, by all accounts?

Mr Whelan: It's a very good question. At the moment, as we speak, the thermal coal price is at an all-time high of around $150. This time last year it was $48, so there's significant volatility to that price; that is the first point I would make.

The way we've determined our approach to thermal coalmining is there are lots of different views and variability on the outlook for thermal coal demand in the medium term. Certainly in the short term, the factors that you outlined, Chair, are completely accurate. They are very profitable businesses. The outlook in the medium term, we think, has significance uncertainty and there's a number of factors for that. The first one I would say is that there's significant growth in low-carbon alternatives, as we are all aware, in solar, wind, battery. This is not only driving down the mix of thermal coal in the energy equation but it is also pushing down costs associated with that energy generation, which is likely to affect, over time, the economics of these businesses.

The other point I would take is that companies, funds, managers, government, are all setting targets now to increase the use of low-carbon alternatives. We are seeing an acceleration of policies and practices to support net zero by 2050 as a result. Therefore, we believe that demand and the economics of the industry are likely to change. There's a combination of all these factors that we see create a risk we need to manage in the medium term.

CHAIR: You are exiting, though, some of the markets; we are aware of that. You're exiting some of the thermal coal sector in particular and doing that now. If the response is around real risk—the idea that there might be stranded assets and the like—if these loans are generally three to five years, if the assets are generating cash right now and the asset isn't stranded because the debt's been repaid, is it then disingenuous to claim that you want to avoid the risk of stranded assets?

Mr Whelan: Again, it's a very good question. What I would say is we've been in conversations with our thermal coal customers for the past six years. Our policy reflects the position where, including that six years, we will be stepping back, stepping out of thermal coal over a 15-year period with the full exit on our facilities to thermal coalmines by 2030. We've been doing this in a consistent slow basis with a step-back, step-out approach over a period of time. The reason we're doing that is we believe that that gives our customers transparency to our approach and the ability to look to refinance with other alternatives, to other banks and capital markets over that period. The longer the outlook is to this industry, we think the more uncertain it becomes. What we're trying to provide here is at least an open and transparent position to our customers to allow for the discussion of that transition to occur in a financing sense. At the moment, I would agree that thermal coalmines have seen significant price adjustments in the market. We're more concerned with the longer term and that's why we are looking at a 15-year transition.

CHAIR: This goes to the whole motivation for exiting the sector. Really, it boils down to—I believe, from everything that I'm hearing—a sense of ethics. Whether it's ethics being driven by other players or whether it's your own sense of ethics, you're exiting thermal coal almost on an ethical basis. The ANZ has won numerous awards for being one of the best foreign banks in China. On 3 June this year, President Biden signed an amendment to an executive order which expanded the list of Chinese defence and surveillance technology and companies that are subject to a prohibition on investment from US companies. The reason for that executive order was to prevent investment in 'firms that contribute—both inside and outside China—to the surveillance of religious or ethnic minorities or otherwise facilitate repression and serious human rights abuses'. I point all this out for a question which is also about bank ethics. Can you guarantee that ANZ does not do business with Chinese companies that are listed on President Biden's executive order?

Mr Whelan: We have our chief risk officer here, so I might ask Kevin Corbally to answer that question for you.

Mr Corbally: The answer is we don't bank with any of the companies that are listed on the directive that came from the president's office.

CHAIR: So 100 per cent no companies that are on that list ANZ does business with, even transactional business?

Mr Corbally: Yes, that's correct.

CHAIR: Alright. The question to everyone else, which the ANZ has already answered, is: what is your total investment in the Australian coal sector, including power stations, mines, rail and port facilities, if you have it? If you don't have it, I'm happy for you to take it on notice. But we might begin with NAB and go on.

Mr Gall: In terms of our thermal coal mining exposure, that is approximately $630 million at our last reported date. That's the total of it.

CHAIR: Thanks. Westpac?

Mr Miller: The current exposure to pure thermal coal companies is just under $250 million. It's always been a very, very small proportion of our total loan book.

CHAIR: The CBA?

Mr Hinchliff: Yes, just to think about the full value chain, our upstream, our extraction business or exposure to thermal coal is $295 million, and then with respect to the supporting infrastructure that you asked for around coal ports and terminal and haulage, that's approximately $800 million.

CHAIR: Because others didn't give those supporting and supply chain sectors—I appreciate you might not have that info now, but, if you want to get back to the committee on that at a future time, you'll have the opportunity. Deputy Chair?

Ms KEARNEY: Thank you very much, gentlemen. I may have got this wrong, Chair, but I think in a previous question you were suggesting that they're making these decisions on an ethical basis. In fact, several witnesses representing coal mining companies have stated that restriction of the coal companies is not actually a product of credit risk. Maybe one of you would like to take this; I don't mind how you answer this, if everybody wants to have an answer. Maybe you can explain the factors you consider when taking into consideration climate related financial risks. We heard from the Australian Banking Association before, for example, about the impact of international financing and people looking for ESG perspectives and screening et cetera. Perhaps you can explain how your bank considers climate related financial risks, and how you screen transactions from an ESG perspective. Just briefly: I know this is a big question but just maybe the main factors. And is credit risk one of them, or is it purely ethical, as I guess was the suggestion before? I don't mind who takes it first.

Mr Gall: I don't mind kicking off. There's a lot in credit risk and there's a lot in the broader risk set that we take into account. Sustainability risk really plays into not just the next three or five year loan term but where the industry is going and what the characteristics are of the industry from there. One of the factors that would be included in our view there is: what's going to happen to demand for coal not just in the next few years but over the next few decades, and how well prepared is our borrower to manage through the transition that is inevitably going to occur there? So that is understanding those pathways from the client perspective and what that actually means on our portfolio as well. The sense I wanted to introduce is that it's a much longer term horizon when we're looking at clients in a sector like coal and understanding that demand aspect to what's going on. We've also made commitments in terms of the Paris Agreement and we're very conscious of making sure that there are the pathways in place in industries to help support. Ultimately, what we're going to need to do is scope 3 financed emissions in getting to net zero as well.

Ms KEARNEY: Thank you. Would anyone else like to add anything? I'm particularly interested in legal obligations for you to consider and manage these risks. I note, for example, that APRA's draft guidance provides advice that says:

> Where an APRA-regulated institution has identified material climate risks, a prudent institution would establish and implement plans to mitigate these risks and manage its exposures, as well as regularly review and assess the effectiveness of those plans.

What legal obligations are you under to consider and manage these risks, and what have regulators told you about their expectations of how you will manage climate risks in particular?

Mr Hinchliff: I'm happy to make a start on that. The legal obligations, outside of any commitments we've provided through TCFD, ESF or the E & S policy framework, is really with respect to the broader banks' risk management framework, which is a prudential requirement. As previously noted by the chair of the ABA, we've got obligations to assess those risks and then manage those risks. Included in that are a variety of different scenario analyses. APRA has just released practice guidance specifically on scenario analysis around climate risk and ensuring that the banks are well positioned to manage the specific risk within their risk framework and policy. It's important that we've got the right governance in place, so there's a strong engagement from board and executive leadership teams, with an environmental and social subcommittee. We ensure that we track various aspects of our portfolio, and going forward the scenario analysis will perform as part of the CVA, which is the climate vulnerability assessment imposed by APRA, to help us to determine the broader exposure of the bank and the banking industry, frankly, to climate change.

Ms KEARNEY: Thank you. In his evidence, the CEO of Whitehaven Coal spoke about the taxpayer funded federal government bank deposit guarantee. He suggested that this could be linked to the banks' willingness to support the Australian economy, in particular export industries. There has been quite a bit of discussion in the previous set of hearings for this committee about banks having to undergo national interest tests and that these could be introduced to ensure banks' policy decisions are weighted against potential social and economic impacts before significant measures are imposed. There was a suggestion of lots of regulatory and government intervention around banks' activities. What would your response be to these proposals?

Mr Gall: I'm happy to kick off on that. I think that it is really important that a bank has the ability to choose who it lends to, what industries it lends to, and understands that in the context of its portfolio. Certainly, we have to take into account commitments that we've made to a whole variety of stakeholders. For example, NAB is a signatory to the Collective Commitment to Climate Action, and under that we have to demonstrate pathways to zero net emissions by 2050. I do think organisations, and banks in particular, need to be able to demonstrate how they're going to live up to their commitments and I think it's really important that we are actually signalling that well in advance, so we can work with our customers through transition plans and do that in a very measured and disciplined way as well.

Ms KEARNEY: Thank you, Chair. That's all of my questions.

Mr RAMSEY: I'll direct my first question to the ANZ. I'm indebted to the Red Meat Advisory Council and the Australian Livestock Exporters Council for providing some information—we'll be speaking to them later today—about the campaign by animal rights and liberation groups to raise concerns about the export industry in particular, but red meat, meat and the farming of animals in a more general way. I don't know why the ANZ, but I've got to start somewhere. What kind of pressure is that putting on boards to listen to or act on outside pressure groups? This pressure can build, often in my opinion with misinformation, amongst shareholders.

Mr Corbally: Like many companies, we engage with a whole host of parties, listen to their views and take them into account when we formulate our policies. Those parties can be investors, customers, community leaders—a whole range of different parties. We do listen and we do take them into account whenever we make a decision. That's essentially the approach we take.

Mr RAMSEY: So livestock operators, in this particular case, should be quite fearful of these campaigns if lenders are going to have their lending practices based not on science and government policy but, rather, on public pressure. Would you agree with that?

Mr Corbally: What I'd say is that our approach to lending to any company in the livestock sector is a risk based approach. We look at the commercial environment in which they operate. We look at a whole range of different factors when determining whether we will lend to a company in that space. But we don't have any policies today that would expressly preclude us from lending to anyone in that sector either.

Mr RAMSEY: There's no premium on the cost of finance?

Mr Corbally: That's correct. There's no premium for the livestock sector.

Mr RAMSEY: I'll chase that up when we speak to those other sectors. Thank you for that. If anyone from the other banking groups has any information that they think would be useful, they might pass it on as well. The other question I'll direct to the NAB because they were good enough to supply a graph within their information. The graph shows the increase in the output of agriculture over the last decade or so. We've seen output go from around, as a guess, $27 billion or $28 billion to $50 billion. The industry and the government are focused on lifting that to $100 billion. I reflect that that period of time, the last decade, has had seven of the hottest years on record, globally. What are we to make of the predictions that agriculture is set to suffer badly from climate change when it would appear to be doing exactly the reverse?

Mr Gall: You're quite right. I think we've seen a very significant growth both in agriculture [inaudible] exports over that time. I think farmers have continued to approve and [inaudible] and [inaudible] the country has [inaudible] droughts or parts of the country have suffered droughts significantly over a period of time, yet exports have gone up. We're actually seeing a continued [inaudible] opportunity for Australian agriculture. It's the part of our loan portfolio that is growing the fastest, probably, of any industry segment at the moment and that's certainly reflective of the opportunity there. I do see that continuing. Having said that, more than ever, I think the farmers that we're speaking with and dealing with are also very focused on their own transition opportunities as well. For many of our farmers this is an opportunity to actually create carbon credits that ultimately they're going to be to able send to the market for consumption by some of the high carbon emitting industries and clients as well. So there's going to be a whole new market, I suspect, that is going to add to this commodity export opportunity for Australian farmers. We're very positive about the next decade here. I would expect the trend that we're seeing on the graph that you just highlighted to continue.

Mr RAMSEY: Your bank undoubtedly has a team of analysts that would look at a whole lot of information. On one hand we are being told that Australian agriculture is going to suffer dreadfully through climate change. Yet seven of the hottest years on record have come in the last decade and it would appear as though there's been a significant increase. I would suggest it's not about carbon credits. This is more in the traditional lines of farming. I think if you dissected those sections of the agricultural industry generally it would be in the traditional industries.

Mr Gall: I totally agree with that. What I was referring to in terms of carbon credits will be the next decade or two beyond that—an additional growth. Probably my key point here is that I think our farmers have also very much evolved and the sustainable farming practices are really helping here. I think the other thing that is worth noting is the last few years have seen some very strong soft commodity prices as well, which has supported that growth in exports.

Mr RAMSEY: Thank you very much for that. I'm making links back to the question that I asked the ANZ. On one hand your industry, and I guess a lot of others, is coming under increasing pressure. Based on information at the moment the general word is that agriculture is in for a terrible time. It just does not appear to be the facts at all. It doesn't seemed to be linked to the climate change we've been experiencing. I guess my word is: beware of uninformed public opinion. Thanks, Chair.

CHAIR: Thank you. I'm going to move on to Dr Allen.

Dr ALLEN: Thank you very much, Chair. I would love to hear from the banks with regard to other areas of trade, including higher education and with the post COVID environment particularly having limitations on people coming to Australia and, of course, the impact on international students. David Gall might like to respond because you have a big line of lending into higher education. I was wondering if you could give us some sort of insight on will there be constraints? Do the banks regard this as a high-risk area of investment? Will that be a problem for our higher education institutions going forward for post COVID recovery in both the short-term and long-term?

Mr Gall: I have a couple of comments on education. Yes, it is a big part of our portfolio and obviously a very important export industry for Australia. I think the Australian universities in particular have managed as well as possible through these times. There are obviously an enormous number of students that are undertaking their courses remotely at the moment. I think, listening to the university sector, in particular as a banker to them, they are particularly keen to find ways to work with government in terms of getting their students physically back into Australia. That's obviously a very important priority for them. Clearly, I think the challenge will be: can the sector go through another year of not having international students back into Australia? So that is challenging.

I think what we have seen from the universities that we bank and have close relationships with is that a lot have undertaken quite considerable restructuring of their own businesses as well, to deal obviously with the realities of the numbers of international students that they have got—so a lot of transformation. But I've got to say that we're still extremely positive about the sector in the long term. The philosophy that we have taken, whether it's education or broader than that, is that, if it was a good business prior to COVID, it will be a good business post COVID as well. So I'm optimistic about education more broadly, the tertiary sector more specifically, in the longer term. Obviously, in the short-term, there are some real challenges to manage through.

Dr ALLEN: Thank you. Another follow-up question is generally more to do with the resource sector. We have heard previously that some of the companies in the resource sector have diversified into critical minerals. I was wondering whether you could provide—one of the banks may like to lead on this—some sort of horizon viewing, particularly about things like lithium, with the electric vehicle revolution happening internationally, and whether there is more positivity around diversification for the resource sector into other areas of critical minerals that may have less risk with them. Where are the risk aspects for banking and finance in that area? Andrew, would you like to respond to that?

Mr Hinchcliff: I'm happy to give it a go. Certainly, with respect to managing climate risk, we know renewables and batteries are going to be a very important component of that, not the only component but an important component. Some of the battery metals, let's call it, and some of these other minerals are going to play a critical part. We know that Australia is probably one of the top five countries in the world with probably the best rule of law and governance around it as well in terms of the natural deposits associated with those minerals. I think one of the great opportunities for the country is to harness those natural deposits that we have in those critical minerals and then ultimately move, potentially, to refining them and working out how far down the value chain we can actually go. I suppose as a banking industry it's important that we focus on some of the positives and the opportunities associated with climate change and where we can point the country, and that's where we will try and allocate capital as well, to try and drive those opportunities.

Dr ALLEN: Thank you. Thank you, Chair.

CHAIR: Thank you very much, Dr Allen. Mr Mulino, do you wish to add anything?

Dr MULINO: Yes, thank you. One of the issues raised in the earlier presentation by the ABA was the fact that one of the key stakeholders for banks internationally is a range of international sources for funding. I think the example given was BlackRock and its public pronouncements around its wanting to see banks taking into account explicitly long-term climate risks. I'm interested to hear directly from banks, who have to engage with international funders, such as BlackRock and many others. What are some of your experiences of late, both in terms of the issues they want you to take into account and the trends that you are seeing in international markets? Perhaps we will start with NAB and then any others that want to add anything.

Mr Gall: What we're seeing is very consistent with what Anna Bligh raised an hour or so ago. I think what our investors and funders are wanting to see is to understand what our longer term commitments are here and also the pathways to achieve those commitments. That's why I think we've certainly signed up to—I mentioned earlier the collective commitment to climate action, because it's those kinds of programs and living up to those commitments that I think investors do expect. From funding markets, it's interesting. There were obviously a lot of questions before around the potential for a CBAM and what that might look like in the future. Different parts of the globe are in a different position. Europe is probably the area which is an important source of funds and an important source of capital flows for Australia. It is probably the one that we've got to spend more time really understanding and seeing whether we can make sure that we minimise the impact, not just for Australian exporters but ultimately also for the Australian economy. Different parts of the globe are in a different position, but I think the lead has been taken in terms of expectations in terms of investors and funders from Europe first.

Dr MULINO: Thanks, and I imagine that the other banks are experiencing similar trends.

Mr Miller: That would be our experience, yes. Investors simply want to engage on the topic and want to see that you have a plan that you're attempting to measure and monitor. So, that's very much a topic that almost all investors want to engage on with banks.

Dr MULINO: Thank you.

Mr Hinchcliff: Perhaps I could add that, while the topic we covered there was climate, it is broader than that. It's the full ESG topic, where investors are engaging with us—quite specific around understanding our plans around modern slavery, human rights, our supply chains and our governance. So, it's a very pertinent topic for all investors and funders—broader than just climate, I'd say, at this point.

Senator VAN: I want to follow on from Dr Mulino's question and some statements Ms Bligh made earlier this morning on behalf of your industry around a lot of these changes. Ms Bligh was talking largely about how a lot of your changes in policy around particularly the coal industry, but also resources more generally, were driven by the demands of your investors. Can each of you give me a quick snapshot of which investors are demanding this? Are they institutional? Are they retail? Which sectors? Are they the Australian super funds? Which ones are being the most vocal on this?

Mr Hinchcliff: I would say that it's broad-based—whether it be the international super funds and pension funds, and the asset managers in BlackRock was a good example, versus even the—

Senator VAN: We've heard enough about BlackRock; let's talk about some of the others.

Mr Hinchcliff: Maybe the Investor Group on Climate Change in Australia, which is representative of $2 trillion of superannuation money in Australia and New Zealand. They're focused on ensuring that pools of money invested are focused on climate change.

Senator VAN: Is that one of the proxy firms?

Mr Hinchcliff: Yes—representative of large pools of money. Separately, if we go to examples—

Senator VAN: Which pools of money do they represent?

Mr Hinchcliff: Superannuation pools of money, pension pools of money.

Senator VAN: Australian?

Mr Hinchcliff: Yes, institutional Australian and New Zealand pension funds—superannuation money.

Senator VAN: Okay; interesting. Is that right across the superannuation industry, or is it particular groups?

Mr Hinchcliff: I can't make a generalisation around it being right across the superannuation industry, but I would say that the momentum in that space, domestically and globally, has gathered significantly over the course of the past few years—I would say exponentially over the past 18 months.

Senator VAN: Thank you. Would the other banks care to contribute to that?

Mr Miller: I'd probably say that we should bring our investor relations team to you, because they will have the line-by-line feedback from investors. But Andrew is absolutely right: it's broad based. The international firms are far more direct with us. The Australian superannuation fund pool is definitely engaging on the topic, and we definitely get impressions and feedback from a broader retail investor base about the importance of not just climate but ESG. So Andrew's observations around modern slavery, the way we source services and the way we operate are important for broader investors as well. So it's broad based.

CHAIR: If that team you talked about wanted to give that feedback to the committee later, that would be good. We'll take that on notice.

Mr Gall: Again, I think we would also agree that it's broad based. The additional comment I would make is that, particularly with offshore investors and particularly with European investors, it is one of the first questions that they're raising with our investor team or any senior executive who is speaking with those investors. It's now one of the first questions they raise. That is different from what it was 18 months ago. I thought the dimension I would introduce to this answer is how it has changed significantly over the last 12 to 18 months.

Senator VAN: Thank you, and I agree with the chair: we'd be very pleased to have your IR teams appear before us, so would you arrange that, please. And could each of you, on notice, supply us with a snapshot of your shareholder register. I'm not interested necessarily in individual companies, but a breakdown by types of investors would be very helpful to this inquiry. In the interests of time, I will leave it there for now. I'll probably put my other questions to the investor relations teams when they appear before us.

Senator RENNICK: My question is for Westpac. Does Westpac still purchase carbon offsets from the bioenergy plant powering the menthol factory at Nectar Lifesciences in Chandigarh, India, as reported in the *Australian Financial Review* on 22 July?

Mr Miller: I'll have to circle back to be absolutely sure, but I think the answer is no. Let me circle back for you. Obviously we're disappointed about that, but I'll circle back on it.

Senator RENNICK: No worries. You may need to take this one on notice as well: how much did Westpac pay for those de facto offsets?

Mr Miller: I'll have to come back to you on that, to give you precision.

Senator RENNICK: Sure. Why didn't Westpac spend the money buying verified and credible Australian carbon offsets?

Mr Miller: Again, that was brought to light a week and a half ago. I'll have to go back, get the details and come back to you on why, in terms of purchasing that and not something else. I'll come back to you.

Senator RENNICK: How does Westpac square this approach with its approach of limiting finance to lawful coal businesses here in Australia?

Mr Miller: Our approach to coal opportunities in Australia is just around a risk assessment. We look at the position of the miner, the type of coal that it mines—met or thermal coal—its position in the sector, its position in the price curve and our outlook for the product. All of that weaves into a decision around whether this is good risk for the bank. That informs our decision around whether we will or won't support a particular opportunity or a particular client.

Senator RENNICK: Westpac's 2020 sustainability report spends seven pages outlining the various actions that the bank is taking on climate change: not financing thermal coal, targeting agribusiness and increasing focus on oil and gas companies. Yet despite Westpac's child exploitation problems, highlighted in the banking royal commission, the same report spends just three pages talking about human rights. Why is that?

Mr Miller: The emphasis is not intended to highlight one over the other or devalue one over the other. That's absolutely not the case. AFIA were humbled by the experiences of the royal commission, and the subsequent work that we've had to undertake is all about improving us as a bank and making sure we meet the standards that people want of us—investors, regulators and communities.

Senator RENNICK: Can you indicate where in Westpac's sustainability report it refers to the purchase of the menthol factory tobacco offsets from India?

Mr Miller: I'll have to go back and try to find that, understand where that's referenced and respond to you directly.

Senator RENNICK: Sure. If the report fails to mention it, why did it fail to mention it?

Mr Miller: Again, I will have to drill into that for you to give you precision.

Senator RENNICK: Okay. Thank you.

CHAIR: I have a truckload of questions, but we're out of time. I'm going to ask representatives to take these questions on notice if they can. I want to drill down into exposure. Some of you have already told me about that with thermal coal. Can I ask you to take this away and bring it back to us on notice: what's the value of your coal loan book in total? Again, could you split that into thermal and metallurgical—you've already told us about thermal, but please repeat that in writing. What proportion of total coal-sector financing is provision of bonding for rehabilitation and biodiversity offsets, and how much is capital provision and lending?

Secondly, in the past five years how many coal refinance opportunities has each bank participated in? Has that exposure increased or decreased? How are your decisions on whether to invest in or refinance coal reached? Is it purely on a business case—commodity, price outlook et cetera—or is there other decision-making that's taken into account for specific refinance and lending requests that come to you? For instance, is there branding or marketing that's taken into account? If you can elaborate on that process, that would be very interesting.

Have any of the banks entered into any agreement that would forbid or place obstacles in the way of your bank investing in export industries such as coal or intensive agriculture? If so, can you point to those agreements and explain why they were entered into and whose decision it was to enter into them?

Finally—and you can probably answer this now, and I'm happy for whoever wants to take a bite at it to answer it—what's the resale value of a house in a defunct coalmining region? Are you worried about stranded housing assets in regional Australia, particularly in areas where banks could see coalmine closures because they have failed to loan to those viable businesses?

Senator VAN: I've got some questions to put on notice too.

CHAIR: Okay. I'd like the last one answered, and then we'll go through yours. You don't need to take notes; we'll have these sent to you. Could you answer that last question about how housing prices could plummet in areas where coalmines disappear because they haven't been able to secure finance?

Mr Gall: I might start. The point I'd like to make is that any decisions that we're making in and around individual sectors, including coal, are made over a long period, and we want to work with our clients in the sector around their financing needs not just over the next three years but also over the next decade. I think it's important that we flag for a long period ahead where we stand with individual customers and what that might mean for their future financing, in our case, from National Australia Bank.

The other point I make is that we as an organisation are continuing to invest in rural and regional Australia, including thinking about the different types of jobs that we can have in rural and regional Australia. We certainly already have 2½ thousand of our people in rural and regional Australia. That has grown over the most recent period. What does that mean to housing prices in very specific locations? Obviously that's going to be a location-by-location issue. I think the big thing is that we can work with our clients over longer periods of time and, hopefully, that won't create any kind of cliff around housing or other assets being able to be decent assets to lend on in these specific regional areas.

CHAIR: I take you at your word in terms of direct employment and looking at opportunities, but I do also note that you talk about the green energy future and only seven per cent of your carbon offsets are coming from credible and verifiable Australian offsets. The rest of them presumably are coming from overseas. It doesn't seem to be supporting Australia's green energy future either with those sorts of stats.

Mr Gall: I wouldn't mind countering that point, if you don't mind. Over the last two years we have bought only Australian ACCUs, so we have bought only Australian carbon credits.

CHAIR: So why in 2019-20 were only seven per cent of your total offsets sourced?

Mr Gall: The depth and maturity of the market may have been a factor at that point in time. What you can expect from us is that we'll be buying Australian credits, and we have only done so over the last two years.

CHAIR: Okay. We probably do need to move on. Senator Van, do you want to ask your questions that we will send out on notice?

Senator VAN: Yes. I'll be very quick. Obviously coal and other fossil fuels are not the only contributors to carbon emissions and, therefore, climate change. I'd like each of you to set out for the committee on notice please your plans to divest out of other industries that contribute, such as transport, airlines, agriculture et cetera. I assume you're going to be consistent across all emitting industries, not just one.

CHAIR: Thank you very much. Do any other members want to put questions on notice? There being no further questions, I thank you for giving us the extra time and the leeway of the late start. Can you please forward that requested additional information to the secretariat by Tuesday 10 August. You will be sent a copy of the transcript of your evidence here today. You will have an opportunity to request corrections to transcription errors. Thank you for your attendance.

CABARRUS, Mr Julian, Director, Policy Operations, Member Engagement and External Relations, Association of Superannuation Funds of Australia [by audio link]

CRASTON, Mr Andrew, Director, Economics, Association of Superannuation Funds of Australia [by audio link]

[11:15]

CHAIR: It's a pleasure to welcome representatives of the ASFA. I need to go through a quick legality before we begin. Firstly, apologies for the late start for your session. This hearing is a legal proceeding of the parliament. The giving of false or misleading evidence is a serious matter and may be considered a contempt of parliament. The evidence given today is being recorded by Hansard and attracts parliamentary privilege. I invite you to make an opening statement before we move on to discussion.

Mr Cabarrus: Thanks Chair. ASFA is a non-profit, non-political national organisation whose mission is to continuously improve the superannuation system. We focus on the issues that affect the Australian superannuation system and retirement income policy, through research and evidence based policy development. Our membership is across all parts of the superannuation industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing almost 90 per cent of the 16 million Australians with superannuation.

The primary objective of the superannuation system is to provide an adequate income so that all Australians achieve a dignified retirement. The legislative and regulatory framework established by government and regulators places a series of requirements on superannuation funds in relation to how they invest on behalf of their members to secure and maximise their retirement savings. These key legislative instruments prescribe that superannuation fund trustees must act in the best interests of members and promote the financial interests of members and that investment decisions made by trustees are consistent with the sole purpose test—that is, they are made for the sole purpose of providing retirement benefits to members. More recently the government has implemented legislation requiring funds to stipulate how they deliver member outcomes on a broad range of issues, including risk adjusted investment returns. Funds who fail to deliver are subject to additional scrutiny from the regulator and must develop action plans to remediate investment performance or consider alternative courses of action, such as mergers.

In the last sitting of parliament, the government's Your Future, Your Super legislation passed, requiring funds' MySuper investment options to meet prescribed benchmarks annually over rolling eight-year periods. Where a fund fails its benchmark by greater than 50 basis points, it must advise existing members of this in writing. Where this occurs in consecutive years, the fund is prevented from receiving contributions from new members. In addition to these legislative requirements, funds must adhere to prudential standards, including those relating to direct investment. APRA's Prudential Standard SPS 530 Investment Governance requires trustees to formulate and implement an investment strategy and maintain a comprehensive investment governance framework. APRA has indicated that it intends to update prudential standard 530 and the relevant guidance to expand its guidance in relation to ESG considerations. APRA is also currently consulting on its draft prudential practice guide, CPG 229, in relation to climate change financial risks and has advised that it's expecting these risks to be assessed as part of compliance with prudential risk management and that it will be supervising how funds assess these risks.

The economic costs brought about by the COVID-19 pandemic demonstrate the importance of the superannuation industry in supporting the Australian economy and the wellbeing of Australians. Superannuation funds invest in a range of asset classes on behalf of their members, such as equities, bonds and infrastructure, to maximise their long-term risk adjusted investment returns and retirement incomes. Consistent with the principles of diversification, investing across different asset classes limits exposure to market risk associated with certain assets or asset classes. Superannuation funds invest in assets that not only provide high long-term returns but are also sustainable and contribute to the communities our members live, work and retire in. This includes investments in transport infrastructure, affordable housing and health care.

Thank you for inviting us to appear today. We welcome your questions and hope we can be of assistance.

ACTING CHAIR (Ms Kearney): Thank you very much for that overview of ASFA's position. You didn't make a written submission. Is there a written submission coming, or is it purely going to be an oral one?

Mr Cabarrus: At this stage we're going to make an oral submission. We have appeared before this committee a couple of times in the past. Certainly, if there is additional information that's required on top of our oral submission, we are very happy to provide that.

ACTING CHAIR: Thank you. There might be some questions on notice for you to provide later. I'm just giving you a heads-up.

Are you able to tell us if any of your members are reducing their share of investments in Australia's major export sectors? If so, can you explain which ones, why and perhaps the decision-making process there? In your opening remarks you mentioned, of course, regulatory oversight as a major factor, but can you answer that question at all?

Mr Craston: From the aggregate point of view, which is the data that we most rely upon, APRA is obviously the main source of that data. It publishes aggregate figures for the whole superannuation sector. It releases data on investments by asset class—that is equities, bonds et cetera—but not in an aggregate sense for investments by industry. From an aggregate point of view, there's not great public data on investment by industry and over time. From an individual fund's point of view, that's not something we're in a position to really comment on; it would be to ask individual funds whether they are reducing their investments in particular sectors that are exposed to the export markets.

ACTING CHAIR: Maybe that's something we can go back to APRA with. Thank you for that.

If you can't answer questions about specific investment decisions of your membership, let me ask this. With regard to the regulator, you talk a lot about APRA requirements. My experience from being on the board of a couple of superannuation funds is that they scrutinise the operations of the industry funds very closely. What do you think would be a consequence of a superannuation fund not following the regulatory regime and the guidelines that are requirements of APRA? What would be the outcome if they just ignored those guidelines?

Mr Cabarrus: The consequences would depend on the nature of the particular breach. There are several examples of consequences that could arise. There could be financial penalties in terms of fines on the trustee entity or individual trustee directors. Certainly something that we've seen a lot of in the past is enforceable undertakings where the regulator essentially agrees with the entity a plan of action to remediate the breach that has occurred and puts in place a very strict plan of action around that. If the remediation doesn't occur as agreed with the regulator, then more severe penalties can arise. In relation to the specific legislation that has passed recently—I'm referring to the member outcomes legislation, which passed a few years ago now and funds have just gone through their first round of member outcome assessments with APRA—what can happen there, particularly around investments, is APRA can ask funds to improve their governance around how they're managing their investments or advise of how they're going to improve performance over time where they're not hitting the targets that they've set for their members. So there are a number of things that can happen there in terms of funds needing to essentially improve performance, and certainly where funds have gone through that process with APRA and it's deemed that they're not going to be able to remediate the outcome that they've set for members aren't going to be able to [inaudible], then APRA will work with them towards other solutions. As I mentioned in the opening statement, that could include something such as a merger.

The other legislation that's passed recently that has quite severe consequences for funds who miss their performance benchmarks that have been stipulated is the Your Future, Your Super legislation. The consequences of that are if you fail for three consecutive years with your benchmark you can no longer receive contributions for new members. And that benchmark operates retrospectively, so funds are currently being assessed on their performance over the eight-year period to 30 June this year, and even in the first year if you miss that benchmark you must communicate in writing to your members letting them know that you have underperformed in relation to the benchmark and advise your members of their options. So there's a broad range of consequences for funds, and they are quite significant, as hopefully that demonstrates.

ACTING CHAIR: That does demonstrate it. These could all be enforceable with respect to APRA's advice around managing ESG and in particular climate risk. Is that right?

Mr Cabarrus: In relation to ESG and climate risk, I think the main thing to point out there is that there's clearly an expectation from the regulators in relation to appropriate management of ESG and climate risk. So APRA has described climate risk as foreseeable, material and actionable now and has advised that they're expecting climate change risk to be assessed as part of compliance with the prudential framework. They're updating the prudential framework in terms of what they expect around climate change and ESG risk assessment more broadly. We're going to see the outcomes of that shortly. I think the last significant update within the prudential framework happened some time ago. At the moment, the way that it looks is it's more about funds can do this and they should do it, provided it aligns with the financial interests of members. I think what will happen as APRA goes to update the framework is that they'll be more strident in terms of the precise expectations they have on funds and hold incomes to account for managing risk. But certainly over some period now APRA has intimated that that is the direction they are heading.

ACTING CHAIR: Thank you. I have no questions. I will hand back, as our chair is back.

CHAIR: Thank you, Deputy Chair. Following on from that, is ASFA aware of any particular guidelines, regulations, expectations of management from APRA, ASIC or any other regulator for that matter that seeks to curtail or limit or restrict or stop investment by either superannuation funds or finance by banks in viable coalmines, viable resource projects, viable fossil fuel projects, viable intensive agriculture or viable live export industries? I'd say a yes or a no.

Mr Cabarrus: No.

CHAIR: So you're not aware of anything like that, or any pending future regulation or rule that might come out of one of the regulators like that?

Mr Cabarrus: No. We are not.

CHAIR: It then leads to the question: if that's the case—there's a lot of, 'The regulators are telling us about climate risk and all the rest of it, and that's why we're pulling out of investment in this or that'—why would you be doing it? Why would superannuation firms be driving banks and others that they invest in to shift out of thermal coalmining when there is no regulatory basis for it?

Mr Cabarrus: I think the regulatory basis of funds' investment decision-making is one element, and hopefully I've described that to you. The core element, and what drives funds' decision in relation to investment and their consideration of ESG factors as part of that, is the need to drive value for their members in terms of their retirement savings and achieving the best possible outcomes for them.

CHAIR: I appreciate that, but I'll go on to ask: why, then, wouldn't superannuation funds in this country support a key part of the Australian economy, particularly one with high-paying jobs for thousands of Australians that funds clip the ticket on in terms of their superannuation, and particularly when the companies they work for are highly profitable, they're cashed up and their product is in demand, such as the Australian coal sector?

Mr Cabarrus: I can probably talk about the numbers in terms of investment and the fact that clearly there is significant ongoing investment by superannuation funds in the resource and energy sector. There hasn't been, at an aggregate level, which is the level at which ASFA looks at things, an aggregate divestment of all investments in those sectors. In terms of how trustees implement their ESG strategies, given superannuation is a long-term investment—effectively you are investing on behalf of members who hold that investment for 40 or 50 years before retirement—they are looking at the long-term growth and return profile of the asset, the risks around that and whether they are going to generate the required performance on that asset to provide the returns that they're seeking for their members. So there's a range of factors that funds consider. Certainly the fundamental factors that you mentioned, Chair, in terms of cash flow, business position and the broader economic exposure of the asset are all part of the assessment, and ESG is another overlay. In considering all of these factors, it is then up to the fund to make a determination as to which are the best assets to hold to deliver the returns over the longer term for their members.

Mr Craston: I can add something there.

CHAIR: Please go ahead, and then we will go to Dr Mulino for some questions.

Mr Craston: I will speak to some of the data, if that would be of interest. As I mentioned to the deputy chair earlier, aggregate figures of investment by super funds by sector or by industry are hard to come by. Just to give you an idea of the scale, it's worth noting that the market capitalisation of the ASX is about $2½ trillion, and about 20 per cent of that market capitalisation comprises mining, mineral processing and energy stocks. On the other hand, with respect to APRA super funds, in aggregate they hold around $470 billion in listed Australian equities. That amount equates to around 20 per cent of the total ASX market capitalisation. So while no figures are available for the aggregate investment in particular sectors, one can infer the aggregate super fund investments in the broader resources sector are likely to be quite substantial.

It's also worth noting that super funds do invest in resources infrastructure as well. With respect to infrastructure investment, funds can make investments in a number of different ways. They can purchase a direct stake or take an indirect holding via a specialised infrastructure fund. One example is Port Kembla, which is a port operated by NSW Ports. It's a key coal exporting facility. It services New South Wales. There are a number of super fund investors in NSW Ports, which is the key operator of that port.

CHAIR: Thank you. Dr Mulino, over to you.

Dr MULINO: Thanks, Chair. We had the banks here this morning. Part of their risk assessment is going to be the likelihood of a particular loan being repaid, and, obviously, loans have a wide range of repayment schedules, so banks will have to take that into account. My question is: when it comes to super funds in general, they really have a very long-term perspective, don't they? That's particularly so with funds with young memberships. So that obliges them to take into account explicitly 10-, 20- or 30-year horizon risks. And, although it's very hard to model those kinds of risks explicitly, I would be interested in your thoughts on that kind of perspective that super funds have that they need to take into account in order to be acting in the best interests of their members and securing the best long-term returns over their working lives.

Mr Cabarrus: I think that's absolutely correct. Funds do take a long-term perspective and, as I mentioned earlier and as you've just alluded to, they hold assets for a very long period of time on behalf of their members to generate appropriate long-term, risk-adjusted returns. I think in that regard we can look at what's happened in the recent period. Certainly investment returns over the recent year were 20 per cent. But, by the same token, there was a significant downturn due to COVID and the uncertainty around that in global share markets, and markets dropped in the realm of 30 per cent prior to the upswing. So there's a lot of volatility that can occur in the short term due to exogenous events. The great thing about superannuation is that it has the ability to invest for the long term to deliver long-term returns to members but also to invest in economic assets that are of significant national importance and hold those assets through turbulent periods. One that comes to mind, given the current crisis in superannuation funds, is investment in airports, as an example. The airports that funds have a stake in at the moment include Brisbane, Adelaide, Melbourne and Perth airports. Those airports, in terms of valuations, will have taken a hit given the current crisis and the obvious impacts of that on their business. However, funds are holding those assets for the longer term because of the returns that they can generate over a much longer period of time. Andrew, did you want to add anything to that?

Mr Craston: Adding to what Julian was saying about airports, the infrastructure investments of superannuation funds extend right through the transport portfolio from ports to rail and road infrastructure, energy infrastructure such as electrical networks and renewable energy, and also, as I think Julian mentioned earlier, social infrastructure which also has a long-term focus, such as hospitals.

Dr MULINO: I have one follow-up question on that. One of the trade-offs that super funds are able to take advantage of in order to boost their long-term returns—and this has been something that has occurred in relation to a lot of infrastructure like airports but also more generally—is that, where super funds invest in liquid assets such as unlisted property or unlisted infrastructure, they have been able to achieve some very good long-term returns. But, where you invest in illiquid assets, it would strike me that you've got to be doubly cautious of some of those longer-term risks, because you've got to be careful that you don't end up with an asset that is going to be difficult to sell.

Mr Cabarrus: I think that's absolutely correct. In terms of the investments in those unlisted assets, the exit from those assets can certainly be more complex and protracted; that clearly is the case when you invest in a listed equity that has daily liquidity. You clearly need to be very wary of the medium- to long-term risks, otherwise there can be significant impairments which will then impact fund performance in a significant way. You wouldn't be able to simply sell out of the investment as you would a liquid tradeable stock on the ASX, for example. So that's absolutely correct, and funds run the rule over those investments very carefully and look at all aspects of the investments to completely assess the risk and return profile of the investments over the medium- to long-term.

Dr MULINO: Just to stress where I'm coming from: this is not specific to the resources sector. These are going to be the kinds of trade-offs and issues that funds take into account right across the economy. You've talked about airports. If you were investing in an airport you would have to take into account liquidity return trade-offs. This is an issue everywhere.

Mr Cabarrus: A lot of what you have just described is specific to any particular sector. What funds will do as they consider particular investments is assess the risks, and they will consider the risks that are most material to the particular investments they are looking at. It's not to say that all risks will be the same, in terms of the investment universe, but funds will establish the same framework to look at all the investments and make sure that they consider the risks that are material for each investment they make.

Mr Craston: On the back of what Julian said: it's also recognised that there's a degree of due diligence that funds undertake with respect to investments in these long-term assets. It's also reflective of the fact that these types of investments are more costly to undertake compared to, say, a listed investment. We're talking about the due diligence in selecting the asset that stacks up on its own terms but also complements the investment portfolio of the fund.

Dr MULINO: Thank you.

CHAIR: Just on the issue of stranded assets: can you tell me what existing coalmine in Australia ASFA would believe could potentially be a stranded asset? Are there any that you have some evidence about that would be a stranded asset?

Mr Cabarrus: Just to be clear: we don't assess the assets and make determinations as to whether or not they're stranded or otherwise. That's for the funds to do. The funds have significant expertise. The major funds have large investment teams. They also—

CHAIR: But you're representing the funds here today. You're representing the industry here today. Is there anything that your association would believe would not be viable in terms of a coalmine that could be a stranded asset?

Mr Cabarrus: The association is representing the funds who are its members. However, we can't comment on whether or not particular assets are stranded because it's not our role to undertake the due diligence around those assets. That's the role of the superannuation funds and their highly professional investment teams, as well as the service providers they engage to support them in that process.

CHAIR: Would you be able to go back to your members and ask them which existing coalmines in Australia they believe are potentially stranded assets and report back to the committee?

Mr Cabarrus: We can certainly ask the question.

CHAIR: Thank you. Are there further questions from committee members?

Dr ALLEN: Not from me, Chair.

Senator VAN: Nothing from me.

Senator RENNICK: I'm fine, thanks, Chair.

Mr RAMSEY: My question is similar to one I asked the banks. There's some information you've supplied which comes from Deloitte. I will just read a bit of it. It's talking about climate change:

> These changes will have a significant impact on how rural and regional communities live and work—disrupting crop yields, harming health, reducing labour productivity, forcing people to move as their land is eroded or dried out, and damaging infrastructure. These impacts will not only heavily disrupt regional communities, they will have a deep economic impact across the country. 45 per cent of all employed workers across Australia and 41 per cent of GDP is at high risk of exposure to the physical damages of unmitigated climate change.

That's a very dismal view of where we're going with agriculture in Australia. Deloitte have sourced it from someone called ibid and I can't work out who they are.

This is this point that I put to the banks. Bear in mind that seven of the 10 hottest years on record—the record being since we started taking measurements, as opposed to the geological record—have occurred in the last decade. In this time Australian agricultural output has increased by 50 per cent, and there is an aim, and a very confident aim, amongst the agricultural sector and the government that that should move to $100 billion a year. How much weight does the superannuation industry put on comments and on predictions like that?

I'll just add a bit of information to this. I've sat on a number of inquiries now that have raised the question of why the superannuation industry in Australia does not invest more heavily in agriculture. Perhaps this is part of the reason: we've always been told there's a lack of suitable structures. But how much weight do you put on a comment like that? It's a pretty dismal view.

Mr Craston: Do you want me to give you a background on investments in agriculture?

Mr RAMSEY: That would be helpful, but I'm making the point that seven of the hottest years were in the last decade, when we've seen output go up by 50 per cent.

Mr Craston: I'm not aware of the statistics on the output of the agricultural sector. It is certainly the case that agriculture has been a relatively minor asset class in the universe of super fund investments. As is the case for potential investments across all asset classes, funds are looking for opportunities based upon sound commercial places where the risk and return characteristics stack up and complement the broader risk and return of the investment portfolio. Where there are super fund investments in agriculture, these can involve a mix of direct and indirect holdings. There are some specific examples of direct investments by funds. Rest has a significant investment in broadacre-cropping farms across New South Wales, Queensland and Victoria. A number of super funds have plantation investments. Aware Super has a number of almond orchards, I believe, across south-eastern Australia. It's also the case that funds invest through specialised agricultural invested funds. For example, a number of funds have indirect interests in some wagyu beef operations. Of course, funds also have exposure to the listed agricultural stocks on the ASX.

We might go into the reasons why agriculture hasn't been more heavily invested in by the superannuation sector later on, but it's certainly also worth noting that you can add to the universe of agriculture investments those that relate to supply chains. As you've noted previously today, super funds are big investors in nation-building infrastructure. It's well suited to super funds investing for the long term for their members. By way of example, there are a number of super funds who are institutional investors in some grain ports in South Australia, and of course Port Kembla in New South Wales is the major grain export hub for New South Wales. So it's not as if the funds have an aversion to a particular asset class, and that is evidenced by the array of investments funds make across various asset classes. It's a matter of those investments stacking up on a case-by-case basis. We can go into the reasons why there has been a relatively low allocation to agricultural assets if you would like.

Mr RAMSEY: No. So you're telling me the superannuation funds are not discouraged from investing in agriculture on the back of what I would call the alarmist prediction that I just quoted a few moments ago?

Mr Craston: That's right. I would say that superannuation funds are certainly on the lookout for quality investments that stack up on a risk-return basis, irrespective of the sector. Of course, there are the various regulatory prudential frameworks in which funds operate, including the ESG frameworks that Julian pointed out earlier on.

Mr RAMSEY: So superannuation funds do not have a negative view of agriculture on the back of some of the alarmist predictions about climate change?

Mr Craston: I would say that's the case, yes.

CHAIR: There being no further questions from committee members, I thank you very much for the evidence that you've provided to us today. If there's further information you want to get to us, please do so by Tuesday 10 August. You will be sent a copy of the *Hansard* transcript of your evidence, and you'll have an opportunity to request corrections to that transcript. Thank you very much.

MITCHELL, Mr Joseph, Workers Capital Lead, Australian Council of Trade Unions [by video link]

SUTTON, Ms Deneille, Workers Capital Officer, Australian Council of Trade Unions [by video link]

[11:53]

CHAIR: I welcome representatives from the Australian Council of Trade Unions. This hearing is a legal proceeding of the parliament. The giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. The evidence today is recorded by Hansard and attracts parliamentary privilege. I invite you to make an opening statement before we proceed to discussions.

Mr Mitchell: Thank you, Chair. Before I begin, I would like to acknowledge the traditional owners of the land on which we meet and pay my respects to elders past, present and emerging.

The ACTU is Australia's only peak trade union body, and we represent some 34 affiliated trade unions and their more than 1½ million members and their families. Australian unions represent workers across all industries, including our major exporting industries, and we take a keen interest in the sustainability, growth and planning of them and around them.

Most of our major exports are in the extractive industry, namely iron ore, coal, petroleum, natural gas, aluminium, copper and precious metals. Tourism and education are also some of our largest exports. Australia's high concentration of exports in the extractive industries makes climate change and global action to mitigate dangerous climate change the most pressing challenge for the growth and sustainability of these industries. Fourteen of Australia's largest trading partners have now committed to net zero emissions. Given our reliance on the exports of coal, gas, beef, petroleum and other carbon-intensive products, this represents a significant threat to our export industries and the workers in them.

In the global economy, the international policy signals are clear. The transition to the net zero emissions is already underway and is irreversible. Seventy per cent of Australia's two-way trade is currently with countries that have commitments for reaching net zero emissions by or near mid-century. The USA, Japan, Korea, Europe, China and Britain have all committed to net zero emissions in recent months. Some 78 per cent of the world's GDP is also covered by net zero commitments at or near mid-century. Excluding our exports in tourism and education, most of these exports are in carbon-intensive industries or are inputs into carbon-intensive processes. These industries and their supply chains will undergo significant transitions in order to participate in the global economy, which is trending to net zero. The Australian economy will need to reduce its own emissions in order to maintain our export industries and increase the diversity of our industries in regional areas to accommodate the transition.

The policy and intent of regulators, investors and financiers directly intersects with this challenge. It is standard practice for investors to consider all of the risks to businesses and projects in which they invest. For Australian superannuation funds, some of the largest investors in our country, they're obliged to act in the best financial interest of their members in considering the risks posed by climate change in the transition of the international economy to a net zero economy. Working people need to be assured that the custodians of their retirement savings are taking appropriate steps in securing their assets against climate risks. For many workers, their retirement savings are the largest asset they own, so safe, effective management for the long term is critical.

In considering climate related risks, investors will have to take note of physical risk from changing climatic conditions; lower asset prices; defaults on loans and insurance claims from the increased frequency of climate related disasters; transition risk from policy changes, technology innovation and social adaptation; stranded assets and decreased demand and lower prices, along with supply chain disruption; and liability risk from stakeholder litigation and regulatory enforcement, and the business disruption from this litigation and penalties through enforcement. Investors are not being ideological about their considerations of these risks. They are real risks. It is appropriate that regulators consider the impact of climate change paired with the global commitments of our trading partners in providing guidance to investors and companies to ensure transparency and an appropriate market reaction. Superannuation funds can and should take a long-term view of the assets they invest in. Many investors have made commitments to a net zero portfolio, not just because it's an appropriate reaction to minimising the negative externalities of their investments but because it is necessary to ensure, in the long-run, financially viable investment. If superannuation funds do not consider climate risk, they are failing in their fiduciary duties to their members and in their principal goal of maximising retirement savings.

Workers acutely understand the future of their industries, and it's becoming increasingly urgent for government to have a plan to support these communities by increasing investment in more diverse industries which are resilient to the changing global market. The absence of a national energy plan and net zero commitment and government planning for the creation of new industries in Australia is costing jobs. It is costing our position in the global race to be at the centre of new export markets and opportunities. Having a clear and stable plan from government about climate change, the future of the energy network and priorities for industry will assist investors in injecting more capital into existing businesses and the growth of new ones, creating more opportunities for workers to get stable and secure jobs.

CHAIR: Do you have a further contribution, Ms Sutton?

Ms Sutton: No, thanks.

CHAIR: Thank you very much. Alright. You spoke then, Mr Mitchell, about the best interests of members in terms of superannuation funds and the best interests, presumably, of bank shareholders. But what about the best interests of union members, particularly those who are in the coalmining sector? Is it the position of the Australian Council of Trade Unions that coalmines should be phased out actively by banks not lending to them, superannuation funds not investing in them and governments intervening to close them down?

Mr Mitchell: Coalmines won't be phased out by investor action or by banks, and, when these investors make their assessments of the future of these industries, they're doing it against the long-run view of those industries. The simple fact is that most of our international trading partners have commitments to net zero and are each day and each week making new targets for 2030. These are real challenges that our export industries are going to face. Our members are acutely aware of the future of their industry, and we need government to step up to ensure that, as the global economy transitions to one which is not reliant on carbon-intensive exports, these workers aren't left in the lurch.

CHAIR: How does that square away with the fact that, right now and for the foreseeable future, coalmining companies are profitable; their product is in demand, particularly throughout South-East Asia, South Asia and Central Asia; they actually have very good prices; and they are expanding employment as we speak?

Mr Mitchell: That's consistent with the global transition to net zero. The operation of coal exports now is profitable and will continue for some time, as countries transition to a net zero economy. That they are profitable right now and that superannuation funds and banks still lend to them right now is common practice. I'm not sure what your contention here is.

CHAIR: It seems to me from the ACTU's submission that it believes in the transition, which basically means the shutdown of the mining sector. While you are right that there is still finance being provided, what we have in effect and what this committee is looking at is banks and insurance companies in particular withdrawing their services from completely viable mining operations. Is that something that the ACTU supports?

Mr Mitchell: It's not that simple. It's an exogenous factor in these industries that—

CHAIR: Let me make it that simple with a question. If a coalmining operation is viable, do you think that a bank or an insurance company should be able to deny that operation their services?

Mr Mitchell: Are you suggesting that there is imminent regulation to require a superannuation fund—

CHAIR: No, I'm asking the question. It's a yes or no question, and it goes to the heart of it. You've got heaps of your members at work in this sector. Let's take coal out of it. Do you think that, if an operation or a business was completely viable for the time of the finance or for the duration of the contract that was being entered into—if it all stacked up economically—a bank or an insurance company should have the right to just say, 'No, because we don't like the look of you'?

Mr Mitchell: I think that you're slightly mischaracterising the decision-making here by banks and insurers. There are going to be carbon-intensive projects which take off and have a life span of the next five or seven years that will be supported by investors and will employ workers in good jobs. Gas is a really good example of a carbon-intensive industry which we'll export. They'll have a pretty short life. That will be a new opportunity.

As a general rule, we don't advocate for divestment ever. It's not an appropriate reaction for an owner of an asset to sell off an asset or to disengage with an asset in order to precipitate some sort of transition. Owners of assets and banks have an obligation to the people employed there and the people who work there to work with them to transition to a decarbonised product. When you're talking about mining, we've got inputs into highly carbon-intensive supply chains like iron ore and copper which will need to continue. We want our exporting industries to decarbonise so that we're the most competitive internationally. The actual pressing challenge here is that we need investments in these areas so that they can participate in what a global economy will be in 10, 15 or 20 years; not just one over the next three or five years.

CHAIR: I'm happy to move to the deputy chair, and I might come back with some more questions at the end.

Ms KEARNEY: Thank you, Chair. Thank you, Mr Mitchell. I think you've made it very clear from your submission that there are very large domestic and global influences at play here in a number of industries, not just our resources industry, with regard to climate risk and climate challenges. It really is an issue therefore of who's best to look after workers in this situation. I have personal experience from Latrobe Valley and from the closure of Hazelwood—that was a decision made by that company. Those workers were left high and dry down there. They made the decision that coal-fired power is not a good investment. Was it Engie who had Hazelwood? I've forgotten who actually owned it. If we are to look after workers in the foreseeable future, we have to take into account that these decisions are going to be made as financial decisions, particularly by those companies engaged.

Who is best placed in your opinion to make sure that there are frameworks in place for workers when these decisions are made? It may be that a coal exporting company decides at some point that, 'We're no longer going to export coal, because it's not financially viable anymore.' I can't see them really caring too much about their workers. We've seen in the past that it has certainly been the experience of workers. Look at the car industry, for example. When the Liberal government pulled out their support for the car industry a lot of workers were just left high and dry. House prices plummeted in those areas where those workers were. Other businesses closed down. We know that, when industries are in decline, the workers are usually the ones who suffer the most. In the Australian Council of Trade Union's perspective, what do we need to do to prepare for a decline in those industries? We've seen it in coal-fired power. Do you think governments have a role? Do you think it's banks? Do you think it's super funds? Is it unions? Do you think we need to be preparing? What's your view of the next decade or so with respect to workers in at-risk industries and their future?

Mr Mitchell: The ongoing and inevitable transition of our economy to net zero and our exports to be sustainable in a net zero global economy is a challenge that every single economic actor in Australia has to face and has to work together to resolve. There is an incredibly large role for government here. There is an incredibly important role that unions play as the voice of working people. It's an incredibly important role of asset owners and management teams to ensure they have the right frameworks in place.

There are too many examples of industries which have undergone a significant transition or undergone a significant decline where working people have been left behind. It's an unacceptable outcome. Working people need to have confidence in the future of their own incomes and the future of their industry so they can participate in whatever industries exist in the next 20 years. When it comes to these transitions, we advocate for a just transition, which is one where the voice of workers and the communities are heard and plans are created for retraining, redeployment and alternative investments in new industries so that we don't experience massive declines where workers are struggling to find new jobs.

We've seen it done very poorly, and we've seen it done well all too rarely. International examples exist where countries in Europe are transitioning away from coal-fired power stations and towards renewable industries and are assisting workers through the transition. We've seen the Victorian government invest in communities to create sustainable and carbon-free energy resources like storage to ensure that there are job opportunities available. This will require a collective effort to make sure that, when investors have an asset and are invested in an asset, they work with the management teams to create a framework that acknowledges that asset's commitment for the workers within it. It's a critical task that we should have been doing five or 10 years ago. The union movement has been advocating for it for years now. We have seen years of inaction from government in terms of long-term planning for these regional communities. We need to start work on it urgently.

Ms KEARNEY: Thank you. What is the role of the financing sector? Do you believe that super funds or banks should be working with companies to help them transition? What is the role particularly of finance in this situation in your opinion?

Mr Mitchell: We believe that there's an obligation on superannuation funds in making commitments to net zero or working with assets to decarbonise. There's an obligation to ensure that there is a just transition for working people. Many superannuation funds have made commitments in line with the Paris Agreement. The Paris Agreement includes a commitment to a just transition, and we expect superannuation funds and other financiers who have made those commitments to honour that. That involves establishing a framework in collaboration with the union movement and in collaboration with the assets management team to develop strategies to transition the workforce from carbon intensive work to [inaudible] which are compliant with a net zero economy. We should clarify that 'net zero' means 'net zero'; it doesn't mean 'zero'. There will always be carbon-emitting industries and we will always see industries [inaudible].

This is partly why we need a national framework to achieve this. Individual investors will need to make commitments to do whatever they can to ensure a just transition, and that includes training funds, opportunities for redeployment and injecting new capital to build new parts of the asset so that we can have a Rio Tinto which is carbon neutral or so that we can have a BlueScope Steel which is operating off electric arc generators rather than highly emissions intensive work. We need to have frameworks here nationally. Investors need to adopt a just transition framework. We need the voice of working people all throughout that.

Ms KEARNEY: Thank you, Mr Mitchell. We did hear very similar evidence from the Minerals Council of Australia, who said that the industry itself has a responsibility to be playing a significant role in this. Really, it's industry. I hear what you're saying: industry, the financiers and governments working with organisations like trade unions. I don't have any other questions.

Senator RENNICK: You keep talking about the transition—that is, moving away from coal and transitioning to renewables. Do you know how many wind farms and solar panels are going to be needed to power the Gladstone aluminium refinery and the aluminium smelter?

Mr Mitchell: No.

Senator RENNICK: Don't you think, before we talk about transitioning, that we should actually have a clear understanding of what's required to keep downstream industries that rely on our coal resources going in Australia?

Mr Mitchell: Yes. We definitely need a national energy plan. It's not going to be the capacity of the ACTU to develop a national energy plan. It's a responsibility that lies with government.

Senator RENNICK: Actually, hang on a minute.

Mr Mitchell: We need additional electrical generation resources, full stop. There are opportunities for the government to allow the construction of offshore wind farms which are going begging because there is no regulatory landscape for those offshore wind farms to be developed. There are opportunities to develop green hydrogen which aren't being capitalised, despite our abundance of renewable energy resources. It could be used as an alternative fuel. We have these opportunities.

Senator RENNICK: Thank you; I've got your answer. When you say 'opportunities', have you done a cost-benefit analysis on those opportunities, from building the wind farm right through to generation, transmission, storage, security and recycling?

Mr Mitchell: We haven't, but we advocate for additional investment in Australia and in Australian jobs. That's the goal, and that's what we're trying to achieve.

Senator RENNICK: So, if you haven't done a cost-benefit analysis, how do you know it's an actual opportunity? How do you know it's not a chance to actually destroy the industry rather than create a new one? This is the thing: everyone keeps talking about opportunities, but I haven't seen any cost-benefit analysis that goes right through the energy sector and the costs of all of those stages of getting energy to various points, whether it be business or consumers, that shows that it's viable.

Mr Mitchell: I appreciate that. I'd suggest that manufacturers are finding the power prices too high, which points to a lack of supply of electricity, which means that there's definitely room for additional generative capacity in the Australian energy market. If we're finding this in terms of our manufacturing and our manufacturing exports, then surely there is scope for Australia to build wind farms offshore, like the Star of the South project, which has companies, investors and unions on board. In terms of what we think is achievable in the market, we definitely think that there's scope for additional generation in Australia, and I don't think that there are many working people who I talk to that think their power bills are too low.

Senator RENNICK: Have you done a comparison between the cost of coal and the cost of renewables, including transmission, storage, security and recycling?

Mr Mitchell: The cost per megawatt-hour of renewables is decreasing each year. The cost per megawatt-hour of renewable energy is, at the moment, the cheapest it's ever been. For additional and new generation, it's cheaper than any other alternative.

Senator RENNICK: Where is your source for that?

Mr Mitchell: I can find a source for that. I'll find it for you.

Senator RENNICK: Earlier on, you said it's the role of government to have a regulatory framework. That's an interesting comment to make, because, earlier this morning, we had Anna Bligh, head of the ABA, appear, and she was responsible for selling wind farms when she was Premier of Queensland, and many other states also privatised their energy assets on the basis that the market would fix everything. So who's responsible for energy in this country? Is it the market or the government? If it's the government, then why did prior state governments—many of them Labor—privatise those energy assets?

Mr Mitchell: We always oppose privatisation of government owned assets. It's an irresponsible move that usually leads to poorer outcomes for working people. In terms of the responsibility for the national energy market, which does lie with the federal government, you do have national energy transmission networks, and there is a startling lack of a national energy plan coming from the federal government at the moment. So, while power generation and electrical transmission are a shared responsibility, there is a role for the federal government to play too.

Senator RENNICK: Do you know what percentage of AEMO—the Australian Energy Market Operator—the federal government controls?

Mr Mitchell: No.

Senator RENNICK: It's 10 per cent. Given the federal government only controls 10 per cent of the Australian Energy Market Operator—I think about 46 per cent is controlled by state governments and the rest is controlled by the private sector—how exactly is the federal government meant to be responsible for energy when it doesn't have power over the Australian Energy Market Operator?

Mr Mitchell: I'd suggest that's a question for government and not a question for us.

Senator RENNICK: I accept that, but you said the federal government is responsible for it. We don't control AEMO; it's actually the state governments. If you look at section 51 of the Constitution, energy isn't a responsibility of the federal government. I'm questioning why you think the federal government is responsible for the National Energy Market when, traditionally, it has always been the role of state governments.

Mr Mitchell: I understand, from recent political debates, that there is a startling lack of a national energy plan, and the only responsible actor to develop a national energy plan is Australia's national government. Without that, it's very difficult for—

Senator RENNICK: Look, I don't disagree with you, but I'm just letting you know that it's very easy to say that, but when you only control 10 per cent of the entire operation—we tend to be the whipping boys. I don't think many people understand that we have little control over the Energy Market, but I take your point.

The resource sector employs over 250,000 in high-paying roles in regional Australia, and over a million people are employed by it more broadly. How is the green economy going to replace these jobs?

Mr Mitchell: You have hit a really good point. The quality of jobs in the renewable sector is something that we're really concerned about as a union movement. We think there are widespread examples of exploitation in the construction and maintenance of renewable energy resources in Australia, and that's something that urgently needs to be fixed.

We believe there is a role for investors and a role for government in ensuring the renewable energy sector is a properly regulated market that creates good, high-paying jobs. The union movement is advocating for recognition of qualification, regularity of hours, the employment of localised workforces and effective strategies to achieve that at every stage. That's part of a just transition strategy, and that's part of the role of government, unions and the private sector to develop new industries, which ensure that, as we transition to a net zero economy, good, high-paying jobs in some of these sectors are not replaced by low-paying ones. That's something that we should all be working together to achieve.

Senator RENNICK: How will Australia compete against countries like China when it comes to manufacturing solar panels?

Mr Mitchell: China has industry policy and we don't, and we should have industry policy to actually prioritise and generate additional manufacturing capacity in Australia. It's really a question of commitment. We should definitely be trying to compete against everyone else in the world to produce high-quality solar panels when we are one of the major exporters of silica. We can do so much more here. We can be at the centre of global exports and global innovation here. We have some of the smartest scientists in the world generating new ways to develop solar cells and silica cells so that they're more efficient, longer lasting and more sustainable. We have an enormous opportunity; we should not be missing our window.

Senator Rennick interjecting—

CHAIR: I'd direct you to industry.gov.au to have a look at our industry policy, which there is a substantial amount on, including the Modern Manufacturing Initiative. How many people operate a wind farm?

Mr Mitchell: I can't give you that answer, but there are jobs in maintenance and there are jobs in construction. But it is a lot—

CHAIR: How many people are involved in spinning the blades?

Mr Mitchell: Not many.

CHAIR: None. How many people operate a solar farm?

Mr Mitchell: It is a lower employing industry, but there are opportunities for working people in those roles.

CHAIR: So how on earth are the 250,000 people employed in the resources sector in regional Australia going to transition into jobs on wind farms and solar farms? Is that the ACTU's contention, that they should transition to those sectors—and that banks should assist in that process?

Mr Mitchell: It's not our contention that every worker in a carbon-intensive industry transitions into the renewable energy industry. It's not possible. Our contention is that there should be more investment in Australia in those regional areas in a multitude of diverse industries. We've got the opportunity to develop clean hydrogen. We've got the opportunity to develop an advanced manufacturing supply chain here as well. We're just not directing enough resources to get there. By signalling clear, long-term intentions here, we could attract international and private capital to those regions to make sure that we've got the opportunities for a just transition. It's really a collective effort here that we need to undertake.

CHAIR: Capital is currently coming in; it's coming in towards resources. Are there any other questions from committee members?

Senator Van interjecting—

Senator RENNICK: Yes, I have one, if that's okay.

CHAIR: Sorry, Senator Rennick; I thought you were finished. Go ahead, and then we'll go to Senator Van.

Senator RENNICK: Are you aware of what percentage of metal is in the ore body of lithium?

Mr Mitchell: No.

Senator RENNICK: It's about one to two per cent, a high-grade mine might be in the high ones. So you basically have to mine 100 tonnes of ore to get one tonne of metal. On top of that, you'll have stripping ratios. So you may have to dig up 500 tonnes of dirt to get one tonne of metal. It's a false economy, when it comes to carbon emissions. People seem to think that the stuff that goes into solar panels and batteries et cetera doesn't involve mining.

Mr Mitchell: It's a good thing [inaudible]. We support mining jobs.

Senator RENNICK: [Inaudible] I thought you'd like to be aware of just how small the percentage of metal is for lithium. Cobalt is half a per cent [inaudible]. Anyway, that's all thanks.

Mr Mitchell: Just to respond to that. If we need more investment in mining, that's fine. That's a good thing. We can contribute to more mining in a net zero economy. We will always need steel. We will always need aluminium. We will always need copper and gold. These are some of our major exports, and mining is going to be a critical part of Australia's future.

Senator RENNICK: Yes, but mining isn't a net zero activity.

CHAIR: Go ahead, Senator Van.

Senator VAN: Thank you, Chair, and thank you everyone for appearing before us today. Mr Mitchell, from the evidence you've given so far, despite your last comment, you seem very keen to shut down coalmining.

Mr Mitchell: Absolutely not.

Senator VAN: Every comment you've made so far today would lead the committee to believe that is what your intention is.

Mr Mitchell: It's absolutely not the case.

Senator VAN: So you fully support the ongoing mining of thermal and metallurgical coal?

Mr Mitchell: Coal will have a significant place for quite a while under Australia's—

Senator VAN: What time frame do you put on that?

Mr Mitchell: To achieve net zero, we are going to have to transition away from these exports and we are going to see a reduced demand from our trading partners in the net zero economy. We're not going to see zero demand. Metallurgical coal, or coking coal, will likely be required for the foreseeable future.

Senator VAN: And thermal coal?

Mr Mitchell: Thermal coal, it's really uncertain. And that's partly why this committee is supposedly examining the prudential standards and the investment behaviour around the funding of Australia's export industry. The uncertainty around thermal coal is a risk, and that's partly why we're seeing fewer dollars, or we will see fewer dollars, associated with it.

Senator VAN: But the banks gave evidence this morning that it's likely that funding—those dollars associated with it that you just referred to—will come from private sector funding, as in private banking and private investors, as opposed to public investors such as the banks. So, if the funding is there, despite the withdrawal of the banks and insurance companies, do you, as a union movement, support the ongoing mining of coal in Australia to export to our neighbours near and far?

Mr Mitchell: While there's coal to export, we will support the workers in those industries.

Senator VAN: So why has your evidence today been so negative against it? You've done nothing but denigrate it and talk up the risks associated with it and almost compelling your—

Ms KEARNEY: Senator Van, those risks are real; they're just being realists. We have heard from all of the other people on this committee that those risks are actually real. I don't think you need to attack our witness today—

Senator VAN: Sorry, Deputy Chair, I believe this was my turn to talk, if you'd like to—

Ms KEARNEY: Yes, but I think you're being a little out of order; this is attacking the witness rather than the evidence—

Senator VAN: I'm not; I'm questioning his evidence, and I'm very much allowed to do that, Deputy Chair.

CHAIR: As long as it's framed as a question. So it's fine. Go ahead.

Mr Mitchell: First of all, I'm absolutely not being negative here. I'm simply laying out the facts about how we've got the future of our industry to consider, and workers are acutely aware of what the future of the industry is. Sorry, can you just repeat the question?

Senator VAN: Yes. Throughout your evidence this morning, into this afternoon, you have been talking down and talking about the need to move away from coalmining and coal exporting. That is your evidence. I'm sure *Hansard* will reflect that.

Mr Mitchell: I take contention with that. It's absolutely not what the evidence has been. The evidence has been that there will be a transition, not that—

Senator VAN: I will go back through *Hansard* and I will correct the record if I am wrong. But that is my take on your evidence.

Mr Mitchell: I appreciate that. But it's very different to say 'there will need to be' and 'there will be'. There just will be. We've got the future of our export markets to consider, and our largest trading partners have all committed to net zero commitments by 2050 or 2060. They have made commitments to significantly reduce their use of fossil fuels for energy and significantly reduce their carbon emissions by 2030. That is going to have consequences for Australia, because we are a high-exporting nation which exports significant amounts of carbon-intensive products. What I have been talking about is the need for government and the need for investors to have a plan to make sure that this transition will happen, to make sure that we see a just transition and to make sure that workers have access to a diversity of industries within their communities to find good paying jobs going forward.

Senator VAN: I'm glad you raise that, and you raised two key points, and I'll touch on them now. You have constantly asserted during your evidence that the government doesn't have any plan. I point you to the energy technology road map, which was released by the energy minister last year, prior to the budget. That is a very clear plan, and if you have ever read it you would see that it is a very clear plan on how we are moving to lower emissions technologies. Have you not read that plan?

Mr Mitchell: Sure. It's a plan, but it doesn't include—

Senator VAN: You have been saying all morning that we need a plan from the government, that we need this from the government. It already exists.

Mr Mitchell: But there isn't—

Senator VAN: You can't deny that a plan exists. It might not be the one that you want, but a plan does exist.

Mr Mitchell: Well, there is no plan for a just transition.

Senator VAN: Sorry. I thought you said you had read the technology road map.

Mr Mitchell: I haven't read it.

Senator VAN: Okay, then before saying that the government should be putting forward a plan, why don't you go and read the one that we've put forward? Surely that would be a good starting point. I will leave that there. Next, and it relates to that same question: many, many times through your evidence you have talked about net zero; is that correct? Am I correctly reflecting what you have said?

Mr Mitchell: Yes.

Senator VAN: Net zero allows for many, many different types of abating of those emissions. As we have heard, some banks are buying carbon credits from India et cetera, and others are buying them from China and other places—things that don't support Australian workers. On the technology road map, one of the technologies that we are investing in, on top of hydrogen and all the other ones that you mentioned that will create jobs, and we are very much aware of that—and the technology road map that you haven't read sets that out very, very clearly, but it also talks about carbon capture and storage. Do you think investors, particularly your industry super funds, should be investing in technologies that abate emissions and reduce emissions, such as carbon capture and storage?

Mr Mitchell: First of all, they're not 'our' industry super funds; I can clarify that. As I said earlier when we were giving evidence, there will always be industries which have positive carbon contributions. That's part of the 'net' of net zero. We're not going to ever have every industry being able to produce zero carbon emissions. There will need to be investment in carbon offsets or carbon capture and storage, if it becomes viable, and every investor should be considering their options there. It's not something that we have the capacity to influence or demand. Every investor should be considering their options in carbon evasion and carbon mitigation.

Senator VAN: Would you support that that is done onshore here in Australia rather than buying offshore credits?

Mr Mitchell: Yes, definitely.

Senator VAN: Thank you. Thank you, Chair.

CHAIR: Thank you. I understand Mr Ramsey has some questions.

Mr RAMSEY: Thanks, Chair. Thank you for appearing before us today. I wasn't going to ask questions, but you did raise this. I think you said that 70 per cent—and I think it's in your submission, or your submission at least alludes to it—of our major trading partners are committed to net zero by 2050. Given that that 70 per cent includes the two most populous nations on the earth, how confident are you in them firstly having the intention, and then secondly the capability, of reaching that commitment?

Mr Mitchell: We're not in a capacity to meet their commitments.

Mr RAMSEY: That's fair enough but, if policy is decided—and you are suggesting policies—on commitments, we need to have a pretty clear understanding of the possibility of those commitments being empty. You don't really have a view on that? Do you take it as is?

Mr Mitchell: When you're interrogating the market, you need to take into account sovereign risk. If the vast majority of our trading partners have made commitments to net zero, it's really up to them how they achieve it. I don't know how you'd go further.

Mr RAMSEY: That's fair enough, but the vast majority in this particular case represents a very significant segment, and they are a pretty large market for our energy, even though, of course, there is a ban on Australian coal going into China at the moment. But, one way or another, that has affected the world market anyhow; it has tightened up supply in a whole lot of other ways. But, if you don't have anything to add on that, that's okay. Thank you.

CHAIR: Dr Mulino, have you got any questions? I take it that's no questions from Dr Mulino. I want to clarify one thing from the interaction with Senator Van. You made a statement before, and I don't have it verbatim, but it was something along the lines that, 'We will need to transition away from those industries such as mining'—which is what we were talking about—'to achieve net zero.' So I'm trying to understand clearly: is it the ACTU's intention that, in order to achieve net zero, coalmining is going to have to be phased out?

Mr Mitchell: There will always need to be coalmining in metallurgical coal, and, if Australia is to achieve net zero—again, it's the stressing the 'net' of net zero—there will need to be less coal and more renewables in the market. If we're talking about our export industries, and I think that we're getting off track here—we're talking about our export industries.

CHAIR: Yes, that's right. We are.

Mr Mitchell: If we are talking about the responses of our trading partners then how they achieve that is not something that we can influence, but we will need to have a response and that will involve additional investment in the regional communities to make sure that there are jobs in industries available to them.

CHAIR: I'm taking it you don't necessarily believe that our coal export industry, including thermal, will have to phase out to achieve net zero?

Mr Mitchell: If it's talking about our exports, then there may be opportunities for coal but it will likely be highly reduced. We just need to have a much clearer plan of how we're going to deal with these industries.

CHAIR: So final questions and then we will wrap up. I do thank you for taking the extra time to talk to us. Your submission doesn't reference proven net zero tech like CCS or nuclear. Is there a reason for that?

Mr Mitchell: I will have to get back to you about what our policy is on nuclear. In terms of carbon capture and storage I think that the use of the technology is limited in the current market. There are definitely large scopes for carbon offsets, but I think that in terms of the evidence we gave today there are going to be positive emitting industries in Australia. We will need to have a way of offsetting those emissions. There will likely be positive emitting industries in the world and we will need to have a way of offsetting those emissions. If there is investment in viable technologies which create those offsets or abatements and contribute to that then Australia is a good place to start.

CHAIR: I'm going to ask a hard question and deliberately provocative one. I am one of the few Liberal National Party members who's held a union ticket—two of them, in fact, with two different unions. This really does grate on me. It does seem, despite all the caveats that you've said, that the ACTU's position puts international capital ahead of workers who rely on these industries. I'm just trying to understand that. Can you please give me your response to that sort of view that I go away with, that the ACTU seems to be backing international capital—what other countries are doing and all the rest of it—ahead of good paying jobs that are out there right now, particularly in the resources sector.

Mr Mitchell: That's absolutely not our view. The contention that we came here today with is that working people are at the centre of all of these conversations. We need to make sure that working people have jobs which are sustainable in the long run, can allow workers to plan for the future, are full time. Every day our affiliated unions fight for working people. We fight against the ramping casualisation in the mining industry. We fight against labour hire companies which are undermining workers' wages. We fight for better jobs in the renewable sector. We advocate for better policies which allow for the expansion of our export industries. At the centre of all of this is working people. We need to see working people getting a better deal every day. That's our role in this. We're not advocating on behalf of international capital. They have plenty of money to deal with it themselves. What we are recognising though is that their decisions are going to be made—and especially international capital is exogenous to the will and the wishes of Australian people. We need to have a plan on how we are going to deal with this and we need to be working together to achieve it.

CHAIR: I completely agree with that last sentence. We do need to have a plan on how to deal with this. It might be a different sort of plan that we have in mind than what you have. Anyway, thank you very much. There's been some aggressive questioning here and you've handled that very well. I want to thank you, Mr Mitchell—and Ms Sutton as well. I hope you haven't felt left out there, but I'm gathering that you are the—no offence, Mr Mitchell—backup and the brains trust. You are feeding information—

Mr Mitchell: Definitely the brains.

CHAIR: Thank you so much. I just need to let you know before you go that if there's any additional information that you want to put forward you can do so direct to the secretariat by Tuesday 10 August. You're going to be provided with a copy of the transcript of your evidence here today. You'll have an opportunity to request corrections to that transcript, as will Senator Van, by the way. So I will leave that with you guys and thank you very much again for your testimony here this afternoon.

CHIESA, Mr Wayde, Director, Regional Development and Investment, Townsville Enterprise Limited [by video link]

[12:45]

CHAIR: I now welcome representatives from Townsville Enterprise. This is a legal proceeding of the parliament. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of the parliament. Evidence given today is recorded by Hansard and attracts parliamentary privilege. I invite you to make an opening statement before we proceed to discussion.

Mr Chiesa: Thank you for the opportunity to appear before the committee today and to give evidence in this inquiry, which is of critical interest to the people of regional Australia. I would like to start by acknowledging the traditional owners of the land on which we meet. I pay my respects to their elders, past, present and emerging. Townsville Enterprise is the principle economic body and regional tourism organisation representing North Queensland, which includes the five local government areas of Townsville, Charters Towers, Hinchinbrook, the Burdekin and Palm Island. Townsville Enterprise is the primary engine for economic development, charged with leveraging the region's assets and strengths to drive jobs, growth, infrastructure investment and quality of life.

The mining and resources industry collectively contributes $3.2 billion to the north and north-west Queensland regional economies, supporting almost 20,000 local full-time jobs. Additionally, the sector generates $5.4 billion in royalties each year, which is shared across Queensland to build our hospitals, schools, resources and roads. The north and north-west Queensland region is the most strategic export supply chain in northern Australia. The area contains up to 720 billion of the known in-ground resources, 500 billion of which are new economy minerals.

Today I would like to highlight three things to the committee: what happens to regional communities when you lose a major export industry, what happens to regional communities when export industries are developed and expanded upon, and where we are heading with what are clearly discriminatory practices by banks, financial institutions and insurers when it comes to certain areas of the export industry.

The first thing I'd like to draw the committee's attention to is what happens to regional communities when they loses an export industry, as was the case when Queensland Nickel closed, in January 2016. Overnight, the North Queensland region lost 550 direct jobs, 1,500 indirect jobs and $3 billion in regional GDP. Townsville hit double-digit unemployment rates, at 12.5 per cent. Residential vacancy rates neared 10 per cent, and there was next to no population growth. The committee might ask the relevance of this story to the inquiry, but I cannot stress enough how important export industries are to not only North Queensland but regional Australia, and this example shows the devastation to families, small businesses and workers.

My next point is to highlight what happens when export industries are developed and expanded upon, and I'll recall recent examples, during the time our national economy was under the extreme pressure created by the COVID-19 pandemic. During 2019 and in early 2020, the North Queensland region was extremely fortunate to have the following things happen: Adani Australia finally had its Carmichael mine and rail project approved; Sun Metals Corporation announced a $500 million expansion; and Ravenswood Gold announced a new owner and a significant expansion. When the pandemic was at its worse, Adani Australia was on its way to employing 2,600 people and signing $2.1 billion in contracts, Sun Metals was employing hundreds of locals and spending $507 million, and Ravenswood Gold was employing an additional 160 staff during its expansion, on its way to becoming one of the largest gold mines in Queensland. I want to make the point here that, during COVID, these companies were supporting their workers, paying their suppliers earlier, and breaking down work packages to ensure small businesses got their share. Without these projects, North Queensland and, indeed, the national economy would look much different today.

That brings me to my final point, and that is [inaudible] every regional Australian family, small business owner and worker to see what is happening right now. For insurers and financial institutions to be discriminating against certain export industries and companies that work in those industries is truly concerning. These financial institutions don't have a monopoly on moral authority; they have a monopoly on [inaudible] jobs, hurting our resource economy and ultimately stunting Australia's prosperity. These institutions are so busy virtue signalling to inner-city wokeism that I think they've forgotten how to be members of 'team Australia'.

There's a significant risk, not just to regional communities like ours but to the nation, when major finance and insurance institutions apply bias to appease their capital-city clients. We expect nothing less than a fair ruling for all. Regional Australia should not be dictated to by positions driven by ideology and devoid of facts. The same local banks had their hands out for taxpayer guarantees during the GFC, yet they can't now bring themselves to do the Australian thing and lend a hand to hardworking men and women in regional resource communities. Australian banks, with their taxpayer underwriting, give more weight to foreign activists than to a local who wants an honest resource-sector job. The banks are prepared to charge credit card fees and mortgage interest rates to miners and their families, just not to lend to the mines to facilitate them having a future.

I have spoken to several insurance brokers as part of this, and the message has been consistent and clear: this is just the tip of the iceberg; these practices will continue and worsen. The unfortunate irony of this is that they aren't willing to speak on the public record, for fear of it becoming increasingly difficult to obtain cover for their clients. But all it takes is to bring up insurance website insurancebusinessmag.com and search on the word 'coal' and you will read the following headlines: (1) 'Suncorp to ditch coal coverage by 2025'; (2) 'Liberty Mutual reveals new coal policy'; (3) 'AXA unveils plea to slash ties with coal'; and (4) 'Allianz Global investors to reduce holdings of coal businesses'. I was informed by a broker as late as yesterday that there are approximately 18 insurers and reinsurers, locally and globally, that have recently updated their positions on coal and mining related risks to some extent, with most choosing to either not provide or drastically reduce their capacity to support businesses who are generating more than 30 per cent of revenue from thermal coal. The list goes on. The tsunami is coming, and the committee chair is all too familiar with what happens when there is market failure of an essential service. You can see where this is heading.

This information is consistent with the Queensland Resources Council research presented to this committee in June: after surveying their membership, 75 per cent of respondents said that access to banking or lending services has become more difficult, with an increase of between 50 and 85 per cent in banking costs over the last two years. Most concerningly, over a third of companies surveyed said that if banking costs stay at these levels for the next five years they will unlikely be able to continue to operate.

I would like to draw the attention of the committee to the forecast for the demand for coal. Australian thermal coal exports are predicted to rise from 213 million tonnes per annum in 2019-20 to 231 million tonnes per annum by 2025-26. But, with the rate at which insurers and financial institutions are applying these practices, we could very well have a situation where businesses supplying services to the coal industry will not be able to obtain cover. We will lose an industry that currently contributes $17 billion to the national economy, and we will see a rapid decline in regional Australia. This will not stop coal production. The global demand will still be there and will be taken up by other overseas countries, most likely with inferior coal from producers with poorer environmental and employment standards, thus the global warming argument is moot.

Whilst we must certainly keep an eye on future technologies and emissions reduction, we must support our existing industries. Townsville Enterprise is technology neutral but jobs positive. We are as supportive of the export of our high-quality coal as we are of investment in the production of green hydrogen. When it comes to economic prosperity in the north, we take every opportunity that comes our way. We will not let biases railroad the development of northern Australia.

Finally, our biggest concern is: where will it end? If this is allowed to continue, what other sectors will this impact? Will it be agriculture? Live exports, maybe? If there is a global demand then there is no reason why these institutions should not offer finance and insurance. It creates a dangerous precedent for our nation if this is allowed to continue to occur. A level playing field for access to finance and insurance in Australia for any lawful business activity is not too much to ask, particularly for hardworking, reliable businesses, businesses that have kept our economy moving during this pandemic.

As Australia looks to recover from the devastating economic impacts of COVID-19 there has never been a more important time to continue to leverage and support our nation's existing industries. Securing the sustainability of the export sectors of mining and resources is an important part of the future economic narrative of Australia and any risk to the future of those sectors would come at a significant cost to not only the north but the Queensland and national economies. In the midst of this unprecedented pandemic impacting the lives of all Australians, now is not the time to rip away these industries and the jobs and families that rely on them. I thank the committee for their time today.

CHAIR: Thanks very much, Mr Chiesa. In preparing for this hearing with obviously members of your organisation, did you have firsthand reports of such discrimination from the local industries by the financial services sector?

Mr Chiesa: Yes, it's getting more difficult. There are some examples. If you're working for one particular mine you're able to get insurance but if you're working for another you're not. They were like, 'I don't want my name acknowledged.'

CHAIR: So they specifically said that they didn't want to be named. Why do you think that that's the case?

Mr Chiesa: They don't want to bring any risk to their organisation. They just want to go about doing their job. So it's getting harder. I think the key point is that it's going to get worse. In instances, yes, eventually they were able to get cover, but I think the point is, as we said, it's just continuing and more insurers are firming up their position. Even if you look at the Australian Sustainable Finance Initiative, there's a road map that should be more concerning for those small businesses as well.

CHAIR: I want to just drill down on the risks that you spoke of. The people don't want to be named because they have these issues and they don't want any more risk. Can you be a little more specific? What is the risk that they don't want?

Mr Chiesa: They don't want to draw attention to themselves that they're speaking against the insurance or financial institution industry.

CHAIR: For fear of retribution or something like that?

Mr Chiesa: Yes. They're not their words. We didn't get to those points, but potentially.

CHAIR: I don't have any more questions. I think your presentation has been bang on, so well done.

Ms KEARNEY: Thank you very much for your presentation. I do hear what you're saying with respect to insurance. I think this is a very serious issue that we need to look at very closely. Can you give us any specific examples of any of your members who have been refused any finance?

Mr Chiesa: Not on the public record, but there are a couple of instances where it has been difficult.

Ms KEARNEY: But have any been refused?

Mr Chiesa: Not that I'm aware of.

Ms KEARNEY: So no-one has been refused and a couple have said it has been difficult, but it sounds like they ultimately got it.

We've heard some evidence today from the banks. They told us that they're under a lot of pressure. They predominantly rely on access to global capital, which is becoming increasingly more difficult to access if they do not meet ESG requirements and commitments about managing climate risks. We heard that the European Union is about to implement in effect tariffs on countries that are not committed to managing climate risks appropriately. We heard about quite stringent regulatory requirements and guidelines from regulatory bodies like APRA and ASIC. The Reserve Bank of Australia has certainly given lots of warnings about being over reliant on certain industries and just managing climate risks. Here and globally there are lots of trends. We heard a lot about the advent of renewable energy and different energy sources, for example. I understand that your organisation represents a lot of companies.

Given all of that, and given what's happening globally—I know you're a businessman; I'm sure you're keeping abreast of all of these events—you can't seriously say that the only reason there is some difficulty for some of your partner bodies or organisations in accessing finance is a handful of woke activists. Are you seriously saying that, given all of those things I raised before?

Mr Chiesa: I think the issue here is that, where there is a global demand for something, we should be able to fulfil that global demand via export. If it is difficult for banks to get funding from overseas institutions, while I'm certainly by no means an expert in overseas funding requirements, I do note that there's probably a role for government in looking at this, just as they stepped in during the GFC. The main issue is that, if this is able to continue, these exports will go and jobs in regional Australia will go. That was my point when Queensland Nickel closed: if there's a hastening of the demise of an Australian industry because of banks, financial institutions and insurers, the government will have to step in before unemployment rates are in double digits in regional Australia. I do take your point about what's happening globally, but there needs to be a more balanced argument in relation to this. It doesn't matter if it's a woke activist in Sydney or a financial institution in London dictating to us what we should export; we can't have that.

Ms KEARNEY: We exist in a free market, and all of these things have impacts on the market. It seems extraordinary that a number of very clever businessmen are blaming a global phenomenon on a few woke activists. I find that extraordinary, because it's much more serious than that. I think in some ways it's quite demeaning to reduce it to that. Do you think—

Mr Chiesa: I'm just looking at regional jobs.

Ms KEARNEY: I agree. I am very concerned for regional jobs as well, and I think we need to be investing heavily in regional jobs and taking global market forces, and the impact they will have on local jobs, very, very seriously. I absolutely agree with you on this score. Do you think climate change poses a risk to some of your industries and their future viability?

Mr Chiesa: What I mentioned before is that, while there's a global demand there, if we don't supply it, someone else will. You actually corrected my point: it's a global industry. If there's demand, whether it be from China or from India, for a commodity like coal, we should absolutely supply that, but, at the same time, if there's a demand for green hydrogen from Korea or Japan, we absolutely should support and supply that as well. Emissions reduction and climate change are a global issue, but, again, it shouldn't be hastened because of somebody making a decision outside of these communities.

Ms KEARNEY: But it should be managed, don't you think?

Mr Chiesa: We're also the regional tourism organisation here, so we're very aware of climate change. This is why in Australia, in relation to our mining activity, we have some of the most stringent operating conditions in the world. Again, there is an opportunity—even if that demand for Australian produced commodities can be higher because of our ethical standards, that's the opportunity. What we're seeing when we're speaking with people is that, where there's investment in poorer countries that don't have those standards, they're more inclined to buy from Australia. We should absolutely take up that opportunity.

Ms KEARNEY: But some of your members are concerned about the impact of climate change. I see that Magnetic Island, Palm Island and some of those tourist resorts are part of your organisation, so I think what I'm taking from what you're saying is that climate change is real and does impose risks, that there are jobs at risk and that it's something that needs to be taken seriously and managed appropriately.

Mr Chiesa: My view is to let the science do the talking but also ensure that the argument is balanced. The argument needs to be balanced, and in this instance it's not.

Ms KEARNEY: Thank you, Chair. That's all my questions.

CHAIR: Just to follow up something from that, just to clarify. You mentioned that, while you weren't able to share the names and specific details, there were businesses that had trouble accessing services from banks or insurers. You read out a list, almost a litany, of insurance companies that were pulling out of the coal sector. A question for Townsville Enterprise is: do you want government to step in and do something about this before it becomes a problem and your members can't get banking services and insurance?

Mr Chiesa: Yes. We've seen what happens when we have market failure of an essential service, in relation to the need for the reinsurance pool for cyclone related flood damage, which is happening as we speak. As you know, Chair, that's been a longstanding issue, and eventually government has had to get in. Our point is, as you've seen from that list—and the list is growing—the work of this committee is very important, and we'd like to see some action from government.

CHAIR: We have no further questions. Thank you very much, Mr Chiesa, for your presentation here today on behalf of Townsville Enterprise Ltd. If you have further information, please forward it to the secretariat by Tuesday 10 August. You'll be sent a copy of the transcript of your evidence and will have an opportunity to request corrections to any errors in that transcript. Thanks very much.

Mr Chiesa: Thank you, Chair.

Proceedings suspended from 13:07 to 13:43

HALL, Mr Andrew, Chief Executive Officer, Insurance Council of Australia [by video link]

MACFARLANE, Ms Kylie, Chief Operating Officer, Insurance Council of Australia [by video link]

CHAIR: Welcome. This hearing is a legal proceeding of the parliament. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by Hansard and attracts parliamentary privilege. Would you like to make an opening statement before we proceed to discussion?

Mr Hall: Thank you, Chair. I'm supported today by Kylie Macfarlane, who also looks after our disaster recovery and resilience teams. By way of introduction, general insurers provide Australians with 43 million business and household policies each year, and we pay more than $166 million in claims every working day. Over the last year, we've provided support to Australia's export industries to the amount of at least half a billion dollars in gross incurred claims. Insurance is a key component of the economy, especially in a country like Australia where our natural perils are a constant reminder of the challenges we face in protecting our assets. Insurers are proud of the way we've supported the growth of the nation, from our largest exporters to underwriting Australians' homes, contents, small businesses and cars.

The nation's economic recovery following the COVID downturn has included lower unemployment and record levels of investment. Unfortunately, not all sectors of the economy are performing as strongly, and the general insurance sector is currently enduring its most challenging circumstances in nearly two decades. Insurer profitability over the 24 months ending in March 2021 was down 64 per cent on the preceding two years. According to APRA, the entire general insurance sector only made a profit of $19 million in the most recent March quarter, largely because of the impact of recent natural disasters and provisions undertaken for potential pandemic claims. While over the last 18 months the Australian community has been focused on the pandemic, since the devastating bushfires of 2019 we've also endured three major flood events, a category 3 cyclone, three destructive hailstorms and a bushfire in the Perth Hills. Over the past three years, insurers have paid out more than $7.4 billion in claims in natural disasters, with more than $5.6 billion paid out since the 2019 bushfires. Australian insurers are also impacted by global trends which influence underlying costs, particularly the cost of reinsurance. Insurance is a globalised financial service and is currently in what is described as a hardened market, meaning reinsurance pricing has increased and this in turn is impacting the cost of premiums locally.

Insurers are well aware of the availability and affordability issues with some lines of insurance for small and medium businesses, which have become challenging, and this includes SMEs operating in our export sector. We're very aware of the impact this market environment is having on particular sectors. In many of these categories, insurer profits are under pressure, with gross loss ratios running at near or more than 100 per cent, so in this context solutions are often difficult to determine, as more money is being paid out than was collected in premiums.

A range of inquiries and reviews over the past decade have put forward various recommendations on how to address this. In November last year, the ICA engaged former insurance executive and regulator John Trowbridge to undertake an independent review and identify potential solutions to affordability and availability issues. His paper was released earlier this year for comment and the engaging of key stakeholders such as COSBOA and other specific industry associations to work through these important and complex issues. With this consultation paper on commercial insurance, a dialogue with stakeholders representing different SME sectors has started. There is no single silver bullet for resolving these issues, but we're serious about grappling with them for the benefit of small businesses and the broader economy. We're also engaging with government, regulators, policyholders, industry groups and consumer groups to understand where we can find sensible actions moving forward over the short, medium and longer term.

Turning to the specific topic of climate change, there's a growing recognition by companies, investors and regulators that climate presents a significant set of financial risks as well as opportunities. Insurers have been looking at how to balance the requirements of regulators, investors and the overall global insurance environment. Central banks and financial regulators globally now widely acknowledge that climate change is a source of financial stability risk. Our industry is aligned with the regulatory guidelines on managing these financial risks of climate, and we recognise that our regulators are keeping pace with global standards. We'll continue to heed the guidance of regulators and manage liability risks accordingly.

In Australia, the emphasis in the immediate term has been on addressing physical risks associated with a warming climate. Climate change will deliver Australia more intense and frequent natural hazard events—more loss events, as reinsurers can clearly evidence. To mitigate these physical risks, we've been collaborating with all levels of government to protect Australians by implementing projects to deliver more resilient built environments, especially against cyclone and bushfire risk. We're working with the federal government to see these resilience projects replicated and scaled through the National Recovery and Resilience Agency. We provide data to government on where investment in resilience and mitigation will provide the maximum benefit as well as bring down pressure on premium pricing.

We're very happy to take any questions from the committee.

CHAIR: Thanks very much for that, Mr Hall. Is there any presentation from Ms Macfarlane? No. Okay. Thank you very much. The council's submission suggests that regulators like APRA, ASIC and the Council of Financial Regulators are driving changes to the way that insurers assess climate risks, and I take that that's happening, but over the past 18 months or perhaps even more the availability of insurance coverage for coal mining operations has reduced significantly. In fact, Townsville Enterprise was our last submitter, and they read out what seemed to be a litany of insurers that were boasting about the fact that they're withdrawing from the coal mining sector in particular. So my question goes back to the regulators, to APRA, ASIC and all the rest of them: have any of those regulators ever said insurers should not provide coverage to coalmines or operators?

Mr Hall: I think what's happening in the insurance environment is that we're at a conflux of three different issues that are driving decisions around risk, and every decision by each of our members is individually determined according to their risk appetites and what their boards want, what their investors want and where they want to drive their business. So the regulatory environment is absolutely one, and that's not just one we're seeing here locally in Australia but it's one that's driven globally. Remembering that insurance requires reinsurance, and our insurers are global operators based out of Europe, in particular, where regulators have been very clear about financial risks of climate needing to be understood and built into—

CHAIR: Is that foreign regulators you're talking about?

Mr Hall: That's regulators in whatever jurisdiction that the capital is coming from, yes. So they are pressing very hard around insurers, same as we heard from the banks this morning being very clear on understanding the risks they're exposed to within their portfolio of businesses. That filters down as well into the Australian environment, where the regulators, yes, are giving very clear guidance to our members around taking into account financial risks and requirements.

But the other major factor is investors, because you need capital to build insurance pools, and there are very clear signals coming from investors. And there are very clear signals as well coming from the broader global insurance market around what the risk appetite is. Unfortunately, those risk appetites for any area deemed to be risky from a financial or a climate requirement point of view is very low.

CHAIR: I appreciate with investors and global reinsurers there is some pressure to perhaps shift out of industries such as coal. But I want to come back to the key question that I asked. I know that people don't like to give yes or no answers, but I'm really going to ask for a yes or a no. Is the ICA aware of any directive, guideline or suggestion from any of the Australian regulators—APRA, ASIC and the like—that insurers should not be ensuring coalmines?

Mr Hall: I'm not aware of any directive. I think the way APRA work with our financial institutions in this country, in all fairness, is very good. They give very sound guidance on how risk should be considered and thought about. They're very quick to act where they see issues that may be creating some exposure or some tension within the Australian financial services market. I think that what they largely give is guidance, and that guidance reflects, really, what has become the global standard in fiduciary duties of companies understanding their exposure to certain aspects of the economy that is exposed to those carbon risks.

CHAIR: Picnic Labs, which, as you are aware, is a platform that helps people to do insurance alternatives, have made a submission to this inquiry in which they say that they've observed numerous examples in recent years of Australian insurers withdrawing insurance for coalmining, and they specifically say that these moves are not related to the underlying activities being of a nature that are uninsurable. I appreciate that you say there's pressure from outside, and if that's the answer, that is the answer, but what I'm trying to understand is: what risk factors have materially changed in the past 18 months and what has been the basis for removal of coverage of coalmines? Is it just those external factors?

Mr Hall: It's generally a combination of those factors that boards and management teams are taking into account when they're deciding whether they want to underwrite and whether they want their book to be exposed. I think the question is always one around affordability and availability. Whether an insurer wants to participate in certain markets or not is generally a management decision that they're making, where they're balancing up where the risks are and where their exposures live. It can come down to individual companies. Generally, in the availability and the affordability space, though, I've seen a little bit of confusion around or conflation of the issues between, perhaps, where a company's appetite sits around its exposure to fossil fuel industries as opposed to what is happening generally in the commercial lines of insurance, which was my point in my opening statement. We have a very challenged market globally in this space. I was talking to my counterparts in Canada only last week. They have a very similar economy and they're faced with very similar conditions, where the underwriting that was available a number of years ago has simply dried up because of the low returns on capital and the very low risk appetites and the risks that are now growing that weren't foreseen. We are in a very challenged environment for insurance in that regard, Chair—as you know, with some of the industries in your own electorate.

CHAIR: I go back to the testimony from Townsville Enterprise that they went trawling through press releases from insurers that were taking pride in the fact that they're exiting coal. Isn't some of this, quite honestly, virtue signalling?

Mr Hall: I think what insurers are doing is being very open in their communication about where their risk appetites lie and where their boards and their investors and the regulators are directing their attention. I think it's better that insurers and more financial institutions are upfront about what the parameters are that they have in place and what their risk appetites are. Keep in mind that a lot of these large projects—like coalmines, for example—are not provided by just one insurer; they're often provided by a conglomerate of insurers. They're often put together by large international broking firms. They'll be co-insurance models. In some respects, across the resources sector, there are captive insurers that are established because of the risks of the operation. Again, it all depends on what level, what type of business and what type of insurer we're talking about.

CHAIR: I have two other questions. I'll give you the first, which you can take on notice. I'm sure you're not going to have the data with you. Perhaps it's something that you need to go back to your member companies about. If that's what you have to do, I would appreciate your doing that. What I want to know is what the payout ratio for coal insurance has been over, say, the past five years. That's is probably a good time frame to pick. Was it higher or lower than the resources industry average and was it higher or lower than the corporate average?

That's something to take on notice. The one thing that we heard a few weeks ago in the last hearing that we had was that insurance for light vehicles was refused because they were going to be used in a coalmine. We actually even heard that people who were working for a coalmine and on the construction of a railway line were refused insurance. So it's not just the major mining companies; we're talking about smaller suppliers, Australian companies, that hang off it. Is that something that the Insurance Council would condone?

Mr Hall: We are aware that there have been issues around availability in some professional spaces, which include some of those professional consulting businesses that work in and around resources and the like. A lot of those issues, when we've investigated them, are not related necessarily to the climate issue but they're actually related to the broader availability for professional indemnity and the timing of that market. So we're trying to work with those industry bodies that represent those sectors to try to increase the kind of risk controls and the like.

CHAIR: I think in both of these cases they were effectively told that it was because of what they were doing rather than any element of risk and who they were working with or for. Taking the reality, let me put a hypothetical to you, then, out of it. Would the ICA condone an insurer simply saying to a company, 'Sorry, we're not going to insure you, even though you meet all the parameters for insurance, because you're supplying to a mining company'? Is that a practice that should be going on in the insurance sector?

Mr Hall: It's not for the ICA to tell our members necessarily where they would write their business there. Their businesses are governed by a set of determinations around risk. It requires specialised underwriting. Some insurers may look at their portfolio and feel that they're a little bit overweight in some sectors and may want to pull back. Sometimes when that happens it can cause some dislocation for those impacted areas. But it's really not a position that I would take to my members. At the end of the day my members need to run their business in a profitable manner that respects the requirements put on them by regulators, that reflects the expectations of their investors and where their capital is coming from and also is able to make money in the current environment where things like reinsurance costs are much higher than they were maybe five years ago.

Dr MULINO: Thanks for coming to give evidence today. I just wanted to start with a question around the sectoral nature, or not, of these risks. One of the issues that I think has captured a lot of the public's attention is that there is a perception that certain sectors, the coalmining or the resources sector, are being singled out in an inappropriate or arbitrary way. Even if some of these risks are getting worse, it really affects the whole economy. What are your thoughts about that kind of allegation?

Mr Hall: I think the issue is that, when you talk about sectorial segments, when we had a look just recently through the Trowbridge report, it's almost like every individual sector of the economy has an underlying risk issue that's affecting the availability or the pricing of insurance at the moment. I think our role in all of that needs to be working with those individual sectors to help them understand what those risks may be and help them be able to build the sort of frameworks and the like to be able to access insurance moving forward, or it could be that there needs to be a different type of construct insurance made available to them, which can sometimes be quite challenging.

In the world of commercial insurance, there is not, as we say, a silver bullet that can fix this. We need to work through very carefully some of these underlying availability and affordability issues, which are driven largely by professional indemnity and public liability issues. In Australia, we've got a very high rate of litigation; we've got very high rates of class actions. That's what's driven, in particular, increases in directors and officers insurance over the past five years. So there are a lot of factors at play at the moment that are underlying the pricing of insurance.

Dr MULINO: Right. So is it fair to say that we're seeing premiums rise in a number of other contexts in relation to some of these underlying risks changing?

Mr Hall: Absolutely. We're in an environment where premiums are increasing across the board, and that is driven by those factors that I gave. For commercial insurance, there's been a contraction of underwriting out of places like London because the return on capital is so low that the pools don't have money to be able to go and look for new business, and then, in existing businesses, the risk appetites have changed and underwriters are looking very carefully at the risk factors that sit behind every sector, and that is driving the current market environment we're seeing with insurance.

Dr MULINO: One of the dynamics of the insurance industry is that there is clearly a relationship between premiums and the risk of being insured. I think people get that, if the underlying risk increases, the premium increases. But, occasionally, if the underlying risk increases, an insurer will just decide it doesn't want to write risk in that space, and we've seen that in a number of contexts. For example, with residential properties prone to flood risk, we've seen some insurers continue to underwrite risks in that space and we've seen some insurers say, 'We just don't want to be in that market.' As I said, I think people get the notion that premiums will rise with risk, and that can lead to affordability issues. But sometimes I think there can be pushback where insurers just pull out of insuring. What are your observations about that part of the dynamics of the industry?

Mr Hall: Again, every individual insurer will have a very different mix to their business and their portfolio, so decisions will be made for very individual reasons by each company, and that's the nature of a free and open market. Laid on top of that is always their prudential responsibility, where they're looking to make sure that they are managing their risks in an appropriate manner and they're taking the right steps to do that. I think—and we've touched on this through the paper process that we've been undergoing with Trowbridge—that, in circumstances where availability has become the key issue, we do need a framework to work with regulators and government on how to triage some of those issues. What insurers can do collectively is probably bring forward the data and the evidence of the underlying risks that are making a certain sector not attractive for underwriting. We could also work with regulators on what needs to be done if a different form of insurance needs to be created to provide security for a business operation.

Dr MULINO: So, where an individual insurer pulls out of taking on a certain type of risk altogether, it might just be that, with their suite of risks or their portfolio risks, it might not make sense for them to be involved in that kind of market?

Mr Hall: That's right.

Dr MULINO: But then I guess the issue for some sectors, and coal seems to be one, is that many insurers are pulling out. Again, we've seen this in other areas. Flood risk was one; in certain geographical areas, many insurers were pulling out. You've touched on this, but, just to reinforce the point, is one of the issues here that, where you're talking about insuring very large entities, reinsurance arrangements become critical and so it's that cost of or lack of availability of reinsurance that comes into play for many insurers?

Mr Hall: Reinsurance is in play for every insurance product. As you know, it's a critical part of the mix; it is a driver for everything. The reference to the very large projects is that the construct of insurance there generally is one where the risk is carried not just by one insurer; it's often spread across a conglomerate arrangement, a co-insurance arrangement. All those insurers also seek reinsurance from the global market as well. Those reinsurers may have a different approach to how they are pricing that risk. They may have a different appetite around what they want to reinsure. All those factors flow into how these decisions are made.

Dr MULINO: Thank you.

Mr RAMSEY: Thank you to the Insurance Council for being with us today. It seems to me that we've got, in the coal industry in particular, which is what we seem to be focused on, a withdrawal from the industry on the basis not of the risk of payout but of other issues that lie within the insurance industry. Given that this is a perfectly legal practice, there seems to be, despite many of the predictions, rising demand for our product. There are any amount of other suppliers in the world; it's one of the most plentiful minerals. What would the Insurance Council suggest, if their members choose to withdraw from this market, that a government do about ensuring this industry is able to continue to operate?

Mr Hall: We're seeing this at the moment in the debate—that is, the discussions that are underway around the North Queensland reinsurance pool for cyclones. First of all, what needs to be established is: is there absolutely no market for the product to be insured? Australia operates in a very globalised insurance market; it can source insurance products from around the world, through brokers in this country, and indeed that's what happens. We will often work immediately with our colleagues in the broking space to see if there are commercial solutions that can be found. But if all commercial solutions are exhausted, and there is no opportunity there, companies have the option of investigating and setting up mutual funds that can cover insurance. If they are very large companies they may want to self-insure—what they call captive insurance. Again, they would need to work with the regulators on how those things would be established.

I think the role governments can play, when you have evolving markets or markets in transition, like what is happening in the coal sector—is there a role for government to work with businesses around what the commercial options are for them to move forward? I would see sense in doing that, because, equally, for system stability you want companies to be setting up the right kinds of arrangements from the get-go.

Mr RAMSEY: If we assume that insurance becoming more difficult to obtain is leading to a higher cost for those who are able to secure insurance, eventually there seems to be an industry-wide pile-on in this particular sector. It seems pretty inevitable that insurance options are going to fail, at least in an economic sense. You say, 'Oh well, maybe the industry can work together or self-insure'; they are possibilities. How would the industry feel about the government setting up an insurance agency to cover such industries? They may choose to compete in the wider market.

Mr Hall: Well, it's always up to government whether to do that. In the history of our federation, there have been government owned insurers that have been in and out of privatisation. I think the main considerations you'd have to take, from a government point of view, are what your portfolio would look like and how likely it was that you'd be required to pay out those risks. I think the experience around the world, where you see those types of constructs get set up by government, is that they're very costly to the taxpayer because they invariably pay out at a loss. Generally, if there's a reason why the commercial market can't underwrite something and government needs to step in, it's going to require some level of subsidisation.

Mr RAMSEY: Certainly, that has been the case with the North Queensland general insurance market. But it would appear to me as though we're not talking about the same kind of failure here. We're not talking about an industry that is anymore likely to have claims than it was 10 or 15 years ago, and the chair has already tried to home in on that somewhat. To reiterate what he said, do you think the risk of an actual payout is increasing in the coal industry, or is it just the risk of pressure and reinsurance and those issues? Is the general risk of payout the same as it was?

Mr Hall: I'm not an expert underwriter for coalmining myself, so I'd need to go away and have a look at that. But, again, it's where it comes together—the risk of reinsurance costs continuing to increase and the issue of meeting regulatory guidance around understanding financial risk exposure to climate, combined with a number of other factors, including just your board's policies and views on what segments of the market they want to play in. On the pure question of risk, there probably would be a way that government could look at underwriting those types if they chose to. I think you'd want the government's actuary to come in and have a think about whether that would be a book that would make any money.

Senator VAN: G'day, Mr Hall, good to see you. I'm keen to get your views on a few things. Obviously, there are a number of factors that are affecting insurance availability and cost, as you mentioned, and climate change seems to be one of them. It's getting a lot of attention, certainly from APRA, and, as our terms of reference for this inquiry are talking about, it's affecting insurance of and bank lending to resources sectors. Those industries aren't the only ones affected by climate change. There's also transport, with heavy transport shipping, and airlines; agriculture is a big contributor to climate change; chemical companies use fossil fuels as feedstock et cetera, with those emissions. I know APRA gives a lot of guidance on a lot of risks, but are insurance companies getting specific guidance on those industries as strongly as they're getting the signals from APRA on fossil fuels?

Mr Hall: No, and I don't think that they're as specific as that from APRA, as far as I am aware. Kylie, have you got a view about that?

Ms Macfarlane: The regulator obviously has provided guidance that climate change is a financial risk and needs to be managed across the three sections of that financial risk, which include both physical transition and liability risk. Our members, through the process of considering climate risk and within the policy frameworks they have developed, look at different industries and speak to those industries and potential customers about their programs of decarbonising, of transitioning, understanding the risks inherent in those sectors, which are beyond climate, as you've already stated, to understand the risk variables that would go into underwriting risk in that sector. However, the regulator hasn't provided any guidance on any one particular sector or the identification of risk within each industry sector. What they have asked insurers to do is to consider their financial risks in light of those physical transition and liability risks and ensure that they have the policy frameworks and the guidance from their boards to affect and manage those risks accordingly.

Senator VAN: If we had some of your members in front of us, if I asked the chair of their risk committee if they had done similar work on those broader industries that are largely just as affected by decarbonisation as coalmining is—coalmining seems to get the headlines but those other ones, it's going to be hard to argue, are just as vulnerable—what would the chairs of their risk committees be telling me about the assessments they have made?

Ms Macfarlane: I can't speak for our members as each of them have their own assessment based on their own policy frameworks and guidelines. What I would say is that climate change is an active consideration within the boundaries of financial receipt to these organisations. Their underwriting models and their internal risk models would take into account the boundaries that those organisations are willing to accept for any sector or customer they are looking at.

The fossil fuel industry, obviously, is one that is apparent in the climate policies of the majority of our members as they look at the transition to 2050 in line with the Paris Agreement. Certainly the thermal coal industry, most particularly, is the one industry that has specific transition requirements placed on it by many of our members at this point in time.

Senator VAN: So am I right in saying that it's not just APRA that's influencing these decisions, that there are other external factors?

Ms Macfarlane: There definitely are, and Mr Hall has already alluded to those. At the moment, probably like many other financial services providers, we are part of a global network and a global industry which is impacted not only by the regulatory context domestically and abroad but also the availability of capital to drive investment in and the innovation of insurance provided to companies and individuals in Australia. As important is the availability of reinsurance, which is currently in a hardening market domestically and globally. Those factors, along with the risk and policy assessments of our members, will lend themselves to the decisions that our members make at an underwriting level.

Senator VAN: So if we went to other forms of insurance, anecdotally I'm hearing that directors and officers insurance is difficult to get at the moment and is expensive. One of reasons I hear about that is our legal framework allows for class actions, which is impacting that insurance market. Has APRA given any guidance around those frameworks? I'm not aware of it providing any advice to government on changing that legal framework.

Mr Hall: What APRA gives guidance to insurers is around making sure they have the robust risk management frameworks to anticipate where problems are arising so we have well-capitalised pools to be able to handle them. In the directors and officers space, premiums have risen something like 250 per cent since 2011. There is a direct correlation there, you can see, driven by the rise of class actions and the like to listed companies. Not only that, it is also the other obligations that are being placed on company directors. That particular insurance is paying out more and more and they have been running at loss ratios of 100 per cent or more over a number of years. What APRA would be saying to our insurers is: do you have the right risk management frameworks in place? Are you fully appraised of all the issues that could come about by underwriting a director or officer in a listed business? Once you've done that you need to do the right calculations to make sure you are provisioning correctly for that.

Senator VAN: As you may or may not know, I am ex-APRA. I used to work at APRA, some time ago now, but am very much aware of how they operate. What I'm picking up here is that there is a big difference between how climate change risk is being assessed and restrictions imposed on or disincentives put on insurance companies for that certain risk but not on others. Mr Hall, what percentage of your members are listed on the Australian Stock Exchange, roughly?

Mr Hall: I would have to take that on notice.

Senator VAN: Would it be the majority?

Mr Hall: Our four largest members are QBE, IAG, Suncorp and Allianz. Allianz is obviously German, and the other three are listed on the Australian Stock Exchange.

Senator VAN: Are you hearing of any pressure being brought to bear on the boards of those companies by investors?

Mr Hall: I heard some reference to it in the evidence this morning, that investors are very much making their position known around climate supports and they do that through their regular meetings, absolutely, with publicly listed companies. I'm not aware of any specific examples in my own members.

Senator VAN: There is certainly a rise of activist investors in the Australian market, and certain investors are using proxy firms to advise them on such things. Are any of your members making complaints about those activist investors changing the way that they make their insurance decisions?

Mr Hall: No, I've not had any complaints about that. What happens in a listed business is that proxy advisory firms play an important role in terms of influencing how shareholders will vote. This is one of the major issues that has been front and centre for a number of large institutional shareholders. I heard some of that evidence presented to the committee this morning.

Senator VAN: It would be good if we could get some of your members, some of your large members, particularly the ASX -listed ones, before us at a future hearing. I would be keen to ask them some of these questions, either of their CEOs, their COOs, or, indeed—as the banks offered up this morning—their investment relations people.

Mr Hall: I'm sure members would be happy to cooperate. The other side of the equation is an understanding of investment flows, so those investors that are asking questions as well.

Ms KEARNEY: Thanks, Mr Hall, for your submission today. I just have one small question. The Small Business and Family Enterprise Ombudsman, in their submission, proposed a federal credential services regime that would include insurers and prohibit them from denying insurance to companies on the basis of the industry they operate in. What would be your response to this proposal?

Mr Hall: There have been references made to this before. I think it would be very dangerous to compel financial services sectors to provide insurance or lending or anything else to certain sectors over and above all the other factors they need to take into consideration, including the prudential guidance, the appetite for those investors providing the capital from overseas and even just in line with current market circumstances where in in terms of insurance. It sounds like an easy fix, but I think it's far more complicated and could have deeper ramifications if it was applied too simplistically.

Ms KEARNEY: Thank you. Thank you, Chair.

CHAIR: Is insurance an essential service for most, if not all, businesses?

Mr Hall: Insurance is critical, because it shares the risk and underwrites your asset, whether you're a business or a home, which is why, as a commodity, whenever I get the chance, governments at all levels in this country need to look at how insurance is taxed. Forty per cent of your insurance premium in New South Wales goes in tax. We've got to look at different ways of valuing insurance, because it's needed, particularly in areas like North Queensland.

CHAIR: I think that wraps it up for this part of the hearing. If there's any information you've been asked for or that you want to provide, please do so directly to the secretariat by Tuesday 10 August. You will be provided with a copy of the transcript of your evidence this afternoon and will have an opportunity to request any corrections to errors in that transcript. Thank you very much both, Mr Hall and Ms Macfarlane, for joining us.

Ms Macfarlane: Thank you.

Mr Hall: Thank you, Chair. Thank you, committee.

HARVEY-SUTTON, Mr Mark, Chief Executive Officer, Australian Livestock Exporters Council

JAMES, Mr Alastair, Deputy Chief Executive Officer, Australian Livestock Exporters Council

McKILLOP, Mr John, Independent Chair, Red Meat Advisory Council

PARKER, Mr Reith, Chief Executive Officer, Red Meat Advisory Council

[14:31]

CHAIR: Welcome. Thank you very much for coming to speak to us. This hearing is a legal proceeding of the parliament. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today is being recorded by Hansard and attracts parliamentary privilege. I invite you now to make an opening statement. We might go with Red Meat Advisory Council first and then over to the Livestock Exporters Council.

Mr McKillop: Thank you, Chair. We appreciate the opportunity to come and talk to you. This is obviously a very important issue for the red meat sector. Without access to finance and financial services products, we cease to exist. The Red Meat Advisory Council is a federation of the national red meat sector. It represents the feedlotters, the live trade, the Cattle Council, Sheep Producers and the meat processors, which in total employ 434,000 people around Australia.

As an industry, we are obviously very supportive of this inquiry. We are concerned about a number of issues that are rising in the sector around the pressure being put on certain financial institutions and by some financial institutions to withdraw funding from Australia from some sectors of the red meat industry. We think that if it's left unchecked we will end up without access to viable sources of finance, and this has been largely driven by the animal activists. So we see really three areas that we would like to have addressed. We would like the Commonwealth Bank to cease commercial dealings, including providing guarantees around the deposits with financial providers that don't support law-abiding businesses. We think the Commonwealth government should issue a statement of intent to be the financial services provider of last resort for those law-abiding citizens where there is market failure and the Commonwealth government should annually review all financial service providers that are reported or have refused service to law-abiding businesses. Before I go any further I might hand over, if it's okay with you, to the live trade market, to Mark, to add to any of those issues.

Mr Harvey-Sutton: Thanks, John. Thank you, committee, for the opportunity to provide a submission and appear with you today. There's no doubt our industry is not one without challenges, but it is a good industry and it is an industry that undertakes what it does in the highest ethical manner possible. The examples I'll give today are anecdotal, because our members have provided a range of examples but they fear reprisal, further inability to access services, should they go on the record. Our members have provided examples of an inability to access finance, insurance and in many cases even a holding account, be it driven by either an internal policy or a public policy by institutions that do not say they do not deal with the livestock export industry. Some of the companies that have come up in these examples are National Australia Bank, the Commonwealth Bank of Australia, ANZ Bank and, surprisingly, even Telstra. We are firmly of the view that this is a direct outcome of an activist agenda that is utilising the ESG investment trend as a vehicle to drive these policies. Generally, the advice that we have seen that informs these ESG investments are misinformed and developed without the input of industry. There is a need for greater transparency around how these decisions are made and, indeed, accountability for the advice that is given. Last time I looked, there was nothing unethical about underpinning livestock prices, supporting regional communities and supplying food security for thousands of people in our markets. Thank you, Chair.

CHAIR: Thank you both very much for those opening remarks. Whoever wants to take this, I'm happy for them to take it, but obviously you've put forward some pretty damming evidence. We've been focusing really on the resources sector getting the pointy end of the pineapple from the banks and the insurers, but it seems that it's crept into agriculture as well. Can I ask, perhaps to the red meat guys who are probably more aware of what might be happening on farm: have you had any of your members or any information about banks or insurers that have declined servicing certain farms or have indicated that they might do that if things weren't changed or done the way they wanted?

Mr McKillop: Yes, there has been some evidence of that. As Mark said, many people are reluctant to come forward and say that they've been directly discriminated against. But there was an article recently that quoted Wellard, a live exporter out of Western Australia, who said that they went to all four major banks and were unable to access finance, and not because they weren't a profitable business but simply because they were receiving pressure from these interest groups not to finance them. There was another unnamed person who couldn't even open a savings account, or a chequing account in the old language, because some of their income was derived from the transportation of livestock for the live trade sector. Again, that was an unnamed source, but we can dig around and find those names—or hopefully we could.

But certainly there's been enough evidence to show that the financial institutions are succumbing to the pressure from these minority interest groups, and it does go to the broader issue of whether, if we have an interest group, such as the antilivestock group or the antifarming group that decides that today's topic is live trade, tomorrow's is feed lots and the next day's is meat processors, that just keeps going until we end up with people who are opposed to supporting supermarkets because they feel it puts too much pressure on the corner store—and therefore the supermarkets come under pressure—or we end up with importers who import products from a certain country coming under pressure from minority groups. We need to be aware that this is the thin edge of the wedge and that this trend will continue when minority interest groups start to dictate who and who can't do business.

CHAIR: I'm concerned about the people whom you're aware of and others who have been reported in the press who don't wish to be named. I'm hazarding a guess that they don't want repercussions from the financial sectors that they're exposing.

Mr McKillop: I would have to assume that that's the case.

CHAIR: To pre-empt something that has been asked already, I guess that, in your sector, while there may have been people denied either banking service or insurance service by certain institutions, they have eventually gotten it. The question that could be posed is: what's the problem? But what I'm going to add to that is: do you want to see something done about this before it becomes the problem?

Mr McKillop: Yes, and that's the point I was making before—this issue will continue and, if it's difficult to get finance today, it may be impossible in the future. Once that industry is no longer able to access finance, then minority groups will move on to the next issue and the next issue until there is no livestock sector and there is no animal husbandry left in Australia, and then they'll move on to the next target. I just think we need to sort this out as a nation before it gets to the point where minority groups are dictating policy.

CHAIR: On the live exporters, your submission states that you're aware of examples, as you've just relayed, where members have been refused the ability to set up everyday bank debit accounts by the big four. What reasons did they put forward when they refused to allow your members to set up those debit accounts?

Mr Harvey-Sutton: There are a range of reasons. Sometimes it is as blatant as 'we don't engage with the export livestock industry'. At other times it's danced around—I suppose that's probably the best way to put it. It's very clear there's a discomfort with our industry and their willingness to support it with services, so you get a wide range.

CHAIR: Someone has been so blunt as to say, 'It's because you're live export'? In that circumstance, there is no regulation behind it that's driving them to do it and nothing in terms of any international pressure that's driving them to do it; it's just simply that they don't want to be associated with your lawful industry?

Mr Harvey-Sutton: That's correct. I would speculate that they fear perception from community, but the most disappointing thing is that often, when members have come forward with issues and we have sought to engage those institutions, they'll do one of two things. They'll point to the perception issue but not be willing to take on further information or have industry input to inform those policies and decisions. The other thing they'll do—I would categorise it as virtue signalling—is point to their agribusiness investment and say, 'We are X, Y, Z biggest,' or, 'second-biggest investor in agribusiness in the country,' which I find carries a certain hypocrisy with it. As I point out to them, we underpin cattle prices. That huge agribusiness portfolio you might have in northern Australia—do you realise what underpins it? It's our industry. Often there's not much of a response to that, Chair.

CHAIR: I'm going to move to the deputy chair before going on to Mr Ramsey, who's got a question. Deputy Chair?

Ms KEARNEY: I'm happy to go to Mr Ramsey and then come back. Thanks, Chair.

CHAIR: That's fine. Mr Ramsey?

Mr RAMSEY: Thank you, Chair. Thank you both for your submissions and your attendance today. You point out a lot of, I think, horrifying facts, quite frankly—the encroachment of pressure groups fashioning the world which sits around us. To give what I hope might be a bit of a dorothy dixer to the Red Meat Advisory Council, in your submission, you said:

> The use of selective information fails to recognise that red meat livestock green house gas emissions have fallen by 56.7 per cent since 2005, representing the most significant reduction by any Australian business sector.

I wasn't aware of that figure. How do you reach that and how do you substantiate it?

Mr McKillop: The number comes out of Meat & Livestock Australia, who have done the research on it. It has been verified by numerous sources. I would have to take that on notice and come back to you as to what those sources are. Part of it has been around a slight reduction in numbers, but primarily it has come from reduced land clearing and also from better pasture management. Those have been the two contributing factors, the main one being the reduction in or the elimination of native land clearing and the reduction in regrowth clearing.

Mr RAMSEY: Alright, thank you. If you've got any more figures on that, I would appreciate it. Just to come down to the live export industry, I think some of the reports you've got there are from Animals Australia and others, and their plan and the way that they actually target major bodies to put political or public pressure on them are fairly concerning. One of your recommendations towards the end of your submission is:

The Commonwealth issues a statement—ceases commercial dealings with financial service providers that do not support law-abiding businesses.

I've got some sympathy for that view. Given that your member organisations are so reluctant to provide hard information—and I understand why—would the Commonwealth actually accumulate the kind of evidence we need to push that premise?

Mr Harvey-Sutton: There are probably a number of steps that could occur in that respect. We're very open-minded about how that would actually take place. If there were an opportunity for members, I think they would be comfortable providing information into a process that they were certain was confidential and respected their privacy. But I go back to a point we made in our submission about the need for transparency around how these decisions are made. If that transparency were in place and institutions and companies had an undertaking that they had to be transparent and disclose how they made those decisions, that evidence would also generate itself.

Mr McKillop: I think the issue is really around that mutual obligation. If as taxpayers we're obliged to support the banks through the guarantee of their deposits, then I think that needs to be reciprocated by an obligation for them to support law-abiding businesses, rather than picking and choosing. I think the case we've got at the moment is Bank of Australia. It's only a small bank; it's got 14 branches. Oddly enough, it came out of the CSIRO mutual banking society. Oddly enough, it came out of the CSIRO mutual banking society. It's actively working with Animals Australia and openly promotes itself as not supporting the live trade sector, and if you're watching SBS you'll see their ads, where they show some very outdated and selective footage to justify not supporting the live trade sector. But, if you read through the bank's spiel on their website, it says, 'We're not just opposed to live trade; we're opposed to intensive animal husbandry such as mulesing and dehorning,' and several other operations that you would know are just part of everyday farming life and certainly nothing to do with intensive agriculture. So, if you extend, they are opposed not just to live trade but actually to livestock farming, and the fact that they are co-branding with Animals Australia, I think, is a very frightening trend.

CHAIR: Mr McKillop, where do you see that leading to?

Mr McKillop: I see that as the thin edge of the wedge, as I said, with these minority groups starting to dictate commercial outcomes with nothing invested in it themselves. I could understand if these were illegal businesses, but these are absolutely legitimate businesses and indeed are feeding the world and are vital to our economy. Yet you have some of these minority groups working with the likes of Bank Australia to try and shut them down.

CHAIR: Mr Ramsey, are there further questions from you?

Mr RAMSEY: Just to inquire about the bank. It's 'livestock bank Australia'—is that the name of the organisation?

Mr McKillop: No, it's called Bank Australia.

Mr RAMSEY: Thank you. That will probably do for me for the moment.

CHAIR: Do you have any questions, Deputy Chair?

Ms KEARNEY: Not really. But, on this last point you made, surely that is just an indication of how the free market works. Clearly for that bank—I'm not saying it's a good thing or a bad thing—there's a market, just as there's clearly a market for your livestock being exported. There's a market for people who want to invest in what they see as cruelty-free farming, If you, on the one hand, say a government needs to intervene and protect your free market avenues, you can't say, on the other hand, that we can intervene to stop a bank from tapping into what is clearly a market that they can make money from and attract investment to. I'm a bit confused about your proposition here. What makes one market better than another market that is clearly a profitable enterprise? I'm not making a value judgement either way; I'm just a bit confused about the proposition that's being put forward.

Mr McKillop: I understand. Thanks for the question. It's a very good point, and I fully understand it. Every bank, or any other business, has the right to choose who they do business with and who they don't. The difference is that this is a business that relies on us, the taxpayers, guaranteeing its payments. Therefore, when you are issued with a banking licence in Australia, it's a privilege that comes with some obligations. So I would be more than happy to support them not having a banking licence with a bank guarantee and choosing to do business with who they wish to, but, if they want the privilege of that guarantee, they need to come back and have that mutual obligation.

Mr Harvey-Sutton: May I respond as well?

Ms KEARNEY: Yes, of course.

Mr Harvey-Sutton: I don't think there's any intention to curtail the free market here. I will use the analogy that I have friends that are vegetarians or vegans, and some are even opposed to the livestock export industry. But the reason we're friends and we respect each other is that I know that they have made the effort to at least be informed in how they've reached that conclusion and have made the effort to look into how they have formed that value judgement. I wouldn't respect them as friends if they were simply taking on board information that was misinformed. There's a concept in contract law called puffery. All we're asking for here, in my view, is for transparency to be applied to how these internal policies and decisions are made. As an industry, quite rightly, there's a high expectation of transparency from us. All we ask is that that works both ways.

Senator RENNICK: I would like to make the observation that I'm not sure whether Ms Kearney would agree with this idea of a free market in regard to the labour market. I think we just need to be a little bit careful in throwing around words like 'free market' all the time. That would make government redundant in a heartbeat, and I'm not sure we'd get the best results for the country if we did.

Ms KEARNEY: Fair call, Senator Rennick!

CHAIR: You need to swap sides!

Mr McKillop: I was wondering whose voice that was!

CHAIR: Are there any more questions?

Dr MULINO: Not from me. Thanks for your evidence.

CHAIR: Yes, it was great. Much appreciated. I have one last question I'd be remiss not to put to RMAC. You recommended that the Commonwealth issue a statement of intent to be a financial service provider of the last resort. You mentioned that in your opening statement. What would that involve? Could it happen through the Regional Investment Corporation, and what impact would that have on the industry?

Mr McKillop: This is an industry that's obviously vitally important to the region. I'm not across exactly what the mandate of the regional finance corporation would be, but it could fit into that in terms of supporting regions in times of need. It really would be there, as I said, as a last resort, if all banks collectively decided that they would decide what's ethical and what's unethical and banned finance to the livestock trade, to the feedlot sector, to meat processing or whatever. So it would be a last resort, but it certainly could be something to be looked at by the regional finance corporation.

CHAIR: Can I ask a further one. You also recommended, as you said in your opening statement and in your submission as well, that the Commonwealth government cease commercial dealings with financial service providers that don't support lawful industries. How would that work in practice? Wouldn't that require banks and other financial service providers to support businesses which are commercially unviable? How would you get that to work?

Mr McKillop: I think financial viability would obviously be first and foremost for any bank. It's really about making these choices based on whether they consider something, by their compass, to be ethical or moral, rather than viable or unviable. But the easiest step to do that, if banks refuse to support certain sectors based not on viability but on some ethical stance, would be to take away their guarantees for their deposits and let them survive out there without that luxury that we as taxpayers provide them with.

CHAIR: People would quickly vote with their feet. I think that wraps up the session. If there is additional information that you wish to give to us or that has been asked of you, please forward it to the secretariat by Tuesday 10 August. There's going to be a copy of the transcript of your evidence given here this afternoon that will be sent to you, and you're going to have an opportunity to request any corrections to errors in that transcript. I thank both the Red Meat Advisory Council and the Australian Livestock Exporters Council for joining us and speaking with us this afternoon.

Proceedings suspended from 15:01 to 15:26

McWILLIAMS, Mrs Karen, Business Reform Leader, Chartered Accountants Australia and New Zealand [by video link]

PURCELL, Dr John, Senior Manager, Environmental, Social and Governance, CPA Australia [by video link]

CHAIR: I welcome representatives of Chartered Accountants Australia and New Zealand and also CPA Australia. Thank you so much for being with us this afternoon. This is a legal proceeding of the parliament. The giving of false or misleading evidence is a serious matter and it may be regarded as contempt of parliament. Evidence given today is recorded by *Hansard* and attracts parliamentary privilege. I invite you to make an opening statement.

Mrs McWilliams: Thank you very much for the invitation to present to the committee today. Firstly, I acknowledge the traditional custodians of the lands of Australia and their continued connection with the land, waterways and communities, and pay our respects to elders past, present and emerging. I'm on the lands of the Mulgoa people of the Darug nation, in Western Sydney.

John and I co-authored our joint submission, and we're appearing on behalf of both accounting bodies, who have long agreed on the need for business certainty around managing and reporting climate risk, especially given the rapid changes occurring globally. Chartered Accountants Australia and New Zealand and CPA Australia together represent over 280,000 professional accountants in Australia, New Zealand and around the world. Our members work across a wide range of sectors, including in practice, from big four to sole practitioners; in business, from major multinationals to SMEs; and in the public sector, not-for-profits and academia.

Accountants have long been trusted as key professional advisers, and this advisory skillset is being called upon more and more in the climate risk space. Many of our members are actively engaged in reporting on sustainability issues and regulatory compliance as part of the growing role of accountants in reporting and advising on nonfinancial business metrics. Professional accountants also regularly advise clients on important long-term investment decisions for projects whose outcomes may be affected by relevant regulatory change and technological developments here and abroad.

Our members also live and work in communities right across Australia, which gives us unique deep insight into the needs and challenges facing the country. This inquiry covers issues that are of great importance to the major accounting bodies, in respect of our members' responsibility to act in the public interest and to provide the advice and insight that Australian business and industry needs. We note that managing climate risk has been an issue on company agendas to varying levels for decades. However, one thing I would like to impress on the committee today is the urgency and pace at which climate related policy, governance and obligations are occurring.

Governments and international governance bodies in the US, the UK, Europe and New Zealand are all making significant commitments towards managing climate related risk and achieving net zero carbon emissions under more-ambitious time frames. For example, in the time since we made our submission to the committee earlier this year, the G7 has released a communique, following its meeting in June, focused on the transformative effort needed to tackle climate change and biodiversity loss. Earlier this month, the chair of the Financial Stability Board provided a road map for addressing climate related financial risks for endorsement by the G20, of which Australia is a member. These international developments demonstrate the degree to which climate related risks have become a central concern in regulatory oversight and how robust systems of disclosure are essential both to market signalling and to help to transition economies on the path to decarbonisation. Above all, these trends reinforce the constant truth that business needs certainty and that the regulatory framework be predictable for businesses to navigate and, in turn, grow, invest and raise capital. We also strongly advocate for the need to have common global standards that are applied fairly so there is an even playing field for all industry sectors and businesses to work to and corresponding compliance system.

In conclusion, managing climate risk is now becoming a permanent part of doing business in Australia, irrespective of the industry sector or geographic location. The accounting profession stands ready to assist with this challenge and we welcome the chance to discuss our submission and these issues with you here today. My expertise relates to corporate reporting and international developments, and John's experience also is extensive, and relates to non-financial reporting and corporate regulation. Thank you.

CHAIR: Mr Purcell, do you have anything to add or was that a combined introduction?

Mr Purcell: Thank you, Chair. It was a combined introduction from both bodies.

CHAIR: Thanks so much. You've raised the matter of regulation. Do the Chartered Accountants or the CPA have any intel, or do you know whether or not there are any regulations from bodies like APRA, ASIC or any other government regulator that mandate or guide banks and other financial services sectors away from investing in thermal coal mining, for instance?

Mr Purcell: I do not see that there is that degree of specificity in guidelines that are being worked through the system, which often have their origins in international pronouncements and developments from such groups as IOSCO. Generally, the processes which are working their way through apply to ensuring that the financial institutions themselves have a broad understanding of emerging risks and are able then to adjust their decisions and the structure of their portfolios accordingly.

CHAIR: Do you have a view on the importance to the nation of the key industries that we have for export, like resources and agriculture, and how that plays out particularly in regional economies and small businesses in regional economies?

Mr Purcell: It is an interesting situation. Our members are often on both sides of transactions. They provide advice to the businesses themselves and advise through the financial institutions. The choices here are challenging and difficult. The views that the accounting bodies have taken is very much around these matters, around support of particular parts of the Australian export industry, need to look very much around aspects of transformation and the challenges which are emerging, but no particular point do we countenance the particular hard choice about rapid shifting away from a particular industry or sector. But if there are challenges coming from the international domain that these be managed in a sensible basis towards transition.

CHAIR: I guess, as people from the accounting profession, you would probably be of the view that banking and insurance are both essential services for most businesses—particularly the insurance part of it. If a business came to you and said, 'I don't want to get insured', you'd no doubt recommend they go and have another think about that.

Dr Purcell: Again, around these issues there are significant matters around supply and demand in the market. It's probably not our domain at the moment to make hard statements about whether supply of particular services, be they from banking or from insurance, has essentially started to be wound back to a material extent.

CHAIR: But do you think that insurance, for instance, is an essential service for most, if not all, businesses these days?

Dr Purcell: It is essential for businesses to be able to carry a due amount of insurance and have it appropriately underwritten. The challenge within that sector, though, is how they balance their portfolio of risks.

CHAIR: Likewise, access to finance for most, if not the smallest, businesses is also something that's essential these days; correct?

Dr Purcell: Capacity to raise capital is vital for the viability of businesses, absolutely.

CHAIR: Pages 7 to 9 of your submission refer to regulatory and accounting standards being applied to climate change. In general, there are references to institutions needing to consider climate change. I note there's no definitive standard, though, that you have outlined or that seems to exist full stop. What do Chartered Accountants and Certified Practising Accountants understand about the challenges of reducing greenhouse emissions, particularly for emissions-intensive industries, in this nation?

Dr Purcell: I can probably address that particular question. We look at it in two flows of regulation or guidance and standards, which are in the process of being developed. I will ask Karen to speak on this in a bit more detail shortly. There is a significant development taking place in relation to the formalisation of sustainability standards. The other side of the ledger, so to speak, is to do with how inference financial accounting standards are applied. The past 12 months have seen significant development and thought into the application of inference accounting standards, particularly around such matters as asset impairment—that is, where those matters around policy in relation to emissions reduction potentially lead into decisions made by businesses about how they assess their fixed-asset portfolios in terms of their long-term viability.

CHAIR: We heard earlier today—it was reported in the press last week, I think, in the *Australian Financial Review*—that Westpac was using carbon offsets over in India, and that one of the offsets was a menthol factory that apparently is producing bioenergy offsets, which leads to an equally big ESG issue—that is, the impacts of cigarette smoking, because that's all menthol is used for. What view do you have on the integrity of the international offsets that the banks seem to be using mainly—credits that they get from a menthol factory over in India?

Mrs McWilliams: To be honest, we are not experts in the offsets available internationally, and it wouldn't be our space to comment on the integrity of various offsets in that space.

CHAIR: Do you have any concrete suggestions about how to address the practical and technological challenges that confront industry in this country as it seeks to, to use the buzzword, decarbonise?

Mrs McWilliams: As John has alluded to, we are accountants and accountants are well placed to apply their skills to work with either the businesses that they are working for or their clients, to help them in this transition. We are certainly helping our members get across some of the specifics in this space, to help them help those clients. That will be in the realm of both the transition in terms of adaptation to climate change and the mitigation of the effects—as well as, as John indicated, some of the aspects around reporting on the effects of climate risk, which are being driven by broader developments in terms of providing that information to the market.

Dr Purcell: Very often these discussions around climate change are couched in terms of risk. A lot of the developments which take place through some of the international organisations, such as the Financial Stability Board, which is behind the TCFD, also look at opportunity. Potentially that's where the issues around technological transformation can be more forthrightly emphasised in a lot of these policy debates.

CHAIR: Thank you.

Ms KEARNEY: Thank you to our presenters; it's been very comprehensive. Has there been an increase in investor demand for climate change related disclosure in Australia, do you think, even from your clients' perspective?

Mrs McWilliams: Yes, there does seem to be an increase in demand for those kinds of disclosures from Australian companies from investors domestically but also globally. It's part of a global trend we are seeing which is calling for more information to enable investors to better understand the climate risk associated with the organisations, and, likewise for the organisations, through presenting this information, better understand the associated risks for their business and, therefore, how they will manage and address them internally.

Dr Purcell: Closely aligned to that are the matters around the directors' duties and their capacity to discharge those, both in terms of ensuring that their disclosures conform with international accounting standards, the presentation of a true and fair view, and demonstrating that they are managing their businesses in the best interests of their shareholders on a long-term basis.

Ms KEARNEY: How equipped do you think most accountants are at dealing with this? Is there a role that you play? I notice that you support a call to action in response to climate change and have listed some guidance and advice. Do you think there is a good understanding out there of that risk and how disclosure plays out in investor behaviour?

Mrs McWilliams: I think it is a growing awareness and I think it's something that is evolving over time. Certainly, an increasing number of our members are more across this space, as John has indicated and I think the chair indicated in our submission. Climate risk isn't just associated with information outside of the financial statements; we've also seen bulletins from and guidance produced by the Australian Accounting Standards Board around how climate risk needs to be considered within the financial statements themselves. I think that has also brought these matters very firmly within the domain of our members, and these matters are something that they now are very much taking quite seriously.

Ms KEARNEY: Thank you.

CHAIR: Other members of the committee?

Dr MULINO: I have a couple of questions. Thanks very much for your evidence and your submission. We've had evidence today from a range of parts of the financial services sector—insurance, banking. One feature of the evidence that has been given today is the strong international interconnectedness of a lot of what's going on—and you've made reference today to the Financial Stability Board, for example. I think you've already addressed this point, but I just want to reinforce it. It's fair to say that, over the last decade or more, there has been a growing consensus that we need to come to an international understanding of what reporting standards we can all agree on. Is it fair to say that, across major economies, there has, in fact, in practice been a growing alignment of practice?

Mrs McWilliams: Are you happy for me to take that one, John?

Dr Purcell: Yes, please, Karen.

Mrs McWilliams: I think what we've seen in the global space around reporting and what's evolving is that it links into what was in our written submission about the IFRS Foundation and the planned establishment later this year of an international sustainability standards board. That, as you've alluded to, is an indication of where the trend has evolved to over the past decade or so. We are now looking at the establishment of a sustainability standards board to sit along side the Accounting Standards Board to actually produce robust and rigorous sustainability standards, which then can be implemented in the various jurisdictions around the world to present that information with the same degree of rigour and robustness that we are seeing with the financial information. That establishment, I think, is going to be quite key. We've also seen support for the establishment of the IFRS Foundation's international sustainability standards board by IOSCO, the international association of securities regulators, and further, as we've mentioned, the G7 and also the G20 finance ministers communiques more recently. Whilst the IFRS Foundation will initially focus on developing a climate risk standard, it has been quite clear that this new sustainability standards board will go beyond climate and will need to have a remit to deliver standards in the broader sustainability space. John, did you need to add anything to that?

Dr Purcell: Yes—only to emphasise one of Karen's points, which is that the climate-first choice is relevant in so much that that is where there's a lot of institutional and regulatory attention at the moment, though I would remark that climate change does have wideranging impacts, particularly in a number of areas to do with how it can have adverse effect on communities and how we build robust and transformation societies more broadly.

Dr MULINO: I have another question, and it relates to climate change in particular, but sustainability more broadly. Some of the risks that we talk about now in relation to climate change and some of the other broader sustainability issues are very long term in nature and, even where people agree that these risks are worsening or need to be put at the centre of the agenda, they can be difficult to quantify. In the world of accounting, there has obviously always been a need to put difficult-to-quantify issues somewhere in the accounts, but, wherever possible, you want to put a number next to things. I guess I'm just interested in your broad observations around some of the challenges of dealing with some of these risks, given that, probably more than we did 20 or 30 years, we're being asked to now explicitly consider some issues that are really difficult to quantify 20, 30 or 50 years out into the future.

Mrs McWilliams: Yes, thank you for the question. We would certainly agree. I think one of the challenges with climate change is: how do you report that information? That's really the premise behind the TCFD and the Financial Stability Board, creating the TCFD and asking them to develop a set of recommended disclosures around climate risk, because it was one of those areas where it was more difficult for organisations to really articulate how something that happens both now and over the longer term could be explained in a comparable and consistent way to providers of financial capital, like investors. It's evolving, and since the TCFD came out four years ago we've seen the development of those disclosures and the evolution of them as companies have sought to explore how they can articulate the impact of climate risk on their business in a way that is informative for investors. John?

Dr Purcell: Continuing a similar line of rationale as to where reporting is heading: the challenges that Karen outlines are real. You now often see, both in corporate practice and in the provision of assurance services, an increasing tendency towards multidisciplinary approaches—a greater extent to which accountants draw on other professions in terms of their key decision-making. One of the other areas where we see a lot of development around dealing with complexity relates to narrative disclosures and management's capacity to elaborate on what may or may not be in the financial numbers but is still highly relevant to investor assessment.

Dr MULINO: My final question I guess follows on from that a little. I think it's fair to say that over the past 10 or 20 years there's been a growing expectation in a range of ways—regulatory as well as the legal obligations on directors—that they more explicitly consider a range of risks. That's in terms of good governance as well as to get the best strategic decision-making in light of those risks. Do you think that's an international trend that we're seeing, again, played out across major economies as we're seeing with the changes in reporting standards? And do you think that if anything it's going to continue?

Dr Purcell: Most certainly Australia—common law jurisdiction—similar rules, similar understanding of the application of the rules about the best interests of the corporation, the fiduciary duty to put the interests of the company first and foremost. Equally, across the world there is this tendency now to understand corporations more in terms of their long-term viability, and I think directors' duties and their responsibilities sit very much within that dynamic.

Dr MULINO: Great. Thanks to both of you.

Mr RAMSEY: I think I've sort of got it, but I'm a little mystified by the pathway of accountants to sustainability. I'm interested in the definition, in the case of chartered accountants, of sustainability. And where do accountants source the information on which they presumably quantify risks of sustainability in terms of dollars?

Mrs McWilliams: I think, as John has alluded to, accountants will seek to use the work of experts where they need to. They always have done in multiple different areas already, and this is something that they will continue to do. So what we are seeing, I guess, is accountants leveraging experts in that space. In terms of sustainability, we see it in the broadest sense. That encompasses environmental, social, governance and economics. We want to see that broad sense of sustainability, and one of the challenges with the word 'sustainability', I think, is that it has many different connotations for different people. But, certainly, from our perspective, it is in that broad sense. What we are seeing, as I think John indicated, is that sustainability is no longer sufficient in the financial sense if you haven't taken account of environmental, social and governance considerations, so you need to be looking at it more broadly. That's certainly something that we are making sure that our members are aware of and actually ensuring that they take those things into consideration when they assist their clients in the businesses they work with. John, did you want to add anything to that?

Dr Purcell: No, I think that's fine, thank you, Karen.

Mr RAMSEY: The reason I raise the question, and I have raised the point previously today, is that there are some very alarmist views around climate change—and I read out a short extract from a Deloitte report, an extract that I was very surprised to see in there. And yet, at a time when we've had seven of the 10 hottest years worldwide since records have existed, Australian agriculture has increased its output by 50 per cent. I'm just wondering whether chartered accountants are getting a broad range of lived experience as well as the doom-and-gloom predictions, which I find pretty worrying and little bit over the top. I think balance is very important here.

Dr Purcell: If I could respond to that—I don't believe I'm familiar with the Deloitte research that you refer to. One of the issues—

Mr RAMSEY: To be fair, it wasn't their research, but it was quoted in their report.

Dr Purcell: Okay. But, on the point about alarmism, I think it's fair to say that the accounting profession in and of itself adheres to ideas of measured prudence. We recognise that, particularly where there are communities vulnerable to some of the significant shifts and changes that may occur in the future, it's important that those communities are being engaged with and a very long term view is taken to ensure that they are protected from transitions which will take place.

Mr RAMSEY: Thank you, Chair.

CHAIR: There being no further questions, I thank the CPA and Chartered Accountants for their attendance here today. If there is any further material you want to give us, please forward it to our secretariat by Tuesday 10 August. You'll be sent a copy of the transcript of the evidence you've given this afternoon and you'll have the opportunity to request any corrections to errors in the transcript. Apart from that, thank you very much for attending, once again.

Proceedings suspended from 15:59 to 16:14

LUTZ, Ms Viola, Executive Director and Head of ISS ESG Climate Solutions, Institutional Shareholder Services [by video link]

PATERSON, Mr Duncan, Head of Environmental, Social and Governance Thought Leadership Program, Institutional Shareholder Services [by video link]

CHAIR: This hearing is a legal proceeding of the parliament. The giving of false or misleading evidence is a serious matter. It may be regarded as a contempt of parliament. The evidence given is being recorded by Hansard. It attracts parliamentary privilege. I invite you to make an opening statement before we proceed to questions and discussion.

Mr Paterson: Thank you. I will start off. Thank you for the opportunity to speak with you this afternoon. I'm dialling in remotely from Cairns. I'd like to acknowledge the Djabugay people, the traditional owners of the land I'm standing on, the original inhabitants of the mountains, gorges, lands and waters of the richly forested Great Dividing Range area of the wet tropics, a beautiful part of the world that you should all visit very soon, including the Barron Gorge and surrounding areas.

ISS ESG is a division of Institutional Shareholder Services, ISS. Founded in 1985, ISS empowers investors in companies to build for long-term and sustainable growth by providing high-quality data, analytics and insight. ISS is a leading provider of corporate governance, responsible investment solutions, market intelligence, fund services, events and editorial content for institutional investors in corporations globally. ISS's approximately 2,200 employees operate worldwide across 29 global locations in 15 countries. In Australia, we have offices in Canberra, Melbourne and Sydney, and there are a few outliers like me. The specific count for the ESG business is increasing all the time, but I think it's currently somewhere around the 200 to 300 mark. I'm sure Viola can correct me on that if I'm wrong.

ISS's more than 4,600 clients include many of the world's leading institutional investors, who rely on our objective and impartial offerings, as well as public companies focused on ESG and governance risk mitigation as a shareholder-value-enhancing measure. Clients rely on ISS's expertise to help them make informed investment decisions. Our work enables investors to develop and integrate responsible investing policies and practices, engage on responsible investment issues and monitor portfolio company practices through screening solutions. ISS ESG also provides climate data, analytics and advisory services to help financial market participants understand, measure and act on climate related risks across all asset classes. In addition, our ESG solutions cover corporate and country ESG research and ratings, enabling clients to identify material social and environmental risks and opportunities.

Our submission touched on a range of different topics but, broadly, was intended to convey the potential for positive outcomes arising from the global energy transition we're all discussing and the potential for financial institutions to aid in that transition. I should note that I am speaking only on behalf of the ISS ESG side of our business and am not able to comment specifically on the governance side of the business, which is a different division.

I would like to take this opportunity to introduce my colleague Viola Lutz, the global head of our climate team, to say a few words to introduce her area.

Ms Lutz: Good afternoon, and good morning from my side. I'm dialling in from Switzerland, from Zurich. Many thanks, Duncan, for your words. Crucially, many thanks to everyone in attendance for the opportunity to speak with you this afternoon.

I want to briefly highlight three broader global trends that I believe are influencing and setting the scene for our discussion today. One is the increased focus and the persistent trend on climate action globally, with the US and China pledging net zero and the recently announced Green Deal from the European Union on climate action. More specifically, when looking into the setting of the financial sector, what we see is a second trend, and that is a large push towards transparency by a number of international actors. There is, of course, a variety of legislation from the European Union, but I also want to highlight activities by the Financial Stability Board on disclosure of climate related risks, and IOSCO, the International Organization of Security Commissions, which just this year noted an urgent need for globally consistent, comparable and reliable standards on climate related disclosure.

Going into this discussion, I want to highlight that we also observe, with very much renewed vigour, a broad push by financial actors to act on climate change. What we see most recently is a very broad based net zero movement that continues to gain momentum across asset managers, asset owners, insurers and banks. With that, I thank you very much for the opportunity to speak with you today.

CHAIR: I don't know too much about ISS ESG, so I have a few quick questions about the organisation. Can you explain what ISS ESG does? What is its function? What is its role?

Mr Paterson: By and large, the organisation's role is to work with investors who want to implement both governance and broader environmental, social and governance practices in their investment processes. The business arose over 30 years ago out of a focus on pure governance, which included things like the constitution of boards, names of directors, diversity of directors and things like that. There's a very long history, going back a great many years, of looking at those sorts of issues. More recently, in the last five to 10 years, as increased demand has spread around environmental, social and governance issues, they've expanded their role in that area.

CHAIR: How do you provide that information? Are you contracted by major investment firms?

Mr Paterson: It's a great question. Viola, you can jump in anytime you want. Effectively, it is what you would call a subscription model. We have a number of databases that aggregate data, across a very broad range of criteria around the world, that our analysts collect and interpret. People buy the ability to tap into those databases and pull the information out as they need it. Different parts of the business have different models for information delivery. We also do some consulting business from time to time but, generally speaking, the bulk of our work is based around more of a subscription model where people come to us and access the data that they can get their hands on. Is that fair enough, Viola?

Ms Lutz: Absolutely. I would add that one part of the business is really the raw data—compiling it, making it consistent and filling gaps as needed. There is a second layer that is heavily analytics focused, providing insights based on the data, interpreting it and deriving scores from it.

CHAIR: Can you explain to me who it is that owns ISS and where it's located? You're calling us from Switzerland, Ms Lutz.

Ms Lutz: We are majority owned by Deutsche Borse, an international exchange group with minority holdings in other parts. In terms of the location, Deutsche Borse is headquartered in Germany, and we have office locations across the world. There are important office locations all over. Duncan is calling from our ISS ESG Australia business, we have a strong presence in Mumbai, in Manila, in various locations across Europe—among them, Paris, Brussels and London—and in the US, including the Washington DC area and New York City.

Mr Paterson: I should emphasise that it's very much a global business. The ownership of Deutsche Borse is a fairly recent development—previous to that it was owned by an American based private equity firm called Genstar Capital, and they're still a significant shareholder. The operational headquarters of ISS ESG is based in the US.

CHAIR: On Google I saw that it was linked to Deutsche Borse, so that answers part of a question I had. Mr Paterson, I gather you're part of the leadership team. Are you or are any Australians part of the ISS leadership team, or is it just for Australia that the Australian are involved?

Mr Paterson: I have a global role coordinating the publications that the ISS ESG team puts out. I'm sadly not part of the global leadership team. One can always hope.

CHAIR: Do you have any Aussies as part of the leadership team globally?

Mr Paterson: I wouldn't say we have any Aussies at that particular level, no.

CHAIR: You explained the Deutche Borse connection. Genstar Capital is another name that came up on Google. How is that connected to ISS ESG?

Mr Paterson: As I mentioned, that's the US private equity firm. They were the owners for quite a while, and then quite recently Deutche Borse have moved in.

CHAIR: Bought them out, so now Genstar Capital has nothing to do with ISS ESG. Is that the case?

Mr Paterson: No, they're still a partial shareholder.

Ms Lutz: To add to that in terms of the global leadership, indeed, no Australians are part of that. However, for the ISS ESG's part of the business, on whose behalf both Duncan and I are speaking here, representatives from Australia are part of the ISS ESG global leadership team.

Mr Paterson: That's Julia Leske, yes.

CHAIR: There's no gotcha moment here; I'm just trying to get an understanding of ISS ESG. It's not leading anywhere, guys. The only real question I have might be a little bit assertive, but it's a key question. Obviously, a lot of the impacts happen on the ground, right? A lot of the impacts of international financial decisions and ratings and all the rest of it have deep impacts on, particularly, regional Australia and places like Cairns, where you are, Mr Paterson. I'm just down the road in Mackay. I'm wondering if any of the leadership teams from ISS, Genstar

Capital or Deutche Borse have come to regional communities in Australia, rather than just taking it from some figures in a database.

Ms Lutz: I would say that in recent times, with the pandemic, it's very hard to travel. Just before the pandemic, in 2019, the previous head of the climate team did an extensive roadshow in APEC, including in Australia. I can't speak to the details of his visiting local communities. Maybe on a more practical note, indeed, the Australian context is certainly a very specific one. Beyond that we do see the impacts on local communities from climate change now increasingly and heavily globally and, just recently, the situation of course in Germany with the floods has been fairly intense. It's the same in Switzerland, where I am located. This is an everyday impact that we're very much exposed to. On a broader note, I think travelling to the respective areas is very important. Taking a step back, beyond the leadership team, as Duncan mentioned, we are a global business with a dedicated idea to say that our analysts also have to sit in the markets that we are serving. So our approach to providing the information and gathering the information is very much to have local teams—hence teams in Australia, in Manilla, in Mumbai, but also in Berlin, in London, in Paris, in New York—all involved in the data gathering and analytics efforts with the idea to be close to the markets that we are serving.

Mr Paterson: To add to that, we're quite proud of the fact that the Australian team's now got in excess of 20 locally employed analysts focusing on not just doing global research but also adding local understanding to the research we provide. That's by far the largest team locally.

CHAIR: They're all my questions. I will hand to the deputy chair.

Ms KEARNEY: Thank you for enlightening us on the company's origins and where you are and thank you for calling in all the way from Zurich and Cairns. You talked about behaviours that you're observing globally with respect to climate change and the net zero targets. What behaviour have you observed in companies as a result of this, and do you have any views on how it's impacting Australia's exports?

Ms Lutz: What are we observing globally? We are observing that the so-called net-zero movement in the financial markets is gaining increased and rapid attention. There are a number of net-zero alliances—Net Zero Asset Managers Initiative, Net-Zero Asset Owner Alliance, banking insurance et cetera—that have come together and put down principles and commitments to the members of these alliances to support the transition towards net zero. Net zero is defined in different terms, but generally speaking a commonly shared definition of that is to reach a state where emissions globally are at net zero by 2050, with limited overshoot—so a fairly strongly decreasing emissions pathway. I think the dynamic that I myself also found very strong was that a number of these initiatives are younger than a year and have received an incredible amount of support in the financial community, resulting in a very rapidly increasing number of institutions that form a part of that, essentially. So that is broadly the context that we see.

How does that now impact how members of such alliances are interacting with companies? As part of a number of the frameworks that these initiatives are giving themselves, engagement and voting on companies plays a role. What does that mean? Engagement means that shareholders in these companies—investors that hold shares in these companies and hence are owners—are actively engaging in dialogue with the company with the intention of changing these companies' behaviour. Voting means that the investors are increasingly looking into strategies as to how they can make their intention of supporting a net-zero transition heard at companies' annual general meetings—the AGM sessions. Those are specifically elements where we expect and already see increased action from investors in the dialogue with companies and influence of the action and their commitment to net-zero trajectories.

A specific international example that we see was during this year's proxy season. The proxy season is the time in the year when all these annual general meetings are happening with the companies. In the case of HSBC there was a shareholder resolution and activity by a campaign group called ShareAction. The board then itself put forward a new resolution to commit HSBC to phasing out the financing of coal-fired power plants and thermal coalmining across the EU and OECD by 2030 and across the world by 2040. In reaction to this resolution put forward by HSBC's board, the campaign group ShareAction then withdrew their own environmental resolution. That is one example of the type of practical activity that we observe in the market.

Mr Paterson: It's not really our role to look at or report on macroeconomic factors like export numbers and so forth, but I think it is important to note that some of Australia's key export markets in some of the industries that we've been talking about do have net-zero commitments. We have a range of clients with different investment time horizons. For instance, a superannuation fund will be looking to set aside for liabilities that are 20, 30 or 40 years in advance, when their members become eligible to draw down some of their benefits. They need to have quite a long time horizon, and so, when they look at things like a net-zero commitment from a key export market, they're going to take that into account in their investments. Some of our retail fund management clients have much shorter time horizons and they might be looking for different signals from those sorts of messages. It's not particularly our role to push our clients in one direction or the other, but it is our role to make sure that they have access to clear and impartial information on these topics.

Ms KEARNEY: Thank you. Thanks, Chair.

CHAIR: Senator Van.

Senator VAN: Thank you for appearing before us. I am just trying to understand your role. You say you provide impartial advice. What sort of advice are you providing, and how does anyone understand whether it's impartial or not?

Ms Lutz: I think that's a very good question. How that practically looks is that we provide impartial advice, because, indeed, our role is not necessarily to provide advice but really data and analytics. What types of decisions, conclusions or actions our clients draw from that is in no way our decision. I should also repeat here what Duncan stated at the beginning—that I am also speaking on behalf of the ISS ESG side of the business and am not able to comment specifically on the governance side. So I am just really speaking on the ISS ESG side of the business.

What we do is collect data on companies. I spoke about the variety of net zero initiatives out there. So what is happening? An investors says, 'I want to pledge to net zero.' They're facing data viscosity. How do they implement it? What does net zero even mean? The basis for an investor then to act on the pledge is to have an information basis, to know essentially, across the investor's portfolio of companies that they are investing in, information on these companies. That is the type of information we provide. Practically speaking, that might be that we focus on collecting the greenhouse gas emissions reporting of these companies. We collect information on the company's target setting. We compile all of that data and provide it in a comparative format. For example, one company might be reporting in one format, another in another one. We make sure that the data is consistent and can be presented in a comprehensive way across the relevant universe to the investor.

We then also, based on this raw data, can overlay analysis. In the case of climate, for example, we do look at the historical trend of emissions. We look at a company's cyber setting. Let's say they have a certain reduction target by 2013. Then we relate that target reduction, as reported by the company, with our analysis approach, for example, to climate scenarios, allowing us to give an indication of whether or not or how that target from a company compares, for example, to international climate efforts. So that is the type of information we then provide across the portfolio of investors and companies.

Senator VAN: So it's purely on an environmental level? That's all you look at—climate change level or emissions?

Ms Lutz: No. I am speaking now as the global head of climate. Of course, my remit is the climate sphere. But ISS ESG is active in the E, S and G elements of company analysis, with 'E' standing for broad environmental topics, 'S' for social and 'G' for governance. We do provide such data and analytics across a very broad range of topics in the environmental, social and governance area.

Senator VAN: So you don't look at any of the financial aspects of these target companies?

Ms Lutz: We do also have an area of the business that looks at the financial elements. It's ISS EVA—'EVA' stands for economic value added—where we do look into the financial elements of a company.

Senator VAN: I guess where I'm coming from is: do you balance up the ESG side of it with the EVA side of it and do a relative analysis, on the balance of things, that the financial benefits outweigh the environmental costs, for example?

Ms Lutz: That's a very interesting question. I would say we do not provide an overall aggregated view: 'This is the one view of the world' or 'This is the one view of a company you can take.' What we observe is that how investors approach us is that, if you look at the topic of environmental, social and governance, there is not, per se, the one objective way of how anyone could say that there is a global view of how you should weigh environmental versus social versus governance topics. We, of course, have a house view, but we appreciate and see with our investors that they take their own weightings into account. How does that now relate to your question of integrating ESG views into financials? Again, we're not saying that there's one way that you can reasonably quantify, from a financial perspective, ESG impacts on the financial side of things. On the climate side, we are increasingly looking into indicative quantifications of what, for example, impacts of physical risk might have for impacts on the valuation side of a company. Based on the information that we have as to in which geographies companies generate revenues, in which geographies companies operate, we do create broad estimates as to how, for example, physical risks might impact the company in terms of first financial impacts and losses, and then, in the second step, based on the financial elements and characteristics of the companies, what effects that might have on valuation. So these are elements and an increased area of research that we have identified for us as a company. However, I would not call that a statement on how, overall, these different elements weigh up against each other.

Mr Paterson: It's important to emphasise that we're not financial advisers, we're not sell-side brokers. Our role is not to tell you to buy or sell shares.

Senator VAN: I understand that completely. I'm going more to the governance side of things. Ms Lutz, you may or may not be aware, one of a board director's primary responsibilities is his fiduciary responsibilities to shareholders. It concerns us as policymakers that information is being given in isolation and is pushing directors away from their fiduciary duties for chasing some other responsibilities. Obviously, they do have risk management responsibilities and plans. I can see how your data might equip that, but without also understanding the fiduciary impacts of divestment or reinvestment in other areas. I'm worried that you run the risk of misleading directors into actions that might not be in the best interests of their shareholders.

Ms Lutz: Yes. Just to reiterate, I think it's very important to note that I can speak here on behalf of the ISS ESG side of the business, not the governance side. We provide this information to investors, and it's then the investors' decision as to how they plan to use that information.

Mr Paterson: I think you're aiming a little low down the supply chain. In terms of the question that you're asking, it's more about whether or not the engagement that the users of the information are taking into account is going to be—

Senator VAN: What part of the supply chain do you think I'm talking about, Mr Paterson?

Mr Paterson: When you were saying that it was us providing the advice directly; it's more that we're providing the ultimate users of the information. Certainly, from the way you phrased your question, I was getting the impression that you were talking about—

Senator VAN: No. You read my question completely the wrong way.

Mr Paterson: Fair enough.

Senator VAN: This committee has heard very real evidence of financial damage having been done to companies and industries for decisions taken and guidance given from either regulators or proxy firms such as yours or advisers and the like that is having a real impact on Australia's industries and our exports. I think you need to have a very strong look at what that impact could be and understanding, from a holistic point of view rather than just a climate and environment point of view, what its impacts can have. I think you're taking it a little bit lightly perhaps in a particular direction. But I'll leave that there.

Ms Lutz: I have one small clarification. For the ISS ESG side of the business, a core role of that is really as a data and analytics provider and not per se as a provision of advice. I just want to separate that off. I think that part of our governance business is where we're often called a proxy adviser. I just want to make that distinction here in that context.

Senator VAN: Do you advise proxy advisers or do you provide data to proxy advisers?

Ms Lutz: We do of course provide data to the governance side of our business. I think what's important also to note there is of course the basis of the type of data that we provide is information also disclosed by companies. So a very core part of our work is to collect information that is put by companies into the public domain, and then investors choose to act on that, based on their own decision-making.

Senator VAN: Do your methods of collecting that information use auto bots and algorithms to trawl through media, et cetera?

Ms Lutz: Partly. I would say that what is at the core of our approach to things is a very human-centric approach. We do believe that you need to enhance with technology the collection abilities of humans. However, a core element is what our analysts do. To give you an example, on the emission data collection side of how we operate, we do of course have systems that allow us to see if a new report comes out, but every single number is then also looked at by an analyst or is collected by an analysis. If automatic functions indicate, for example, that a reported an emissions number might be problematic because there's a huge jump in terms of previous years, it's not any automatism; there's a function that flags the number, but the number is not automatically discarded. The function is used to flag such a number for increased analyst scrutiny and analysis.

Senator VAN: Interesting. What other factors do they look at? Do they look at safety factors, safety of workers, rates of pay, compliance with Fair Work Australia laws, et cetera?

Ms Lutz: Duncan, I think you are in a better position to speak to that. Broadly speaking, yes. Speaking on the climate element, I can't go into that much detail on those points. However, we also cover topics broadly and in-depth related to the social sphere, very much including labour rights related topics and health and safety related topics as well.

Mr Paterson: I definitely emphasise that that's the case, yes.

Senator VAN: Have you ever become aware, or are you aware—because you sell your data to various end users. I think we have established that. Could that data be used in a collusive way?

Ms Lutz: Could you expand on what you mean by 'collusive'?

Senator VAN: Well, any number of scenarios come to mind. It could be a company's competitors using it in a collusive way. It could be proxy firms pushing against the remuneration report of a particular board. There's any number of ways I can see that sort of data being used.

Ms Lutz: Not being able to speak to the proxy use cases here, I would say in general we provide data and we do not have control over the details of the users of such data. In general, the very basis of any of our activity is data disclosed by companies and information disclosed by companies. So, generally speaking, it's information that is in the public domain. A key role we fulfil for the market is to ensure that such data is available in a consistent format and on a broad universe consistently for our users. So I think that's important to note. I think in terms of what the users then do with such data, that is not our role to control. Generally speaking, the use case of our data is that investors in turn use it to either inform reporting on investment related to ESG factors or, for example, to involve decision-making in terms of their investment decisions. But that again lies within the investors' remit.

Senator VAN: A question on notice: are you able to provides us with some examples of the data that you provide?

Ms Lutz: Yes, I do not see any problem with that.

Senator VAN: Thank you.

Dr MULINO: Thanks to you both, particularly given the time zone differences; it's much appreciated. You'd probably be aware from the context of our hearings that we've, in a sense, been considering a few layers of decision-making here, and one layer, you might say, is financial institutions and the way in which they're taking risk into account. That might be a bank deciding who to lend to; what interest rate to charge an insurer; what premium to charge; or, for a fund manager, how to balance their funds. A second layer of decision-making that we've been looking at is, in a sense, the shareholders or funders of those organisations and the pressures they might be putting on those organisations to take risk into account. I guess my first question was really that first layer, not so much in a sense of you being advisers to financial sector organisations but more you both being close observers of financial institutions around the world. I guess my question is: some of what we're seeing in Australia is that insurers and banks and fund managers are clearly increasingly taking sustainability risks and climate risks more particularly into account in their decision-making, in the prices they charge whether it be an interest rate or a premium, perhaps even in who they do business with and in the weighting of their client base. Is it fair to say that the kinds of trends we're seeing in Australia are very much replicated globally to the extent that you are aware of what's going on in Australia?

Ms Lutz: So I would definitely say that what's happening in Australia is very strongly happening within and influenced by global context, and globally what you're seeing is very much an increased focus on financial institutions disclosure on climate change specifically. Just to also give two more examples, the Bank for International Settlements is giving increased attention to climate related matters. There's increasingly, in the number of geographies, discussions and steps towards asking for climate related stress testing of banks, and there's also an increase from a number of oversight bodies asking for increased disclosure. For example, for insurers, what comes to mind is, in New York, the Department of Financial Services asking for increased disclosure. So, yes, I think it's very much happening in a broad context.

What we also observe is that, in general, just in terms of the information we provide, the portfolios that investors located in Europe or in the US are investing in are very much global portfolios that include Australian companies but, of course, European, US and northern American ones—from all geographies really. The trend that we strongly observe is that investors want consistent information on climate and further environmental, social and governance factors across companies that they invest in globally. So what they are asking from us, in terms of the service that they expect from us, is for consistent datasets across all of these factors for all their investments, including Australian companies, to either apply to national reporting requirements or further demands from their clients and stakeholders.

Dr MULINO: In a sense you can see some obvious connections between Australian firms, like banks relying on international funders or insurers relying on reinsurance internationally. So, in a sense, some of the global trends that you're seeing and the global decision-making that you're seeing, Australian firms just can't set themselves apart from that. If anything, the world is becoming increasingly interconnected, and Australian firms are having to basically align themselves with some of these risk reporting and also risk decision-making and governance practices, aren't they?

Ms Lutz: It's hard for me, in my formal role, to comment on what has to be done. I think what definitely I am observing is that for investors, including Australian companies, when they ask in their global portfolios for information, it becomes more and more noticeable when there are information gaps. This is something that investors are very much looking for: on which companies do they have the databases that they are asking for and for which companies do they not have that information because companies are not disclosing it? That is something that is very much part of the discussions that we have in turn with our clients. I would say that's certainly a dynamic that we are observing. Specifically, and this has been a development over the past five, six years since COP 21 with the so-called Paris Agreement, I would definitely say that I have seen an accelerated push globally around the need and requirement for such data in the context of the more recent net zero movements that we are observing, and that investors very specifically ask for very granular data that we then are asked to provide on companies' specific climate target ambitions. How are companies setting up their own internal reporting structures and their own commitments around, for example, climate change? This is a very specific process that we've observed, and it has very much intensified over the past half year.

Dr MULINO: I'm not sure whether this is going to be something directly within your bailiwick, but I'm interested in your observations as people immersed in the way in which these risks are being assessed and then decisions are being made in relation to them. One of the challenges, as I see it, is that organisations and governments are now really having to make decisions in relation to much longer-term risks than perhaps was the case a few decades ago, and some of these are very difficult to quantify. Your business is all about trying to aggregate data and give people the best possible data on which to make decisions. I'm interested in your thoughts around what is best practice in relation to organisations making decisions on decades-long trends which may involve unquantifiable risks and may involve chaotic elements that are very hard to pin down.

Ms Lutz: I would say the trends that we observe are two-fold. I think there are different elements in your question. One element I want to briefly highlight is the question of what can reasonably be said, given the complexities that you rightfully are alluding to. The second element is: what level of information is necessary from the client-use cases that we see to start taking action, or for data to impact decision-making? Briefly on the first point in terms of what statements can reasonably be made, I think it's a very, very crucial, important and strong focus of ours to be transparent as soon as the data point is not one-on-one, the one reported by the company, but, for example, one where we are either putting analysis on top or using estimation to fill gaps. I do think transparency is absolutely key, with all the natural caveats that then come with that. There's a strong understanding of this, and I think it's certainly also a focus for the financial industry to put systematic capacity into it to understand the complexities and to understand also, in the context, what statements are and are not possible. To the question as to what that means for decision-taking, what I can observe—really speaking for ISS ESG specifically and also for the area of climate—is that there's a difference in data according to what questions you want to answer. What I see a lot of our clients wanting to address is to understand directional clarity. Speaking a little bit bluntly, it's not necessarily about knowing the two decimal digits after the comma, because can anyone really credibly answer, for example, climate related questions to that degree? I feel very comfortable stating here on the record that I would be very hesitant in making strong claims on such a level of granularity. Can you identify directional clarity as to where, based on the disclosure, for example, of a company, there is an indication as to which direction a business is headed? That directional clarity, I believe, is possible in general to ascertain.

There's an additional element I would add here. Even before you go into such analytics where you are trying to embark on more complex questions—such as: where's the company headed and what can you say about impacts that will play out over the future decades?—there's usually a much simpler question to be answered first. That is based very basically on raw data where there's not much need for interpretation. It can often be as simple as: 'Is the company reporting emissions? Has the company a statement on climate change?' These are often very simple binary data points.

Mr Paterson: Which can be telling.

Ms Lutz: Yes. In a lot of the decision-making for even the first years of our clients' use cases of the data such simple data points play an absolutely crucial role. They can be very telling. They are very much raw data points that do not necessarily leave a lot of room for interpretation.

Dr MULINO: Thank you.

Mr Paterson: There's an additional element to that, which is methodology. Going a bit further on what Viola was just saying, the Global Sustainable Investment Alliance have just released their biennial report on the size of the market globally. According to their calculations, over one-third of total assets that are being managed globally are now being managed with some sort of reasonably strong sustainability overlay in place. They've surveyed a great many different asset owners and asset managers around the world. When they talk about methodology, the most common sustainable investment strategy is ESG integration. That refers to taking your normal funds management process, your evaluation process and, if you are a financial institution, the way your analysts look at companies and value those companies and adding an element of environmental, social and governance factors to that—that's ESG integration. That's the largest methodology for implementing sustainability investment globally.

Beyond that you get to negative screening, corporate engagement and shareholder action, which is something we've talked a bit about today. Then after that you start getting down to norms based screening, which is looking at particular controversial issues, and then ESG themes, which are those thematic quite green branded type funds.

Dr MULINO: Thank you, both.

Mr RAMSEY: Thank you for your attendance today. I know it's difficult. In your report you referred to the development of the inevitable policy response. I read here that it 'assumes that international governments are sincere in their climate commitments' and then extrapolates that information into policy responses. Given the last 10 or 15 years of international performance on the reduction of greenhouse gases, I wonder how anyone actually leaps to that conclusion that international governments are sincere in their climate commitments. Some countries, like Australia, have met their commitments; others have tried and failed; others have never signed on; and some major countries talk in the longer term and haven't made specific commitments and yet say they will achieve net zero by, say, 2060. What makes people think this is going to happen?

Mr Paterson: Viola can jump in after me, but I would say that it's scenario analysis. One of the most important aspects of risk management as a fiduciary is to look at the potential outcomes that are out there and make judgements about what's going to happen in the short, medium and longer term. If you're doing a scenario analysis, looking at global policy responses is a fairly logical place to start. You look at all the statements made by various policy makers around the world and say, 'If they all come true, what's it going to look like?' You then work backwards from there. We're not directly associated with the IPR, but that's the way, as I understand it, scenario analysis is working there.

Ms Lutz: I add that when you look at the inevitable policy response one prospective element of course is the question: what policies might be implemented at some point or not? Crucially an underlying element, in my view, comes out very strongly from the report. It states that an orderly, premeditated transition to a low-carbon economy is much less costly than one that is disorderly and sudden. As Duncan said—and he's absolutely correct—scenario analysis is a look into the future, which means you think about the possibilities of why it might be happening and try to draw insights that can be used for decision-making today. In that context, it's a question of what transition it would be useful to be a part of for the financial sectors and when economies, but also financial actors, incur the least cost around that.

As to the likelihood, there's a big and growing body of literature around that. What I find notable in that context is also the example of nuclear. A lot of discussion can be made as to the benefits, or not, of that technology; I don't want to comment on that element. I'll just say that what we observed in, for example, the context of Fukushima was that there was a certain debate or narrative around nuclear technology before Fukushima and after Fukushima. I'm highlighting that because we have observed in other fields that, sometimes, large events can turn around policy dialogue and action on a technology fairly dramatically. And I think that is a question that is posed by this report, the inevitable policy response: the extent to which that might be the case in the future, on the topic of climate change; and the additional costs that rapid, unplanned action in reaction to such an event would incur on economic actors.

Mr Paterson: The only other thing I'd say about the IPR is that it was written before the various net zero commitments we've seen from some of the world's largest markets—certainly Australia's global export markets. One could make the case that it's actually a reasonably conservative estimate given the size of those markets and the oversized impact they're going to have on any global estimations.

Mr RAMSEY: I still make the point that, for some of those commitments we've seen from our major trading partners, my confidence would be pretty low that they will achieve them. In fact, I'm not even that sure they're going to try to achieve them. It would seem to me that anything that assumes they are sincere in their commitments is dangerous.

Ms Lutz: As I said, it's hard to make a final statement as to how global policy across geographies might be panning out. When we think about impacts on economic actors resulting from climate change, policy by national governments is only one of the factors of interest. Another element is transition risks—risks that go hand in hand with impacts that might result on actors from a transition to a low-carbon economy. Indeed, regulation is part of that, but so is, for example, litigation action and changing consumer preferences. They are additional elements that are not to the same degree dependent on national government action. But we have seen an increase in climate related litigation cases across the world. A large part of that at the moment is in the US, but we're seeing an increasing trend of litigation in a broader set of geographies.

Another element is consumer preferences. This might be a little whimsical, but there are quite a number of studies out there in relation to milk and meat alternatives, for example. That's just to highlight one trend in terms of the uptake of new consumer preferences. A similar case could be made in relation to electric vehicles, for example.

Mr Paterson: The point that Viola makes about transition risk is very important. The Investor Group on Climate Change, of which we are a member, has just released a very interesting report looking at some of the planning we could be doing right now in terms of managing some of those climate risks. That report was co-authored with Ernst & Young, so it comes from a fairly non-activist background. It identifies opportunities in areas like the hydrogen economy and renewable energy, as well as a number of other areas where Australian industry could benefit from that transition.

CHAIR: Thank you very much to representatives of ISS ESG for coming today. If you've been asked to provide any further information, please forward it to our secretariat by Tuesday 10 August. You'll be sent a copy of the transcript of your evidence and have an opportunity to request any corrections to errors in that transcript. I thank witnesses and all members of the committee for their time today.

Committee adjourned at 17:10