

Submission by the Hon Ron Boswell AO

One of the great mysteries of the global economy is how so many countries are claiming to slash their emissions and boldly pledging to hit net zero emissions by 2050, and yet global emissions keep rising.

Projections suggest that despite a temporary dip in in 2020 due to COVID-19 induced slowdown, global greenhouse gas emissions are growing again and expected to reach 55 billion tonnes by 2022-23.

That's up from 51 billion tonnes in 2019.

But if more than 100 nations have committed to net zero by 2050, how come emissions are still going up?

It's an accounting trick. It's called outsourcing.

It works like this.

At least a quarter of global greenhouse gas emissions are generated in the production of products traded across borders.

This includes steel, aluminium, cement, autos and even farm exports like beef and sheep meat.

And this trade is changing the distribution of global emissions.

Over recent decades the world's richest nations have lowered their emissions footprints by outsourcing the production of manufactured goods, mostly to China and other developing countries.

And this shift is making some countries look 'green' for no reason other than their companies have re-located their production to other countries.

According to UN data, China's share of global manufacturing output climbed from 8.7 per cent in 2004 to 28.4 per cent in 2018.

Over the same period, the manufacturing contribution to UK GDP more than halved from 25 per cent to around 11 per cent.

Manufacturing in the US has also hollowed out while over the last decade, while the European Union has become a net importer of emissions-intensive steel.

Does this mean that the UK, the US and EU economies have stopped using emissions intensive goods?

Not at all.

They're still using steel, aluminium and cement.

They are still buying cars, appliances and consuming beef and other food.

It's just that they are *importing* more of them instead.

And under global climate rules the emissions generated producing those goods are counted against the nation that *produces* them not the country that *consumes* them.

According to a recent Goldman Sachs report, at least 20 per cent of China's greenhouse gas emissions are now generated in the production of goods for export.

So while GHG emissions from industrial processes in the European industry fell by 40 per cent between 1990 and 2018, overall global emissions in this sector increased by 67 per cent.

So Europe looks good and China and other industrial producers look bad.

The global rules also work against Australia, where as much as one-third of our emissions are generated in the production of goods for export.

For example, about 70 per cent of Australia's agricultural produce is consumed abroad. But *all* of the 75 million tonnes of greenhouse gas emissions associated with farm production in Australia are counted against *our* inventory.

The emissions associated with the production of Australian beef consumed in high end restaurants in London count against Australia, not the UK.

The cynical thing is that some of the countries who've benefited most from the outsourcing of global emissions are the ones who are pointing the finger at other countries for their emissions performance, including the ones who supplied them with the emissions-intensive goods and services.

Take the UK as an example. It's the global boaster-in-chief of its emissions performance, pointing to a reduction of more than 30 per cent since 1990.

That's misleading. But don't take my word for it.

Nearly a decade ago, in 2012, the UK's own House of Commons Committee on Climate Change belled the cat on the outsourcing trick.

It warned the UK's overall 'carbon footprint' had actually increased by 12 per cent since 1990.

The Committee said the "rate at which UK's consumption-based emissions have increased have far offset any emissions savings from a decrease in territorial emissions. This means that the UK is contributing to a net increase in global emissions."

This trend has continued.

As the *New York Times* noted in September 2018, “If you included all of the emissions produced in the course of making things like the imported steel used in London’s skyscrapers and cars, then Britain’s total carbon footprint has actually increased slightly over that time.”

In similar vein, *The Guardian* warned in 2019 that, “Britain has contributed to the global climate emergency by outsourcing its carbon emissions to developing nations.”

The UK is not the only one.

As a 2018 report found, the US is the largest importer of ‘embodied carbon’, while in Europe, Germany, the UK, France, Italy and Spain are significant net importers.

Remember that this is the mob criticising Australia for not committing to net zero emissions by 2050.

The countries who have reduced *their* emissions, but not *global* emissions, by outsourcing them to other countries.

The countries that criticise the countries who supply them with essential goods for not reducing emissions as fast as them, or for not committing to meaningless targets three decades from now, are playing a double game.

The bottom line is that global climate meetings, like the one in November in Glasgow, will be exercises in deception and completely meaningless unless they address the outsourcing con trick.

And a related fact is that there is a division of labour in the global economy.

Sovereign countries play to their own strengths. Today, the UK’s expertise is banking, finance, and insurance. As noted above, the UK has virtually abandoned manufacturing, mostly because they were no longer competitive. And selling insurance doesn’t produce many carbon emissions.

They just buy the emissions-intensive stuff from other countries. That’s why the UK’s emissions fell by 33 per cent between 2005 and 2018.

Western Europe’s economy has also changed. There are pockets of sophisticated manufacturing of capital goods and autos. But as manufacturing has shifted abroad low emissions travel and tourism has become more important, accounting for 14 per cent of GDP in Spain, 13 per cent in Italy, 11 per cent in the Netherlands and nearly 10 per cent of national output in Germany in 2019. It’s only a little harsh to describe Western Europe as a post-industrial tourist attraction. All of which helps explain why the EU’s emissions fell by nearly 20 per cent between 2005 and 2018.

Our role in the global economy is different. We provide essential resources, energy, protein and fibre to many countries around the world. These sectors underwrite our high standard of living. We export most of what we produce but the emissions involved in these essential inputs are counted against us.

The competitive advantage of countries like China, Korea and Vietnam has been built on low cost manufacturing often driven by coal and gas fired generation. That's the reason why China's emissions grew by 72 per cent between 2005 and 2017, Vietnam's by 88 per cent, and South Korea's by 33 per cent.

Now the nations that build their economic prosperity on cheap and reliable energy are asking developing countries to give themselves an economic uppercut by reducing the reliability and increasing the costs of their energy.

And now the demands from the EU and the US are coming with threats. EU wants to put carbon tariffs on countries whose emissions performance doesn't match their own.

More protectionism from the EU is hardly a surprise. Australian has a \$40 billion annual trade deficit with the EU. The average Australian spends \$208 per year on agricultural goods from Europe; the average European spends \$4 on farm goods from Australia. Why the difference? We are locked out of the EU market. Our access to the EU beef market is limited to 3,389 tonnes of beef. That's 7.5 grams of beef per person per year. One quarter of a bite size piece of beef.

If the EU whacks tariffs on Australia, then we should reply in kind. Double or triple the luxury car tax on every Mercedes, BMW, Audi, Porsche and Lamborghini. And we should find a way to exempt Japanese and Korean cars – they are our true trading partners, consistently buying our resources, energy and agricultural products.

And now there's the push by European and US banks, fund managers and insurance companies to deny finance, investment and insurance to companies in the Australian resources sector.

This is a clear example of foreign multinationals dictating the economic policy of this country.

And our weak local banks are supinely backing this trend, worried that a couple of noisy activist protestors will roll up at their AGM in a koala suit.

This trend is a blatant attack on the role of this Parliament and its elected representatives who are trusted by the Australian community to determine economic policies.

It's the Parliament of Australia who should determine what industries are legal and illegal and industries that are legal should be offered total banking facilities and total insurance cover.

One option for consideration is a so-called 'fair service' regulation that provides an obligation for essential service providers to serve companies in all sectors, provided they are lawful and credit worthy.

In November 2020, the previous US administration announced changes to ensure that major banks make decisions on the credit worthiness of an application for lending rather than other factors including 'reputational' issues.

Announcing the change, the regulator, the US Comptroller of the Currency (COC) said that:

It is our understanding that some banks have taken these actions based on criteria unrelated to safe and sound banking practices, including (1) personal beliefs and opinions on matters of substantive policy that are more appropriately the purview of state and Federal legislatures; (2) assessments ungrounded in quantitative, risk-based analysis; and (3) assessments premised on assumptions about future legal or political changes.

The COC added:

Organizations involved in politically controversial but lawful businesses—whether family planning organizations, energy companies, or otherwise—are entitled to fair access to financial services under the law.

A similar 'fair service' rule should be considered in Australia.

It should not be possible for example for ANZ, for example, to unilaterally decide that it impose new emission reduction tests on its customers from the energy, transport, buildings and food, beverage and agriculture sectors and not lend to those farms and businesses who do not meet that test.

In our areas of our international economic policy, Australia is standing strongly against offshore political influence.

It's resisting efforts by China to influence our foreign policy by boycotting certain commodities. Australia has also sought to stop China's influence in buying assets such as the Northern Territory port and used its political muscle to cancel Victoria's Belt and Road policy. Australia has sought to have influence on other overseas investments through the FIRB.

Australia is defending its foreign and trade policies against foreign coercion and must defend its economic sovereignty just as vigorously.

Australia must not allow a group of overseas and local banks, financiers or insurance companies to turn the tap off on the Australian banking system and blackmail them into abandoning the coal industry under the nonsense claim that coal will become an abandoned or stranded asset.

The GEA reports that coal fired power generation in the Asian region will increase by 574 terawatts by 2030. This is more than double Australia's total combined generation of 265 terawatts.

A 13 August report from Bloomberg stated that China's state-owned firms propose 43 new coal powered generators and 18 new blast furnaces.

And while companies like BHP and getting out of coal, others are buying in.

In late June, Glencore bought out BHP's and Anglo American's shares of the Cerreón thermal coal mine in Columbia. In the announcement, then Glencore CEO Ivan Glasenberg noted that the investment would pay itself off within two years. That's business code for "we got these assets for a song." I would rather be an investor in Glencore than BHP or Anglo.

For the banks and financiers to suggest coal will be a stranded asset defies all predictions of coal's growth.

If we let an unelected finance industry set the economic and export policies of this country, who will be next? The gas industry has invested billions of dollars in Gladstone and provided thousands of high paying jobs for Australians. As gas is a fossil fuel, will that be next on their hit list?

And what about primary industry? It's a heavy emitter of emissions - will they be excluded from insurance and banking? It's not far-fetched - ANZ has already threatened as much.

The finance and insurance industry must also recognise that low priced coal fired power, has lifted hundreds of millions of Asian families out of poverty.

Asking these governments to reduce their emissions to zero by 2050 and increase their power costs and lose their competitive advantage and see their citizens return to reduced circumstances, is just not going to happen.

There are 300 million people living in India with no or partial access to electricity.

If the EU, the UK and the USA want poor countries to reduce their emissions and increase power costs, they'll need to compensate them, not threaten them.

Banning coal and gas in Asia is senseless when it generates 87 per cent of primary energy in the region.

It will reduce growth and living standards in the fastest growing region in the world. More poverty, more instability unless we decide to subsidise their economies. If forcing people into lockdowns and making people wear masks is causing a political backlash, what would happen if you lowered Australian living standards and increased taxes to compensate Asian countries to reduce their emissions? The Asian economies don't want that – they want growing economies and more opportunity. And domestically, all hell would break loose and you would see a tremendous backlash that would only benefit Campbell Newman, Pauline Hanson and all the loony right.

Commerce will always be motivated by profit. It's the only way investors decide where to place their money and get a dividend.

After many years of support in reduction of emissions through \$59 billion of subsidies on windfarms and solar farms in Australia, and the trillions of dollars spent worldwide on renewable energy, it's time to take stock of how successful the world has been in reducing emissions. We should do so before sending all our bureaucrats and renewable power rent seekers to Glasgow in November and run up thousands of extra carbon miles.

Recommendations

The Committee should consider the following:

- The *Concerted Practices* provisions of Section 45 of the Australian Competition and Consumer Act should be amended to prohibit banks from engaging in practices which have the purpose or effect of denying credit and other financial services to the coal industry.
- Banks and insurance companies must offer finance to all legitimate and credit worthy businesses in the Australian economy. The only reason legitimate businesses should be refused 'fair service' of finance or service is if they are unable to its financial commitments. The Australian Government must decide what business is legitimate, and not leave it to foreign owned corporations.
- The refusal of banking and insurance companies to provide services to credit-worthy coal and supplier businesses should be referred to the ACCC for its consideration as to whether this matter contravenes Section 45 of the Concerted Purchase provisions.
- The decision of banks and insurance companies to refuse to supply the coal industry with finance and insurance cover is of such centrality to Australia's economic sovereignty, that it should be attended to by no less than the Prime Minister, the Deputy Prime Minister, the Treasurer, the Minister for Resources and Water and the Minister for Energy and Emissions Reduction, to examine as a matter of urgency and report back to the Parliament.