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Inquiry into the governance and operation of the Northern Australia Infrastructure Facility

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Submitted online and by email: economics.sen@aph.gov.au

Dear Committee Secretary

About Australian Ethical

Australian Ethical Investment Limited was established in 1986 to manage the retirement and other savings of Australians in an environmentally and socially responsible way. Today we manage over $2 billion in superannuation and managed funds for over 40,000 Australians.

As a super fund we invest with long term interests and responsibilities across society and the economy. This perspective is important to consider alongside the voices of individual companies, industries and civil society groups which often focus on narrower business, social or environmental interests. Our broader perspective is embodied in our Ethical Charter (https://www.australianethical.com.au/australian-ethical-charter/).

In this submission we outline:

(1) our general perspective on government support for infrastructure

(2) our concerns about NAIF governance

(3) the importance of robust NAIF decision making in the context of the application by Adani to NAIF.

1 Our general approach to government support for infrastructure development

Applying the principles in our Charter, we support government institutions and policies which leverage the power of well-functioning markets *in the public interest*, recognising that well-designed regulation and facilitation of markets is necessary to take account of both the power and limitations of markets.

Government support of development of long term infrastructure can be an important tool to facilitate innovation and value creation *where the benefits of that infrastructure will be available across different parts of society and the economy*. For example, a development of new transport infrastructure which will be broadly available for many different types of commercial and non-commercial users and uses.

There is also a substantial risk that government funding of inappropriate infrastructure can obstruct innovation and value creation, against the public interest. This risk is high if the funding has the effect of subsidising existing technologies and business models in the face of competition from disruptive alternatives. An alarm bell should ring where the expected user of the infrastructure is a single company or small group of companies, particularly where those companies are operating in a mature industry sector. In such cases government needs to carefully scrutinise the commercial barriers which are stopping the individual companies developing the infrastructure themselves using private capital. These barriers will often be strong reasons why government funding for the infrastructure does not meet the public benefit test.

For these reasons, it is critical to ensure robust governance and operation of the Northern Australia Infrastructure Facility (NAIF).

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2 Governance and operation of the Northern Australia Infrastructure Facility (NAIF)

We apply the following general principles in assessing the governance and operation of NAIF:

a. There should be sound public interest grounds for establishing any new body or mechanism for the disbursement of public funds, rather than relying on existing processes and agencies.

b. The government should clearly articulate these public interest grounds, and explain how the new body is designed and resourced to satisfy these grounds. Design and resourcing needs to address requirements for transparency, consultation, oversight and accountability, which are crucial to establish public trust in new institutions and to mitigate the actual and perceived risks of government pork barreling.

We have concerns that the governance and operations of NAIF may not be aligned with these principles, and that there is insufficient information available about NAIF to allow Australians to have confidence that the decisions of NAIF will be made in the public interest. The additional information recently published in NAIF's 2016-17 Corporate Plan and Public Benefit Guideline provides some additional insight, but we have not been able to locate adequate information about:

1. How NAIF will take into account social and environmental impacts in its assessment of public benefit.

2. Processes for consultation with affected individuals and communities.

3. How NAIF is or will be adequately resourced to allow it to make good decisions i.e. how the mix of NAIF's board and staff, EFIC staff and resources and other external resources delivers the mix of skills, experience and capacity needed to make good decisions about the allocation of infrastructure funding in the public interest. For example, what *infrastructure* experience or expertise does EFIC contribute to NAIF? Will EFIC be providing analysis and advice to NAIF about the public benefit of alternative infrastructure proposals? EFIC and NAIF have very different organisational functions and purposes, so it is important to understand how experience and expertise gaps are addressed, and how individual and organisational conflicts of interest will be managed where there is a potential conflict between the objectives of NAIF and EFIC.

This sort of information is especially significant for NAIF. Government funding of infrastructure raises some of the most wide-ranging and complex policy, economic, social and environmental issues which governments face. Public confidence in the capacity of NAIF to expertly navigate these issues is crucial. As one example, it will be particularly important to guard against decision making biases which come with expertise or experience concentrated in particular fields. We know that a person suffering from knee pain is much more likely to receive a recommendation for a surgical intervention from a surgeon than from a physio, with the physio being more likely to recommend therapy as the optimal course of action.

Our concerns about ensuring sufficient diversity of skill and experience for good decisions are heightened by section 15(4) of the NAIF Act which seems to disqualify an expert in the areas of social or environmental policy from sitting on the board (unless they also have some other experience or expertise listed in the section).

We understand that further clarity and detail may be provided in the future about these issues (or that there may be information which has been published which we have overlooked). In this case it is crucial that this additional information is made readily available before the process of consultation and analysis by NAIF of individual projects is substantially progressed. This is needed to safeguard a robust NAIF decision making process and public confidence in that process.

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3 Case study: Adani Carmichael coal mine

The importance of these issues is highlighted by Adani's reported application to NAIF for finance for a rail line to facilitate the mining and export of coal from a new Carmichael coal mine in the Galilee coal basin. If this application is to be considered, it is crucial that NAIF have the governance and resources to make a credible, evidence based and transparent assessment of the consequences of support for a coal mining project and rail line with the following characteristics.

3.1 The Carmichael project is inconsistent with Australia's obligations under the Paris Agreement

A Carmichael coal mine is inconsistent with Australia's commitment under the Paris Agreement to limit warming to well below 2 degrees. This is supported by analysis from the International Energy Agency (IEA).

Based on Adani's own comments[1], it is expected that the Carmichael mine will both facilitate and rely on the continuing expansion of Indian coal power generation. This expansion is inconsistent with limiting warming to 2 degrees. The IEA has assessed that under a 2-degree climate policy scenario (their '450 scenario'), the coal price will range from US$49 to US$73 per tonne[2]. Adani's own comments referenced above, and the analysis of leading industry expert WoodMackenzie, indicate that a coal price of over US$80 will be needed to make the project economic (taking into account the quality of the Carmichael coal).[3] This demonstrates that development of the Carmichael project would not be aligned with limiting warming to below 2 degrees, since it relies on future policies and prices which will not limit warming to 2 degrees.

3.2 A concessional loan for the rail line is inconsistent with Australia's G20 commitment to phase out fossil fuel subsidies

In 2009, G20 countries including Australia announced that over the medium term they would phase out inefficient fossil-fuel subsidies that encourage wasteful consumption. We and many other investors have assessed 2020 to be the appropriate deadline for all G20 countries to complete this process.[4] Already Australia is failing to make progress on this commitment. The Overseas Development Institute has found that "investment in fossil fuel exploration, extraction and electricity production in Australia are supported by an average of $5 billion in national subsidies annually", and the IMF estimated Australian subsidies for fossil fuels for 2015 at $1,259 per person, being above the global and G20 average.[5]

3.3 The Carmichael project poses great risk to the Great Barrier Reef

The Carmichael project will damage Queensland's greatest piece of natural infrastructure, the Great Barrier Reef, by increasing global warming and expanding shipping facilities and traffic through the Reef.

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[1] http://www.abc.net.au/reslib/201506/r1437291_20785621.pdf from June 2015, Adani responses to questions asked in the context of the 4 Corners program 'The End of Coal?' http://www.abc.net.au/4corners/stories/2015/06/15/4253096.htm
[2] Table 1.4, page 45, 2016 International Energy Agency *World Energy Outlook* https://www.iea.org/media/publications/weo/WEO2016Chapter1.pdf
[3] https://www.woodmac.com/reports/coal-adani-gives-the-go-ahead-to-the-carmichael-thermal-coal-project-47966407
[4] http://newsroom.unfccc.int/unfccc-newsroom/g20-must-phase-out-fossil-fuel-subsidies-by-2020/
[5] https://www.odi.org/publications/10058-empty-promises-g20-subsidies-oil-gas-and-coal-production http://www.imf.org/external/pubs/ft/survey/so/2015/NEW070215A.htm

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3.4 The rail line facilitates a mature industry

The rail line will not unlock new opportunities for innovation and value creation. It will simply benefit Adani, and potentially other companies with ambitions to mine coal in the Carmichael basin.

For all the public policy debates that sometimes arise about the merits of government funding of new projects like communications infrastructure, dams and highways, at a minimum they offer benefits to a broad range of individuals and businesses wishing to pursue diverse personal and commercial interests.

Not so the Galilee/Carmichael rail line. We repeat our concern that there **is substantial risk that government funding of inappropriate infrastructure can obstruct innovation and value creation, against the public interest. This risk is high if the funding has the effect of subsidising existing technologies and business models in the face of competition from disruptive alternatives. An alarm bell should ring where the expected user of the infrastructure is a single company or small group of companies, particularly where those companies are operating in a mature industry sector. In such cases government needs to carefully scrutinise the commercial barriers which are stopping the individual companies developing the infrastructure themselves using private capital. These barriers will often be strong reasons why government funding for the infrastructure does not meet the public benefit test.**

These serious harms of an Adani Carmichael mine make it implausible that NAIF could conclude that a loan to Adani delivers public benefit (even a NAIF with governance and operational shortcomings). However, the current polarisation of views and debates on climate and many other issues demands that we all exercise the utmost care in safeguarding the highest quality governance of all public decision making.

We are very happy to discuss these important issues further.

Yours sincerely

[redacted]

Phil Vernon
Managing Director
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