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Senate Standing Committee on Economics,
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Thank you for the opportunity to make a submission to the Senate's enquiry on the governance and operation of the NAIF. My interest in the matter concerns the NAIF board's pending decision on an application by the Adani Group. Apparent shortcomings of institutional governance are of great concern to a large number of Australian citizens as the board deliberates this question out of sight, and evidently persuaded that they should act like the board of a private bank, rather than as custodians of the public interest and responsible managers of a public resource.

The Adani case brings into sharp focus the issues I would like to bring to your attention. So for that reason, I beg your leave to frame my submission *via* the terms of reference, through this over-riding concern. I want to specifically address the first and second of the enquiry terms of reference - transparency, and its implications for risk assessment and a proper and open regard for the public interest.

Deciding eligibility

Criterion 3 of Schedule 1 provides that, to be eligible, the project must be such that, without assistance, it would be unlikely to proceed, or be seriously delayed. Now in the case of Adani, this stipulation should be established readily enough. The project has been given the clearest signs of lack of confidence from financial institutions in Australia and internationally. However, inasmuch as this circumstance looks like a clear vindication for assistance, it is complicated by a contentious theme, which there is every reason to suppose, has potential to muddy the waters. And to me, it seems essential that a decision like this, vulnerable to

misinformation, laden with prejudice, and fraught with conflicting interests, must be made in the open, with full scrutiny of the arguments and their adjudication.

At least two accounts of the wariness of lenders have shared space in public discourse. One, often articulated by spokespeople for the proponent, alleges that potential lenders have succumbed to the advocacy of environmental groups; that claims by environmentalists are false; and that confidence demonstrated by NAIF can win over private lenders.

The other, detailed by the Bank of England's Governor and others, and backed by energy analysts and scientists specialising in carbon budgets, claims that commitments made at Paris preclude exploiting any new fossil fuel reserves – anywhere, and for any reason whatsoever. In other words, the financial institutions recognise a major conflict between the commercial aims of fossil fuel businesses and the political and moral obligations of Paris signatories.

In view of these incompatible arguments, I submit that a minimum standard of transparency is absolutely necessary, rather than the mandated *post hoc* disclosure.

Measuring risk tolerance

Clause 12 (3) of the investment mandate stipulates that the the board must consider measuring any risk premium for a proposal "in relation to factors that are unique to investing in Northern Australia Economic Infrastructure". This would appear to mean that no other sources of high risk can be admitted to their consideration.

In the case of Adani's proposal, it has become clear that, whatever those geographical risks may be, the ones that count most heavily, and the ones that have so far deterred private investment, are quite different, both in magnitude, and in kind. Several scientific studies have shown that a large fraction of currently exploitable fossil fuel reserves cannot be extracted under commitments made at Paris. These assets therefore acquire substantial stranded asset risk. It follows that greenfield assets, and any supporting infrastructure carry prohibitive risk.

It seems clear that this is a central issue in any appraisal of the proposal, yet the board has gone so far as to grant conditional approval without canvassing any of its judgments, or allowing that the public interest requires any scrutiny at all. They seem to believe that the bearers of risk (Australian taxpayers) should simply watch and pray while they do their work. This is surely not appropriate - in this, or any other case.

The reputation clause

Clause 16 makes it clear that no decision of the board can "cause damage to the Commonwealth Government's reputation". I submit that, in weighing the application of this stipulation to any case, the board ought not to rely only on its legal advice, but should also find ways to engage the community. This is, after all, a question of close concern to citizens, and one that cannot be reconciled by *fiat*, but must be judiciously balanced in a scale that ought to include the public interest.

The case of Adani makes this very clear. The ultimate purpose of a loan would be to enable the mining of a large, so far unexploited coal province, by several lease-holders, over the next decade or so. The size of the exploitable reserves is only approximately known, but it is very large, and the effect of executing just the current proposals would be to roughly double Australia's coal export volume, mobilising many billion tonnes of fossil carbon to the air.

Combustion of this quantity of coal over the next two or three decades would, by itself, consume a significant fraction of the global carbon budget for 2°C. In so doing, it would make compliance with that budget more difficult for existing producers, who are facing the complex tasks of managing their enterprises through the de-carbonisation transition that is inevitable.

It would also place Australia in the position of a rogue nation, choosing its immediate self-interest before the joint commitments solemnly undertaken with our international partners in Paris. In such a consequential matter, I submit, it is essential that a sovereign people have access to decisions being made in our name.

In summary

It seems to me that the NAIF board would relieve itself of much criticism if the investment mandate were to be amended with some provisions concerning disclosure. It has been said that a model might be the CEFC, which also disburses hefty amounts of public funds to serve large policy goals, under constraints including an obligatory return on investment.

But if anything, NAIF has even greater need of mandated transparency. Its decisions are certainly entangled with regional and sectional interests, and, in the nature of things are therefore more political. For this reason alone, it would seem prudent to supply the board with means to guarantee its capacity to escape partisanship, or the perception of it.

And in the case of Adani, it appears the board should also be required to consider the interests of Australia as a global citizen. Mining industry prejudice against climate solutions should never be allowed to degrade our standing. Secret processes are tempting to people of conviction; but they are poisonous in democracies.

Yours,
John Price
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