

Business Advisory Emerging Issues



Climate Change

Opportunities/risks for DFKANZ firms

Business Advisory Emerging Issues - Climate Change

Good morning everyone!

A couple of material points.

A. Unlike other speakers on tax and crypto currencies, I cannot rely on precedents, court judgements, etc, they do not exist this is a double-edged sword, with its own risks.

Risks for DFKANZ firms

Overall it is sticking your neck out, but we must be positive and lead, that is part of our responsibility as a professional.

Business Advisory Emerging Issues - Climate Change

Audit

- Audit clients' failure to disclose effect of environment and carbon emissions.
- Accuracy of financial statements questioned.
- Litigation shareholder class actions.

B. I think DFK should accept the 3 basic premises

- 1. Climate is changing.*
- 2. Carbon emissions are increasing.*
- 3. Planet is warming.*

Business Advisory Emerging Issues - Climate Change

1. Current Regulatory Landscape and Professional Bodies

- ASIC
- CPA (Australia)
- CAANZ
- DFK International (nothing of any significance)
- Grant Thornton International (nothing of any significance)
- BDO International (nothing of any significance)

In essence, the current obligation is no more than to disclose any matter which may affect the veracity of the general purpose financial statements (asset impairment, direct environmental damage).

Covid has ensured the debate has essentially stopped but will resume in earnest any time soon.

Business Advisory Emerging Issues - Climate Change

2. Current Disclosure Regimes

Do not know

- BHP – see Annual Report ASX website
- Fortescue Minerals – see Annual Report ASX website

Conclusion

Disclosures appear quite extensive (if understandable), overall BHP position is difficult to keep to 1.5% raised temperature.

3. What an Auditor/Consultant should do

- Attend CPD approved seminars
- Reading material
- Become an “expert”
- Constructive advice to clients about their risks and opportunities.

Business Advisory Emerging Issues - Climate Change

Opportunities – Consulting

Basic premise is to be able to advise clients, audit/non audit on

1. Their risks
2. Their opportunities

The client's risk is not being ready to face regulation and tax on carbon footprint which we see in 5 – 7 years.

- a. Investment decisions
- b. Business acquisitions

Business Advisory Emerging Issues - Climate Change

DFKANZ firms have a real opportunity to provide constructive and positive advice to clients.

1. Calculating footprint
2. Measures to limit the footprint in future.

Fundamentally for change, we should be agitating for a measurement regime where companies can be score-carded and benchmarked. Once a footprint can be calculated and measured, we can then give constructive advice. The initiative started 12 years ago with a carbon tax and emission trading. We must return to this to get objectivity – “if you cannot measure it, you cannot manage it”. Such an implementation will take away a lot of the emotion and avoid a Greta Thunberg fiasco – no Accountant belongs in that scenario.

Business Advisory Emerging Issues - Climate Change

Notwithstanding the lack of progress on carbon measurement, there are 3 bright spots:

1. Electricity/power generation

There are significant opportunities available to clients in relation to electricity contracts and the extent of provision of electricity from renewable sources (wind, solar).

- Corporate Power Purchase Agreements (PPA's)
- Structured retail products
- Emissions reduction investment
- On-site generation
- Demand response

Business Advisory Emerging Issues - Climate Change

2. Replacement of petrol engines in motor vehicles. No longer does Mr Musk have the market to himself.

All major manufacturers are on board and the new challenge is battery recharge and power shortage – a better outcome for the environment and is happening without government regulation.

3. Local Government initiatives which I will touch on in a minute

Our Australian response will also be limited given the structure of our economy and therefore the appetite of our political leaders. Coal has dominated elections in NSW and Queensland in recent years and a bi-election in Upper Hunter next weekend reinforces that both at State and Federal level. Local Government may be difficult.

Business Advisory Emerging Issues - Climate Change

Government Policies (State & Federal)

All of the initiatives above are voluntary and have been driven by market forces. Twelve years ago, we had the beginnings of an emissions trade scheme and a carbon tax.

Governments on both sides are saddled with the dilemma of the nature and scale of coal production for export so both schemes failed to get regulatory support.

NSW Exports

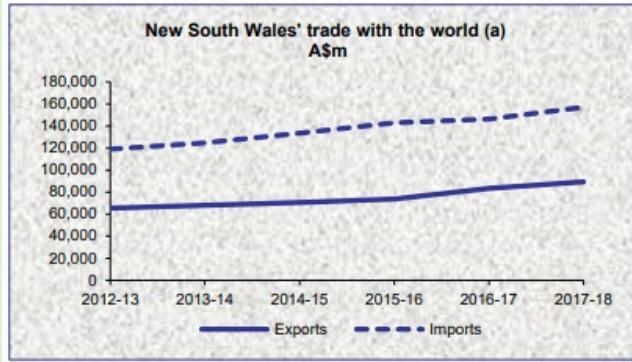
Coal is NSW's largest export earner in value terms, worth around \$13.2B in 2015-2016, greater than the value of our tourism and education exports combined.

In 2015-2016, the NSW coal industry produced 246.8M tonnes of raw coal, yielding 191M tonnes of saleable coal, worth nearly \$14.6B or approximately 80% of the total value of the State's mineral production.

NSW has more than 15B tonnes of recoverable coal reserves contained within 40 operating mines, and over 20 new major development proposals. (Source: <https://www.business.nsw.gov.au/industry-sectors/industry-opportunities/mining-and-resources/coal/coal-in-nsw>).

Business Advisory Emerging Issues - Climate Change

Goods and services trade:



(Source: [nsw.pdf \(dfat.gov.au\)](#))

Goods trade[#]:

New South Wales' major exports, 2017-18 (b):

	A\$m
Coal	16,974
Copper ores & concentrates	2,515
Aluminium	1,680
Gold	1,464
Beef, f.c.f.	1,455
Refined petroleum	1,343
Medicaments (incl veterinary)	1,277
Edible products & preparations, nes	1,202
Meat (excl beef), f.c.f.	942
Medical instruments (incl veterinary)	919

New South Wales' major export destinations, 2017-18 (b):

	A\$m	% Share
Japan	12,230	23.1
China	8,754	16.5
Republic of Korea	3,864	7.3
Taiwan	2,963	5.6
United States	2,743	5.2

Business Advisory Emerging Issues - Climate Change

Australian Exports

In 2019, Australia exported \$51.5B in Coal Briquettes, making it the 1st largest exporter of Coal Briquettes in the world. At the same year, Coal Briquettes was the 2nd most exported product in Australia. The main destination of Coal Briquettes exports from Australia are: Japan (\$12.7B), India (\$12.1B), China (\$9.36B), South Korea (\$5.08B), and Chinese Taipei (\$3.56B).

The fastest growing export markets for Coal Briquettes of Australia between 2018 and 2019 were Vietnam (\$715M), Belgium (\$118M) and Turkey (\$101M).

(Source: [Coal Briquettes in Australia | OEC - The Observatory of Economic Complexity](#))

Business Advisory Emerging Issues - Climate Change

Similarly, the beef (and dairy in New Zealand) position is so major that any move to substantially change the regime will be financial suicide witness the bi-election set for the seat and Upper Hunter (NSW) this Saturday 22nd May.

Both political parties support the local coal mines because of jobs.

The Adani Coal Mine in Queensland was a major issue at the last Federal election and a Government loan was approved for its construction.

- Our biggest companies include substantial resource companies. Indeed in South Australia, the biggest companies in South Australia is Santos – who has recently been awarded major oil/gas licenses in NSW.
- Our country's wealthiest woman and indeed at various times, Australia's wealthiest person is Gina Rinehart whose asset portfolio is dominated by coal mines and beef cattle. Andrew Forest does seem more enlightened.
- Covid has demonstrated how important our actions are to the Australian recovery and how isolated we are without them. Airlines are major pollutants of the atmosphere.
- Covid has also demonstrated our leadership will support growth notwithstanding the health risks and it seems they will do the same in supporting our resource economy.

Business Advisory Emerging Issues - Climate Change

Local Government

At Local Government level, there appears more scope for Consulting and Auditing Services. The article below suggests Auditors and Consultants would have a better chance of appointment if they demonstrated knowledge and commitment to net zero emission.



(Source: SMH 11 May 2021)

In summary, I think it is a good challenge for DFKANZ to take forward and seek the collaboration of DFK International as it is a global issue requiring a global solution with inherent Australian economic characteristics.