

THE POLITICAL LANDSCAPE

A weakening of resolve is not only evident in Australia. With a new Coalition Government determined to undo the Clean Energy Future legislation and replace it with Direct Action, the outlook is not good for Australia to meaningfully reduce emissions. The notion of a Government picking winners and paying them to reduce emissions seems at odds with a Conservative market based approach. Why would a bureaucrat be better at picking winners than the market place?

A financial crisis has taken the wind out of the EU's sails and this is reflected in a weakening carbon market. The dysfunctional US political system makes it almost impossible for President Obama to implement real change.

The benefit of not having a democracy means that China can take centralised, unilateral action. The Chinese Government is seriously worried about the impact of coal pollution on its citizens (see below). An aggressive plan to reduce coal imports could have a substantial impact on Australian coal exporters' revenues.

The risk of stranded assets continues to be raised amongst investors who buy shares in fossil fuel companies. It is difficult to understand why Boards continue to spend current dollars in exploration for new reserves, when there is a material risk that the reserves may never be exploitable - see below for more.

These two powerful drivers could result in having a greater impact on the future direction of companies - than the impact of Governments vacillating over regulations.

2014 NATIONAL CONFERENCE

We are pleased to announce that Climate Alliance will be hosting the 2014 National Conference in Melbourne on April 10, 2014. The theme of the conference is the "Upside of Action". In the context of waning Government regulations, we will address the benefits to business of taking action to reduce emissions, improve energy efficiency or mitigate risks from climate change.

Mr Geoffrey Cousins will speak about his experience with the Gunns pulp mill and Woodside's plans for a gas plant in the Kimberley. Mr Cousins is a Non Executive Director of Telstra.

Climate Alliance will also organise a number of Roundtables where executives from a particular industry can discuss common issues of interest. Each Roundtable will be hosted by an executive that has a direct experience with a relevant project. Mark the date in your diaries!

LEADERSHIP AWARDS



The 2014 Climate Alliance Business Leadership Awards recognise Australian business leaders and organisations that have demonstrated leadership by addressing the opportunities or risks presented by climate change. The Climate Alliance awards celebrate the achievements of Australia's Boards, Directors, Executives, Secretaries and companies.

The awards will be presented at the Climate Alliance National Conference that will be held in Melbourne on 10 April 2014.



CLIMATE ALLIANCE

A business essential.

Four categories of business leadership awards are available: Board Leadership of the Year, Business Leader of the Year, Innovator/Exporter of the Year and Company Secretary of the Year. Deadline for submission is 14th March 2014. See our website for details and the nomination form.

STATE OF THE CLIMATE

To those of you that have bothered to keep an eye on the weather vane - the outlook is not good. Early December the East coast of the UK experienced a storm surge not seen since 1953. Records continue to be broken all over the world. But we muddle on in a political climate that is not conducive to address these real threats. Unfortunately, the climate knows nothing about our political moods.

Yet when a community is directly impacted, it does take action. For example, New York is strengthening its defences against a future storm. The re-insurance industry has been concerned about the potential impact of sea level rise on some of the most developed areas on earth. But most cities have not invested in precautions - except the Netherlands - which already had a problem!

It is interesting to consider at which point humans will seriously consider the risk to themselves and their progeny?



Photo: Storm damage and saltwater inundation resulting from Hurricane Irene along the coast of North Carolina in 2011

WHAT'S LIKELY TO DRIVE CHANGE?

Although Australia's emissions are a small percentage of the global emissions, Australia is a major contributor and beneficiary of fossil fuel exports - especially coal. If one were to account for the volume of carbon exported via coal and gas, Australia would be considered one of the world's major contributors to the carbon in the atmosphere.

See over.

Australia's dependence on this industry presents a real medium and long-term risk to the Australian economy. There is little discussion about our alternative strategies to fossil fuel exports. Billions of dollars are being invested in infrastructure on the premise that exports will yield a financial return on these very large investments.

This is unlikely to happen. Just as Sheikh Yamani (former Saudi oil minister and head of OPEC) famously once said - "The end of the Stone Age did not end because we ran out of stones." - the end of the fossil fuel age will not occur because we run out of fossil fuels. Two drivers that could cause a rapid decline in fossil fuel consumption could be:

Unburnable Carbon

The Citi Group, the International Energy Agency, the Australian Climate Commission all agree that fossil fuel companies are facing a serious risk. The risk is that there is a very real possibility that the proven reserves of fossil fuels will not be able to be extracted, sold and burnt. It is estimated that up to 80% of proven reserves will not be able to be extracted. If even a fraction of this number is correct, it will result in billions of dollars of stranded assets. Experts agree that this is a very real risk in the coming years. However, a more immediate question for



Just on three kilometres in length the Leigh Creek Coal Train is quite a sight by anyone's standards. The Sentimental Bloke: <http://thesentimentalbloke.com/category/mining/>

investors is why is exploration expenditure continuing apace?

Hundreds of billions of dollars were spent in 2012 on exploring for new reserves of fossil fuels. If there is well-documented evidence that the world will not be able to burn the proven fossil fuel reserves - why are the Directors of these companies continuing to approve these expenditures? Should not the money be used to retire debt, pay dividends or used for some other purpose? This money is being spent in the current financial year - it is not an issue for future generations of directors.

Unbearable Pollution

In the last few years, the pollution in China's major cities has become unbearable. Mothers cannot take their children outside



to play and the incidence of "cancer villages" is increasing rapidly. The Chinese Government has always been very concerned about the potential for civil unrest. The unbearable pollution levels in many parts of China have the real potential to cause such unrest. In response, the Chinese Government has taken action to reduce the use of coal to generate power and to enforce pollution regulations more aggressively. As a major consumer of fossil fuels, this response by the Chinese Government could have a dramatic impact on the volume of fossil fuels imported into China. Overall, this will be good for the environment. China has the political will, the financial resources and the skills base to rapidly develop technologies to replace fossil fuels. Because of their size and the industrial base, the impacts of this new initiative could have a substantial and fast impact on the future outlook for fossil fuel producers. Australian coal exporters need to consider the risks.

Climate Alliance Membership

Business leaders are cordially invited to join Climate Alliance and benefit from networking opportunities, invitations to events and access to information that deals with the opportunities and risks of climate change. See website for details and registration forms.

Contact Details

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About Climate Alliance

Climate Alliance is a not-for-profit, membership based company that collects and disseminates information on climate change. Our primary focus is to provide independent, business-oriented information to Company Directors, to help them inform themselves about the opportunities and risks resulting from climate change. We do not consult, lobby or develop policy.