



30 April 2021

Committee Secretary  
Joint Standing Committee on Trade and Investment Growth  
PO Box 6021  
Parliament House  
Canberra ACT 2600

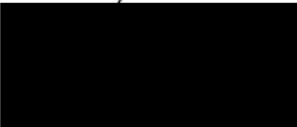
Dear Sir / Madam

Please find enclosed the Whitehaven Coal submission to the Joint Standing Committee on Trade and Investment Growth's inquiry into the prudential regulation of investment in Australia's export industries.

We appreciate the opportunity to highlight the significant contribution Whitehaven makes to Australia's export economy, particularly in regional areas, and the importance of a collaborative approach between the country's export industries and financial institutions.

Should you require any further information or clarification, please do not hesitate to contact me at any time.

Yours sincerely



Paul Flynn  
Managing Director and CEO

## Executive Summary

- A higher level of accountability and transparency will assist government, business and export industries to manage the transition to a lower emissions economy.
- Australia needs a more mature, sophisticated policy debate about the future direction of our export economy to avoid economically disenfranchising a large constituency of Australian families and businesses.
- Our export industries need the certainty of having the ability to access local finance on fair and equitable terms.
- Australia's export industry is worth over \$470 billion a year, with resources alone accounting for 51 per cent of Australia's export value.<sup>1</sup>
- Australia's proximity to developing economies in Asia will ensure demand for high-quality Australian coal exports continues to remain strong for decades to come.
- Australia's coal industry has an important role to play in reducing carbon emissions across Asia, where population growth and industrialisation are driving demand for coal and Australian coal, because of its higher quality, is offering a lower-emissions alternative.
- Whitehaven Coal (Whitehaven) acknowledges that an energy transition is underway but it is a process that will take decades, not years. It is important that this reality is fully acknowledged by Australia's banking and financial sector. Ill-considered moves to accelerate this transition will have real and significant costs and consequences for regional economies in particular.
- Coal is not the only target of activist attention, with other greenhouse gas (GHG) emitting industries such as oil, gas and even agriculture now coming into focus – each of which has the potential to further impact the hundreds of thousands of jobs these industries support throughout regional and urban Australia.

## Introduction

Whitehaven Coal welcomes the opportunity to lodge this submission to the Joint Standing Committee on Trade and Investment Growth's (the Committee) inquiry into the prudential regulation of investment in Australia's export industries (the inquiry).

As you would be aware, Australia is among the top 25 largest export economies in the world with annual exports of over \$470 billion. Mining remains Australia's single largest export sector and has proven to be a bastion of stability amid the uncertain times of the COVID-19 pandemic, replicating the key role it played during the Global Financial Crisis and in delivering rising living standards to Australia over the decades since the 1970s.

Given the important role exports play in Australia, it is concerning Australian banks and other financial institutions are taking steps to restrict and withdraw funding instruments for some of Australia's biggest exporters and emerging companies, particularly in the absence of a transition pathway that aligns with government policy.

If this is allowed to continue unchecked, it has the potential to inflict significant damage on Australia's valuable export industries and the economy more broadly, particularly in regional areas.

It would represent an especially savage blow to regional Australia, where many of our resources and export industries are based, not only shutting down direct investment and jobs but causing multiplier effects across suppliers and other businesses dependent on Australia's large export industries.

In effect, restrictive lending policies would act as a deterrent to investment in regional Australia, without consideration for alternative jobs or economic prospects in regional towns.

While to date the coal mining sector has been the target of the banks' restrictive policies, it is likely every extractive industry in the resources sector will be subject to similar pressures, as well as beef, lamb and other agriculture exports that generate methane emissions.

In this context, it is timely for this Committee to examine the issue of access to capital for Australia's export industries, which will remain critical as the nation's post-COVID recovery continues to take shape.

This submission canvasses the significant impacts financial institutions' decisions have, not only on businesses such as ours, but on the entire supply chain, small businesses, families, workers and many others across regional Australia.

It also examines the need for greater transparency and accountability in the banking industry towards support for Australia's export industries, and the need for greater scrutiny of climate change lobbying that is unwilling to account for

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<sup>1</sup> <https://www.dfat.gov.au/publications/trade-and-investment/trade-and-investment-glance-2020>



the complex web of economic, social, political and other considerations, while having a materially negative influence over the investment decisions of our banks and financial institutions.

Whitehaven submits that our export industries and financial institutions need a more collaborative relationship to work through the question of Australia's response to the challenge posed by climate change, which will enable Australia to achieve results that are beneficial to all stakeholders.

The prudential regulation of investment in Australia's export industries has the potential to be one of the most consequential factors in the growth of the Australian economy in the coming decades and we once again welcome the Committee's focus on this important issue.

## About Whitehaven

Whitehaven Coal is a leading Australian producer of premium-quality coal. Unlike many of the multinationals that dominate the resources industry, we are a proudly Australian company that delivers strong benefits to our shareholders, employees, suppliers and regional businesses.

While Whitehaven is an ASX-listed company with a ~ \$1.5 billion market capitalisation, our purpose as a company is to support and sustain regional communities by exporting high-quality thermal and metallurgical coal from Australia to the world and in particular Asia, with its growing economies and growing energy needs.

North West NSW is the primary focus of our capital investment and workforce presence, and we are the dominant player in this – Australia's only – emerging high-quality coal basin.

We operate four mines (three open-cut and one large underground mine) in the Gunnedah Basin of NSW. Our operating assets are complemented by two high-quality, near-term development assets, being Vickery, near Gunnedah, and Winchester South, in Queensland's Bowen Basin.

Coal mining is a capital-intensive industry, which necessitates a significant role for financiers in supporting the cash demand needed to facilitate capital outlay across the sector. Our most recent major coal project, Maules Creek, required capital investment of around \$750 million, while the Vickery Extension and Winchester South development projects are expected to entail around \$750 million and almost \$1 billion in capital expenditure respectively.

The coal mining sector remains a major employer of Australians, particularly in Queensland and NSW, with a direct workforce of around 26,000 and 19,000 respectively, and tens of thousands more indirect jobs throughout the supply chain and businesses that support mining.

In North West NSW, Whitehaven Coal is the single largest private sector employer with a workforce of around 2,500 people. We're also proud to be a major employer of indigenous Australians, with around 10 per cent of our workforce identifying as Aboriginal and/or Torres Strait Islander (ATSI).

Whitehaven is cognisant of the important role we play in sustaining the local communities around our operations. We are a major supporter of regional SMEs and spent \$365.4 million with local suppliers in FY20. Of this, \$3.15 million was spent with nine ATSI businesses for a range of goods and services.

In addition to capital expenditure, over the past five years alone we have invested close to \$2 billion in North West NSW and have enjoyed strong support from a number of Australian banks to facilitate this activity and contribute to more vibrant economies.

This represents a level of commitment to regional Australia that the banks should be justifiably proud of and, in our view, should feel a responsibility to continue to support.

As our business continues to grow in both NSW and Queensland, our contribution to regional development should grow proportionately, however, the domestic debt financing market is unquestionably becoming more difficult to access.

This represents an impediment not only to Whitehaven and other coal miners, but to many businesses that derive a financial or other benefit from the stimulus coal projects deliver over mine lives that often run for 20+ years.

## Coal plays a leading role in supporting the Australian economy

The Australian coal industry has underpinned Australia's economic resilience and prosperity and will continue to do so for years to come. In 2018-19, coal was Australia's second most valuable export commodity, after iron ore, generating over AUD\$69 billion, or nearly 15 per cent of the country's exports.<sup>2</sup>

Australia is a resource-based economy and the industry's importance has been further amplified during the COVID-19 pandemic, particularly in many regional areas across the east coast of Australia, representing an extension of the positive counterweight mining provided during one of the worst droughts in recent memory.

<sup>2</sup> <https://www.dfat.gov.au/publications/trade-and-investment/trade-and-investment-glance-2020>



Throughout the pandemic, together with many other resources companies, Whitehaven was pleased to be able to continue to operate without accessing JobKeeper or having to resort to some of the deep job cuts unfortunately seen in other sectors. Through the rapid development and implementation of the Resource Industry COVID-19 National Protocols, the industry demonstrated its resilience and adaptability in the face of an unprecedented threat and helped play a major stabilising economic role during the initial phase of the pandemic.

As the nation emerges from the COVID-19-induced recession, the resources industry – including coal – will unquestionably continue to have a central role to play in driving Australia's economic growth.

The sector is well-placed to build on the strong track record it has established for undertaking long-term investments, preserving and creating new jobs, promoting innovation and sustainability, and supporting growth in regional communities.

NSW alone has 21 potential coal projects on the horizon, representing \$6.3 billion in capital investment and more than 10,000 new direct jobs. This reflects the strong international demand for Australian coal that will remain for decades to come.<sup>3</sup>

## Future demand for high-quality coal

Softening demand and the potential for stranded asset risk are often cited by Australian financial institutions and climate change lobby groups as part of the rationale for restricting or withdrawing funding to Australian coal mines and other related organisations.

However, in reality, demand for Australian coal has remained high for the last decade, earning Australia almost \$475 billion in that period. Our proximity to Asia ensures we are well-placed to meet its strong appetite for coal exports into the future.

Together, China, India, Japan, Korea, Taiwan and South East Asia account for 75 per cent of global coal demand,<sup>4</sup> and it is widely acknowledged that the future of coal will be closely linked to the development of the many emerging economies across Asia, where thermal and metallurgical (coking) coal remains essential to support growth.

As noted in the Australian Government's National Resources Statement, by 2030 Asia will produce more than half of the world's economic output; consume 40 per cent of its energy; and be home to a middle class of almost 3.5 billion people.<sup>5</sup>

Under the International Energy Agency's (IEA) World Energy Outlook 2020,<sup>6</sup> there will continue to be global demand for coal, with the increasing demand of emerging markets and developing economies displacing decreasing demand in advanced economies.

The Asia Pacific region is set to drive growth in coal demand, led by South East Asia, which is forecast to experience growth of nearly 30 per cent over the next decade. The IEA has also estimated that more than \$1 trillion of capital invested in existing coal-fired generation is yet to be recovered, most of which is in Asia, which has some of the youngest coal-fired plants.<sup>7</sup>

Furthermore, Australian coal of the type produced by Whitehaven will continue to be especially sought-after, given it aligns to stricter climate and pollution policies that have been enacted or are in discussion among our key Asian customer nations seeking to reduce emissions while maintaining the stability and reliability of electricity grids.

As noted in the NSW Government's Strategic Statement on Coal Exploration and Mining, ending or reducing thermal coal exports while there is still strong long-term global demand would likely have little or no impact on global carbon emissions. Most coal consumers would be likely to source their coal from elsewhere and much of this coal would be lower quality compared to local coal.<sup>8</sup>

This fact has been acknowledged by Australia's two major federal political parties,<sup>9</sup> with both also reiterating their support for the sector's long-term importance to the Australian economy.

Labor resources spokeswoman Madeleine King recently said Labor will not stand in the way of new mines and believes Australia will export coal beyond 2050,<sup>10</sup> while leader Anthony Albanese said the party respects existing resource export industries for the jobs they provide to Australians.<sup>11</sup>

<sup>3</sup> <https://www.nswmining.com.au/news/2020/7/32-mining-projects-in-planning-pipeline-can-drive-economic-recovery-for-nsw>

<sup>4</sup> <https://www.iea.org/reports/coal-2020>

<sup>5</sup> <https://www.industry.gov.au/sites/default/files/2019-02/national-resources-statement.pdf>

<sup>6</sup> <https://www.iea.org/reports/world-energy-outlook-2020>

<sup>7</sup> <https://www.iea.org/reports/world-energy-outlook-2019>

<sup>8</sup> [https://resourcesandgeoscience.nsw.gov.au/\\_\\_data/assets/pdf\\_file/0004/1236973/Strategic-Statement-on-Coal-Exploration-and-Mining-in-NSW.pdf](https://resourcesandgeoscience.nsw.gov.au/__data/assets/pdf_file/0004/1236973/Strategic-Statement-on-Coal-Exploration-and-Mining-in-NSW.pdf)

<sup>9</sup> <https://www.afr.com/policy/energy-and-climate/albanese-backs-australian-coal-exports-20200117-p53sbq>

<sup>10</sup> <https://www.theaustralian.com.au/nation/politics/labor-drops-hostility-to-coal/news-story/652509f4ac93f9f01d3f6ee44f702709>

<sup>11</sup> <https://anthonyalbanese.com.au/media-centre/clean-energy-will-power-a-jobs-revolution-20-april-2021>



This follows staunch support for the sector from the Government, with the Prime Minister and Resources Minister Keith Pitt both labelling resources jobs as the foundation for regional communities and an important wealth generator for decades into the future.<sup>12,13</sup>

Despite this bi-partisan support, the country's financial institutions have continued to establish policies that contradict the position and mechanisms established by governments.

Alongside thermal coal, the NSW Government's Strategic Statement on Coal Exploration and Mining also noted the use of metallurgical coal is likely to be sustained even longer, given the ongoing strong demand for steel manufacturing. The other major component of steel production is iron ore, which accounts for 16.4 per cent of Australia's export value, versus coal's 14.8 per cent,<sup>14</sup> and has been a cornerstone of the Australian economy for decades.

Both resources contribute to the GHG-intensive steel production process, and make similarly significant contributions to the Australian economy, yet only coal is currently being singled out by financial institutions for further scrutiny and restrictions. This is emblematic of the policy inconsistency that is becoming increasingly common within parts of Australia's financial sector at the expense of the coal industry.

## Coal's role in tackling the challenge of climate change

While unsupported concerns about demand play a part, it appears a major driving force leading Australian financial institutions to restrict or withdraw funding from Australian coal mines is pressure from climate change lobby groups in relation to climate change and emissions reduction.

The extent to which banks, insurers and superannuation funds should intervene in markets as a result of these pressures is central to the deliberations of this inquiry.

Whitehaven acknowledges the threat of climate change and supports the Paris Agreement and Australia's Nationally Determined Contributions (NDCs). We believe an effective and enduring global response is one that considers a range of complementary measures to support the transition to a lower carbon future.

Whitehaven's approach is that we will assist sustainable economic development in our region and help ensure legitimate carbon emission reductions are achieved without triggering disproportionate and premature impacts on Australian jobs and livelihoods.

This includes investment in technology solutions, such as Carbon Capture, Utilisation and Storage (CCUS), which the mining industry is doing through its \$550m technology fund with Low Emissions Technology Australia (LETA).

Whitehaven welcomes the Federal Government's recently announced \$539 million investment in new clean hydrogen and CCUS projects, which closely aligns with the industry's approach and will play a critical role in accelerating the development and deployment of crucial emissions-reducing technologies in Australia.

This technology-led focus is a positive shift away from the historic orientation of some government initiatives to address carbon emissions, such as the provision of subsidies to renewables, which have had mixed success in reducing emissions due to the limitations of renewables and the continued heavy reliance on fossil fuels for baseload power generation.

Whitehaven's support for emissions reduction also includes displacing lower quality coal in the seaborne trade with higher-quality Australian coal widely recognised as having fewer emissions due to its high energy content and fewer impurities. It is used in high-efficiency, low-emissions (HELE) power generation on that basis.

As noted, there is sufficient demand to ensure coal will remain a globally traded commodity for many years to come and high-quality Australian coal has an important role to play in helping to reduce emissions. Indeed, moves from Australian financial institutions to limit coal exports could contribute to perverse outcomes for the environment, as this supply will likely be replaced by higher polluting coal from other countries with lower standards of environmental regulation than Australia.

Critically, there are already global mechanisms in place to reduce emissions.

International frameworks, such as the Paris Agreement, exist to coordinate sovereign national responses to addressing climate change. Global issues such as this are most appropriately addressed through such mechanisms and associated legislative change enacted as a consequence by national governments.

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<sup>12</sup> <https://www.minister.industry.gov.au/ministers/pitt/media-releases/resources-investment-continues-support-jobs-across-regional-queensland>

<sup>13</sup> <https://www.smh.com.au/politics/federal/scott-morrison-backs-coal-wealth-for-decades-to-come-20210120-p56vnz.html>

<sup>14</sup> <https://www.dfat.gov.au/publications/trade-and-investment/trade-and-investment-glance-2020>



The Paris Agreement does not specify the manner in which countries must meet their emissions reductions targets and, in fact, a key feature of the agreement is the use of domestic mitigation measures that signatories shall pursue with the aim of achieving their respective NDCs.

For many countries, particularly in Asia, Australian high quality coal can be and is a part of the pathway to reduce emissions. Currently, Whitehaven's customer countries are all signatories to the Paris Agreement, or, in the case of Taiwan, have domestic energy and climate policies consistent with the Paris Agreement.

Whitehaven is playing an important part in helping these countries to reduce their emissions, however our ability to do so is put at risk by the decisions of Australian financial institutions to restrict our access to capital.

## Financial institutions' role in tackling the challenge of climate change

A wide range of mechanisms already exist in Australia and across the world to reduce carbon emissions. Australia is a signatory to the Paris Agreement and our government sets policies to meet our commitments under the Agreement.

This raises a critical question for the Committee to examine – what is the role of financial institutions in tackling the challenge of climate change, and should it extend beyond government policy of the day?

Addressing climate change requires careful management of a complex range of factors and close cooperation between government, industry and the financial institutions that provide the capital to underpin Australia's economy.

For many observers, the fiduciary obligations of Australia's banks, insurers and superannuation funds are clear and should not extend beyond their remit to include seeking to shape the emissions reduction policies of sovereign nations and other such market interventions.

However, the current approach of Australia's financial institutions increasingly appears to be one of restricting or withdrawing funding for carbon-related export businesses with no consideration or understanding of the holistic role they play in customer countries' emissions reduction efforts.

The climate-related policies of Australian 'Big Four' banks, in particular, are also at odds with the energy transition framework favoured by the Australian Government. The funding restrictions being imposed are having the effect of putting the banks ahead of government and industry on policy timeframes, which has the potential to cause further uncertainty for industry and put Australian jobs at risk – particularly in regional areas.

The banks have been the subject of considerable pressure exerted by a small but vocal and active constituency, which is leading to a disproportionate response untethered from considerations around our national economic interest or even whether such actions have meaningful benefits for global CO2 reduction.

While the banks have so far been the most responsive to this pressure, and their actions are having the biggest impact on the export industry, there is no doubt the superannuation and insurance industries are also facing increasing pressure from activist campaigns.<sup>15</sup>

These sectors are equally critical to the ability of Australia's exporters to operate and warrant similar scrutiny from government, however, as the banks have already implemented a range of problematic policies, they are the primary focus of this submission.

## Australian banks are running ahead of government policy, putting national economic security and jobs at risk

Australia's 'Big Four' Banks already have in place, or have all recently released, policies foreshadowing reductions in exposure to some types of coal lending, including:

- **CBA:** Reducing exposures to thermal coal mining and coal-fired power generation with a view to exiting the sector by 2030, subject to Australia having a secure energy platform
- **ANZ:** Phasing out all lending to thermal coal by 2025
- **Westpac:** Not establishing relationships with new thermal coal customers; limiting support for thermal coal mines or projects to existing basins; and, maintaining strict quality criteria, Westpac will continue to support existing thermal coal customers [but] ....reduce exposure to zero by 2030
- **NAB:** Reducing thermal coal financing by 50 per cent from FY19 levels by 2026 and to be "effectively zero" by 2030.

While this would suggest a consistent approach towards coal across the sector, the banks have in fact exhibited a tendency for contradictory behaviour and decision making.

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<sup>15</sup> <https://www.marketforces.org.au/>

For example, ANZ recently withdrew its funding of the Port of Newcastle in what was said to be a rebuke of the coal industry and its exposure to climate risk. However, NAB, among others, quickly stepped in to underwrite the Port, labelling its involvement as "...crucial to a business that supports our local, regional and national economies."<sup>16</sup>

From Whitehaven's perspective, the inconsistency of this decision raises serious questions as it contradicts the approach the bank has taken to others in the industry who make equally significant contributions to these same local, regional and national economies.

There is no clear guidance for resources companies around the parameters of the lending policies of Australian financial institutions.

Indeed, the lack of transparency and accountability around the banks' decision-making process is a key concern in relation to the increasingly restrictive policies being applied. In our experience these decisions are often taken with limited genuine consultation, adding further uncertainty to an already volatile trading environment disrupted by the global pandemic.

It is not unreasonable to suggest that this policy inconsistency is a function of many investment decisions being influenced by the level of risk that individual banks are prepared to absorb from activist pressure and 'noise'.

Whitehaven knows from independently conducted research that the views of these activist groups differ significantly from others in the community. Support for mining and recognition that mining jobs are essential for our local economy has risen significantly in communities around our operations in recent years, with almost 80 per cent of the local community agreeing Whitehaven makes the local economy stronger and more resilient.<sup>17</sup>

While financial institutions are clearly listening to the loud voices of activist groups when making policy decisions, it appears they are not similarly considering the views of other constituents and community members who will be directly impacted.

This raises serious questions as to whether the banks are appropriately exercising their duties, particularly in light of the Australian bank guarantee whereby Australian taxpayers underwrite banks' risks to ensure certainty for Australian businesses.

There is an urgent need for greater accountability and transparency in how bank financing operates towards our key export and resources industries.

It is not acceptable for Australian exporters' access to financing to be dictated by marketing and sustainability policies that are detached from government policy frameworks. Instead, there should be a greater focus placed on banks' fiduciary duties or responsibilities to shareholders and the community, particularly when such decisions have significant impacts on regional Australians and the Australian economy.

## Implications for coal and other export industries

Australia's resources industry has consolidated over the last 20 years in response to the super-growth of demand from China, with firms strategically acquiring growth assets and commodities, and diversifying their portfolios geographically and across a range of markets. Due to diversification, large multinationals such as Rio Tinto, BHP and Glencore have enjoyed access to diversified sources of international funding and have not been reliant on Australian banking debt.

However, more recently we have seen the rise of a range of Australian-owned and operated miners investing in the opportunities offered by the dynamic growth in demand across Asia for specific commodities such as coal.

While the large multinationals have long enjoyed access to diversified international funding, local players such as Whitehaven have been more reliant on local banks and, subsequently, have a greater exposure to Australian banks placing restrictions on exporters.

Complicating this further is the fact that Australian banks have traditionally been the syndicate leads for our resources and export industries due to their understanding and insights of local business conditions.

International banks and newer entrants into the Australian market rely heavily on the credit work undertaken by the local Australian banks and, in many cases, will follow their lead. The involvement of local Australian banks enables international lenders to demonstrate to regional head offices, where key decisions are made about the willingness to participate and levels of funds to be made available, that lending conditions are profitable.

<sup>16</sup> <https://www.abc.net.au/news/2021-02-09/climate-risk-sees-anz-divest-from-port-of-newcastle/13136462>

<sup>17</sup> Source: Independent quantitative research conducted by Newgate Research. Base: All participants who are aware of Whitehaven Coal: 2020 (n=561), Tamworth (n=134), Gunnedah (n=145), Narrabri (n=143), Liverpool Plains (n=139). 2018 (n=568), 2017 (n=565). 2015 (n=574).

In general, each international bank will not lend in volumes greater than the largest Australian bank in our syndicate. Hence, when Australian banks reduce exposure to coal, or exit altogether, this puts further pressure on the international banks as well.

The common question asked by international banks when these issues arise is: *If you cannot raise funding and support from your own banks in your own country, then why should we take the risk in backing you?*

Whitehaven and other Australian coal miners have enjoyed strong support from a diversity of debt sources for many decades, including both Australian and international banks. This has provided a platform for the sector to become a major contributor to the Australian economy.

Securing financing from Australian banks is always critical to the ability of Australian resources businesses to attract international funding and any change of position by the Australian banks reverberates through the rest of the syndicate.

While international banks continue to be represented in banking syndicates across the sector, there is increasing evidence that Australian banks' policy decisions are making it difficult for international participants to justify their lending.

The current trade dispute with China also adds a further layer of complexity. This market previously might have been seen as an opportunity for the sector to explore alternative sources of international funding, however, it now has to be considered an additional risk.

## High risks associated with alternative capital sources

Australian exporters need access to strong, robust debt capital markets.

As we have highlighted, exporters will face more financial uncertainty if Australian banks fully withdraw from their traditional roles of backing Australia's export industries.

While there are alternative capital sources available, these come with significant attendant risks.

Australian banks have been a reliable source of debt capital for a very long time and it gives business a degree of certainty when they know they can refinance maturing debt (limited to no more than three to five years of maturity).

In the event that Australian banks withdraw funding from the coal industry, and possibly other emissions-intensive export industries, these sectors will then be confronted with the challenge of having to move to higher-cost and higher-risk debt sources. Some of these alternative sources would not be available to all Australian exporters, effectively prohibiting small operators from accessing capital and significantly impacting competition. For example:

- The depth of Australia's domestic corporate bond market is limited to companies of investment grade (BBB and higher as per S&P rating agency's classification), which most Australian coal companies are not;
- From an offshore perspective, some international debt capital markets have a US\$350m threshold in order to secure debt, which would preclude a number of smaller Australian producers from participating and growing their business; and
- The funding cost of these debt capital markets carries much greater risk which could raise the cost of financing from 200 basis points.

Alongside the financial risks, there are also geopolitical risks to consider.

The withdrawal of Australian financing could contribute to an erosion of economic independence and sovereignty for Australia. It would result in the need to explore foreign capital opportunities that carry their own security concerns and make the industry susceptible to geopolitical volatility.

This poses an unnecessary threat to the stability of the Australian economy, particularly when the government's bank guarantee is explicitly designed to ensure Australian businesses have access to the reliable sources of capital they need to drive the country's economic growth.

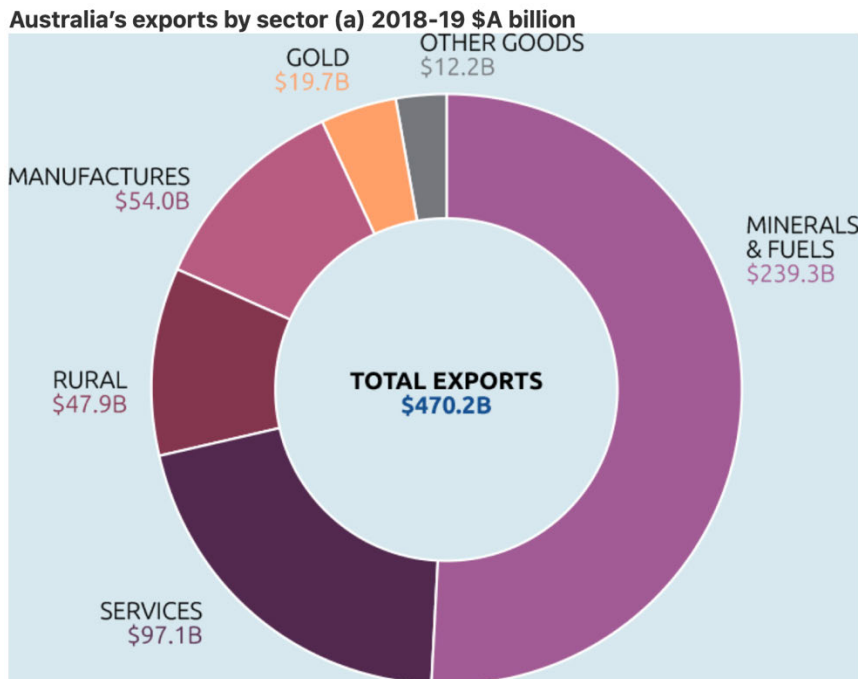
## What does this mean for the broader economy?

While the actions of Australia's banks pose real risks to the coal industry, uncertainty around how this trend manifests in the future potentially poses the greatest threat to our economy in the long-term.

It should be expected that almost every extractive industry in the resources sector will be targeted. Already the oil and gas sector have been the subject of orchestrated campaigns by some activist groups to deprive them of future sources of funding.

As beef, lamb and other agriculture export industries come under increasing pressure for the emissions they create, it is logical to envisage a scenario whereby the banks will come under increasing pressure to act against these cornerstone contributors to the Australian economy.





Source: <https://www.dfat.gov.au/publications/trade-and-investment/trade-and-investment-glance-2020>

Together, minerals and fuels and the rural sector account for more than 61 per cent of Australia's exports by value, with much of this economic activity generated in regional Australia.

Not only will the restrictive lending practices of Australia's banks impact more than half of the country's exports, but they will also act as a deterrent to investment in regional Australia, affecting generational industries without consideration for alternative jobs or economic prospects in regional towns.

Restricting access to finance will shut down direct investment and jobs, and have a multiplier affect across suppliers and other businesses dependent on these industries.

On this basis, it is important the Committee investigates the process by which more restrictive lending policies are developed and what considerations are given to those impacted – not only on businesses such as ours, but on the entire supply chain, small businesses, families, workers and many others across regional Australia.

## What is the solution?

Australia's export industries need greater certainty and transparency from Australian banks and other financial institutions to ensure they can continue to invest and create jobs with confidence.

Australian banks have proven their willingness to impose settings that extend beyond the pathways and transition plans of the government's own emissions reduction frameworks.

These settings unnecessarily disadvantage Australian exports despite overseas markets having their own carbon reduction frameworks enshrined as part of their various commitments under the NDCs of the Paris Agreement.

The manner in which these settings are developed and the factors considered in the decision-making process should also form a key part of this Committee's investigation into how it can ensure Australia's export industries receive the support they need from the financial sector to survive and thrive.

In this context, Whitehaven has identified a number of potential opportunities and policy recommendations for the Committee to consider.

### Urgent need for transparency

As Whitehaven has experienced first-hand, there is limited transparency or visibility around financial institutions' decision-making processes.

It is unclear what criteria is used to guide funding decisions, how policies are agreed and, importantly, how representative these policies are of broader shareholder views.

Given uncertainty around how decisions are being made, greater understanding of the process, including the potential for unrepresentative activist groups to exert influence, is called for.

A question for the Committee to consider is: to what extent are organisations factoring in the perspectives of constituencies outside of the vocal activist groups seeking to urgently address climate change?

Activist shareholders and proxy advisers appear to be gaining increasing levels of control at AGMs. The influence and pressure they are able to exert over Boards is having a significant impact on company policies – not just amongst financial institutions, but more broadly.

It would be timely for this Committee to consider why this type of activism has been able to have such a significant impact in Australia and whether the Parliament should act to ensure greater accountability and transparency around its influence, or raise thresholds to limit its impact.

More broadly, this inquiry also represents an opportunity for the Committee to undertake a holistic examination of the chain of decision making that has led to the restrictions on financing to Australia's export industries by Australian banks and financial institutions, well in advance of the worst possible impacts of these policies materialising.

Specifically, we believe the Committee should examine and consider policy responses to:

- Whether these decisions are taken in accordance with stated fiduciary duties;
- Whether these decisions are referred to the Board, and are consistent with governance and business strategy;
- Whether there should be a mechanism for these matters to be referred to shareholders, considering these decisions are relevant to profitability and return to shareholders; and
- Whether activist pressure is unduly influencing the decision-making process.

#### **Full regulatory impact of bank policies on regional Australia should be published**

At an economy-wide level, greater transparency around the impacts of the banks' and financial institutions' decisions would help highlight the detrimental effects they can have. This greater awareness could lead to more measured decision-making.

Often when banks impose restrictions, the focus of public commentary is solely on the benefactors, rather than the significant detrimental impacts they have – particularly in regional areas – for other stakeholders.

Whitehaven would welcome any initiative that ensures banks and other financial institutions are required to clearly disclose the impacts of their policies to shareholders, businesses, government and the community more broadly.

Potential initiatives to promote greater transparency might include:

- Directing the banks to prepare a regulatory impact statement (or similar) that outlines the real impacts of a policy setting, such as job losses, economic loss, industry feedback and consultation undertaken, before they withdraw funding from any export project;
- Directing the banks to clearly outline how their policies align with or differ from existing government policies;
- Ensuring shareholders are consulted ahead of these decisions through a formal recommendation that outlines the rationale for the decision, the impact on the banks' balance sheet and the regional economic impacts; and
- Specifying a formal notification period – to be determined but that allows sufficient time for consultation, for instance 90 days – ahead of these decisions to ensure all affected stakeholders are informed, and a process is established whereby solutions may be reached that avoid the extreme action of withdrawing funding for projects.

#### **'Government Guaranteed' Australian banks should not be operating outside the national economic interest**

As this submission has identified, the restrictions imposed by Australian banks and financial institutions are often above and beyond existing policy frameworks of national governments both here and globally.

It appears the banks' policies are not tethered to any local emissions reduction framework and go significantly beyond the current or likely future energy transition arrangements outlined by the Australian Government.

It is also clear that the restrictions being imposed fail to consider emissions reduction initiatives being implemented by the various customer countries of Australia's largest exporters.

This raises another question for the Committee – should Australian banks be assessing the coal industry on domestic, rather than on the export emissions that are ultimately the responsibility of the sovereign nations receiving the exports and, in almost all cases, are already accounted for under their existing emissions reduction framework?



In this context, as Australia's banks draw a substantial benefit and commercial advantage from the Government's domestic policies, most notably the bank guarantee, it is reasonable to expect banks to fully contemplate the economy-wide implications and impacts for Australia's competitiveness in the region of more restrictive lending policies.

Indeed, there is a case to be made that the bank guarantee should be linked to the banks' willingness to support the Australian economy, in particular our export industries.

We would encourage this Committee to consider whether a '*Regional Australia Impact Test*' or '*National Interest Test*' might be beneficial to ensure banks' policy decisions are appropriately weighed and considered against the social and economic impacts they will have before significant measures are imposed.

### **Encourage banks to work more closely with industry**

The potential to link the bank guarantee with banks' support for export industries is just one way to encourage greater alignment between the banks and Australia's biggest exporters.

There are myriad other opportunities for the banks to work more closely with the coal and other resources industries on developing low emissions technology, rather than simply walking away from investment in these sectors altogether.

Whitehaven would support the establishment of a business roundtable specifically charged with working through solutions for Australia's energy transition, including the important role Australia's financial institutions and export industries have to play in that process.

We are eager for genuine consultation with the banks so we can develop a joint pathway that aligns with government frameworks for emissions reduction.

This will give Whitehaven, and many other exporters, the certainty needed to continue to support regional economies across the country for years to come.

## **Conclusion**

Once again, Whitehaven thanks the Joint Standing Committee on Trade and Investment Growth for the opportunity to provide a submission to the inquiry into the prudential regulation of investment in Australia's export industries, and we thank the Committee for its willingness to consider this important area of policy.

Australia's export industries are among the most valuable in the world and they remain central to the country's economic prosperity, particularly in regional areas.

Whitehaven and other local exporters are well-placed to capitalise on the ongoing demand for high-quality Australian coal throughout Asia for decades to come, and we recognise the responsibility that comes with this to continue supporting small businesses, families and workers across regional Australia.

As noted in our submission, our capacity to perform this role effectively is contingent on the certainty of having the ability to access local finance on fair and equitable terms.

Whitehaven is eager to adopt a more collaborative and transparent relationship with Australia's financial institutions.

A future whereby our export industries and financial institutions work closely together to address Australia's response to the challenge posed by climate change will enable Australia to achieve results beneficial to all stakeholders.

Whitehaven looks forward to reading the inquiry's findings and are hopeful of a renewed focus across government, industry and financial institutions to support the long-term prosperity of Australia's important export industries and manage the transition to a lower emissions economy.