

LETTER FROM CANBERRA

December 2023 Edition www.affairs.com.au

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Editorial

As we sit in December 2023, looking at Christmas and a New Year it becomes both a time to reflect and a time to look at how governments, business and communities have got themselves through the year.

Plenty are commenting on government, they are an easy target for multiple reasons and stuff ups. They have done some good. Do we focus on that enough, or the bad is so bad that it just overshadows all else? The opposition, apparently, is thriving not because it is seen as an effective alternate government but because it can politicise issues for self-benefit.

I had lunch the other day with a great mate, we've been discussing all aspects of live for well over 20 years. Fair to say we've seen a bit. We started talking energy, the transition to renewables and the impact this is having across the board. We settled on a term not used often, rapaciously greedy! The definition is harsh yet two blokes with reasonable brains describe energy companies as rapaciously increasing their charges.

Truth is, we likely have not yet seen the price increase impacts brought by and attributed to decarbonisation. Take transport as one example, and how that will impact other sectors?

As it stands there can only be one key summary for our energy transition strategies: electricity will become even more expensive and less reliable, landscapes will never be the same and none of this will alter the climate. This is not climate scepticism, it is about

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Jon Rahm to LIV Golf

If someone said, work less, do the same job and get paid even more money....where do I sign would be the response! Professional golf is imploding. The arrogance of the game's many administrators is leading to a scenario where we will likely, unless there is a change, only see the best players playing each other four times a year at the majors!

More players could head to LIV. Dilution of the key player pool will reduce eyeballs watching golf. Sponsors will fall away due value loss and broadcast partners will look to pay less because the product and interest has diminished. The fans and the game suffer while the administrators look after themselves first and foremost. The DP World European Tour, the Australian Tour are already less relevant, as is the arrogantly run US PGA Tour.

The game has been negatively impacted as a whole and the wider community just views golf as elitist. World rankings have become a complete shambles. To make matters more ridiculous the same administrators are focused on the ball and how far it flies but they give industry five years to counter an irrelevant decision. Time for major change atop the many bodies accountable for this stuff up! Time for a focus on the fans and the quality of the game, not on administrators trying to stay relevant!

the impact of what we are doing and what we are all willing to pay for. Australia is a nation rich in coal, gas and uranium. Why do we not use those resources, instead preferring to conduct a world-first experiment in renewables plus storage, all the while insisting this will be cheap and reliable while generating jobs and economic security. It is delusional.

The Energy Institute Statistical Review for 2023 tells us that fossil fuels provide circa 82% of the world's energy, which is about the number reported for each of the last ten years. Yet, we keep hearing here that the rest of the world is switching en masse to renewable energy. What of reality? Renewable projects are so expensive that they are falling over, in both the US and Europe. We feature more on the cost and impact of a renewable energy transition on pages 4 and 5 in this edition of Letter from Canberra. Tell us what you think.

Some people are beginning to hate climate policies and the impact this is having on cost of living and the cost of doing business. Around the world support for so-called far-right parties is increasing. They are even winning parliamentary elections with policies that include back-tracking climate initiatives. But the view that far left policies do not end well should not drive a view that far right strategies will end well, or better! Most likely they won't and it is a dangerous merry-go-around to contemplate when you look at some of the other policies being promoted by far right parties.

Election victories like Holland and Argentina appear to have sounded an alarm in current governments. If that brings 'the world' back to the centre, in my opinion bring it on!

On a lighter note, because we need one!

The BBL has started, I continue to watch the cricket with my daughter and I love it. We are heading to the Stars vs Hurricanes even if those sides have started the competition the way they finished it last year, at the bottom of the table!

There was a famous quote that said: "even God can't hit a 1 iron". Any golf coach will tell you that hybrids or a 7 wood are the better option.....today I was on the range in a rare practice session trying to work out which 3 iron I hit the best! For the golfers reading this the only logic that comes with that is the pure enjoyment of flushing one of these things....which needs to happen a bit more often!

The most unaccountable job in the world, surely we can't beat the weather forecasters telling us what usually does not happen! I have worked out the wettest day of the year...Saturday!

April 25...Anzac Day

One step too far, I think so!

Don't you dare, a spineless South Australia government has removed the name Anzac Day and replaced it with "25 April", affixing the day as a public holiday.

Governments have plenty to do providing what they need for constituents. They are failing at much of what they are elected to do and they have no mandate to try to change our way of life, influence our values, demonise our history and threaten our very existence.

Anzac Day is for our veterans - this crap from SA's government will make them feel unappreciated, undervalued, even despised? Anzac Day is for our veterans as the sacred day that acts as our annual reminder of sacrifices made to keep us safe. Lives were given to protect the country and the way we live. Families suffered loss and grief.

Lest we Forget.

At the same time South Australia wants to be known as the Defence State, generating economic benefit generated by large Defence contracts.

The irony is suffocating. The SA government is disgustingly spineless. The time for these nauseating ideologies to stop is nigh. We seem so easily willing to jump from banning Christmas songs at schools because they are not inclusive to, now, this!

South Australia, don't you dare touch ANZAC Day - take it to a damn poll and see how you do!

AUD value in 2024

This is important, if your focus is on the economy, inflation, trade, jobs, cost of living, wellbeing, growth and governance!

The Comm Bank has warned that a likely global economic downturn in 2024 will lift the safe-haven greenback and sink the Australian dollar back below 60 cents US.

CBA's head of international economics Joseph Capurso predicts the US is headed for a downturn. "We expect stronger evidence the US will follow other advanced economies into recession in early 2024," he said. If he's right, history shows that investors will rush to safe assets such as government bonds, gold, and the US dollar.

As a result, Australia's largest bank predicts the local currency could tumble to 2020 levels.

For exporters this may be good news, but an even lower AUD makes imports more expensive. Fundamentally, weak currencies often share some common traits. This can include a high rate of inflation, chronic current account and budget deficits, and sluggish economic growth.

Our government budgets are debt laden, we have a persistent, supply led ongoing inflationary period that means prices and competitive positions will be impacted further by increased costs passed onto customers. Net export growth gains from a lower AUD may be harder to attain with ongoing production and monetary cost.

Never mind a government hell bent on passing more and more cost to business while doing little to help, eg slowing infrastructure spend, reducing migration and cutting government spending levels.

Our currency exchange rate is one of the most important determinants of Australia's level of economic health. Exchange rates play a vital role in a country's level of trade, which is critical to most every free market economy in the world. For this reason, exchange rates are among the most watched, analysed and governmentally manipulated economic measures.

The CBA does expect the depreciation in the Australian dollar to be short-lived because a US recession would likely see the US Fed cut interest rates aggressively by May next year - the same could happen here in Australia with sluggish economic growth and a likely recession. US interest rate cuts should help global economic recovery and risk appetite but it could devalue the USD. That means a recovery in the AUD value which then could harm exports while lowering import costs. Its a merry-go-around, one to watch and one to manage even closer than normal in 2024.



She's outta here, Palaszczuk

And it is good riddance, this should have happened much earlier as we better understand the hideous and ongoing decisions imposed during a pandemic that we now appear to let run wild simply because any government action is viewed as political suicide.

Another Premier walks away, not held to account and with a decent pension in hand. Palaszczuk was told to leave by unions and powerbrokers who deem her unelectable, she does not go out in control or of her own will! And, unions continue to dismiss elected leaders!

Commentators are calling the QLD government as being "rudderless, with no purpose or connection to Queenslanders". Look up the furore and the incredible decision matrix around a potential full rebuild of the Gabba ahead of the Olympics. Its one of many examples.

No intention here to relive poor, ongoing Covid decisions, which went well beyond the initial phase on an intoxication of government power and control. Queensland left-wing union boss Gary Bullock wields unprecedented power inside Palaszczuk's cabinet room. Palaszczuk, was not a champion of transparency and integrity in politics, often slapping down critical questions. Lets hope its not Deputy Miles next up!

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Australia's climate change minister Chris Bowen has agreed Australia will end the use of unabated fossil fuels as well as make an indeterminate financial contribution to help other countries achieve their 1.5 degree global warming targets. Early this week Mr Bowen told nearly 200 countries attending the COP28 in Dubai: "We don't need to phase out fossil fuel emissions, we need to end the use of fossil fuels". Bowen said "fossil fuels don't have a future in our energy system" and "fossil fuel has no ongoing role to play in our energy systems".

It seems highly uncertain major counties would agree. For Australia it would be good to know the plan and who is paying, before statements like this. A new survey of 2,134 households by Energy Consumers Australia shows 62% of respondents believe the transition to renewables will increase power bills as energy companies fund upgrades to wires and new storage facilities. Increasing electricity bills are prompting households to call for a slowdown in Australia's energy transition, with nearly two in three consumers believing transition means more higher prices.

Australia is on track to reduce emission by 42% by 2030, according to Bowen with only 1.1% of global emissions our impact is small.

Lets look at facts, we seem to have missed a few of these in the reporting I have seen:

- COP28 host country the United Arab Emirates has announced its state-owned oil firm, Adnoc, will increase oil output by 7% over the next four years. The BBC reported last Monday that by 2050, UAE would still be producing 850 million barrels of oil a day, down not much from its present 1 billion barrels a day.
- India is now the world's No.3 emitter. Its Minister for Power, R. K. Singh, said on November 6: "our point of view is that we are not going to compromise with the availability of power for growth."
- S & P Global reported on November 29 that India was generating 149.66 terawatt hours of electricity by the end of September, 73% of it from coal. That figure would rise to 77% by 2025 before falling to "71% in 2030 and 52% by 2050". S & P said public power companies were building 27 gigawatts of extra thermal power, almost all coal. It quoted R. K Singh saying that would need to rise to an extra 80gW.
- China plans to lift coal and gas power production. OilPrice.com says China expects peak winter power demand this year to rise by 12.1%, or 140gW. During the first half of 2023, OilPrice says, China approved more than 50gW of new coal power, expanded domestic coal output by 3% and lifted gas imports by 11%.

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NZ backtrack centre-right

On October 14, the same day as the Voice referendum, the result of the general election in NZ was a decisive rejection of the politics of identity and indigenous separatism. Citizens voted for being equal before the law, with the same rights and privileges. The NZ election showed a major defeat for activist party Te Pati Maori, with only 88,000 votes for this Party from an eligible 650,000 entitled to vote. Jacinta Ardern's former Labor government, which had leant left, was soundly defeated.

Work on He Puapua, a radical blueprint for separating NZ into two sovereign states, has been abandoned. It ends plans for a Maori court system, health system, upper house or parliament, the protection of Maori seats in parliament and compulsory Maori history in schools. It stops plans to renegotiate the Treaty of Waitangi ahead of the 200th anniversary of its signing in 2040.

The new government is talking about better health and education for all, equal opportunity, housing, more police and a smaller governance footprint. The new government is committed to spending within its means, simplifying employment laws and relieving the Reserve Bank of New Zealand of its role as "guardian to the financial ecosystem of Aotearoa" so it can get back to managing price stability.

There is also a bill coming nominating English as the official language! The NZ economy is in bad shape, hopefully the new government can benefit all.

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Fact based arguments and points are simply designed to ensure that an energy transition is done well, done right and that it does not incur unnecessary supply issues, cost increases and significant changes to competitive positions.

Australia cannot afford to forego its mining exports. We have no alternatives and we have no real ability to advance manufacturing and agriculture because our costs are too high. The US, as another example, also has a few key facts to consider:

- Wrote Bloomberg on November 29: "Some of the nation's most ambitious renewable power projects have been shelved, electric car sales are missing targets and investors are fleeing the sector in droves. The result is a \$US30b collapse in US clean energy stocks in the past six months."
- A quarter of the value of US companies "in the S&P Global Clean Energy Index" had evaporated in the six months to November 27.
- The Daily Mail in London reported on November 29 that global ESG (environment, social and governance) assets had collapsed by \$5 trillion in the past two years. "In the US, such assets plunged from more than \$US17 trillion to \$US8.4 trillion" in the same period.

Governments in Australia are looking to have industry superannuation funds, likely with changing superannuation rules, invest more of members' money in Australian renewable energy projects. Given what we read around the world, is that best for fund members?

More facts around the COP28 event. Copenhagen Consensus president Bjorn Lomborg in The Wall Street Journal on November 29 discussed two new studies published in the journal Climate Change Economics. A paper by Richard Tol says meeting 1.5C of warming would prevent the loss of 0.5% of global annual GDP by 2050 and a loss of 3.1% by 2100. But meeting the 1.5C Paris target would cost 4.5% of GDP each year until mid-century and 5.5% by 2100. "This means the likely climate policy costs will be much higher than the likely benefits for every year throughout this century and into the next," Lomborg wrote.

The prognosis in the second peer-reviewed study from economists at Massachusetts Institute of Technology was even more negative.

Yes, some will argue reports are biased but that is not the point. We are merely highlighting that there are no clear facts and plans that detail the exact pathway of an energy transition to renewables. In Australia we do not know how much it will cost, who will pay and what will we forego?

Lets just talk facts, with an end-to-end cost-benefit analysis!

Intl v Domestic travel

Tourism Research Australia's annual five-year forecast, released on Tuesday, says domestic travel has gone backwards in 2023 after a strong rebound in 2022.

The number of domestic visitor nights is forecast to fall 4.1% this year compared to last year and still be down 2.6% on 2022 levels by 2027.

Increased competition from international outbound travel, and cost of living pressures leading to reduced discretionary spending are considered the main barriers to domestic travel.

In contrast, international travel continued to climb with numbers tipped to reach record highs in 2025, when more than 10 million overseas arrivals are expected.

To date visitors from Asia have returned the fastest, with arrivals from Vietnam, Thailand, The Philippines and India already exceeding pre-pandemic levels. That is much to do with capacity, more direct flights, increased migration, the value of the AUD, some events and a return and recovery of the key Visiting Friends and Relatives travel market segment.

Within the domestic market recovery in some destinations occurred faster than elsewhere. TAS was quick, a reminder that destination demand is so much about the experience, value, repeat travel, belonging and an abundance of reasons to travel to a location.

VIC numbers appear to finally be rebounding as well, but pride of place and reasons to come to Melbourne are much different and less compared to the city as "the most liveable".

The price of Oil

Both our cars take 98, just filled one for the first time in ages where the price per litre was under \$2...just!

Oil pricing has dropped in recent weeks amid signs of increasing global supplies, including estimates from ship-tracking firms that American crude exports are nearing a record 6 million barrels a day. Remember the 2014, Obama period when the US became a net exporter of oil and the price dropped as supply levels increased. Now we are seeing other countries, including Angola and Nigeria looking to increase their supply levels to gain revenue via a few extra market share points.

The Organisation of Petroleum Exporting Countries (OPEC) and its allies announced deeper output cuts on Thursday in a bid to stabilise markets, the move failed to arrest the slide as traders remained sceptical the cartel's members will follow through.

Lower fuel pricing will certainly aid inflation!

Net Overseas Migration and detainees arrested

A sixth non-citizen released from indefinite detention after last month's High Court ruling has been arrested, worsening the political crisis enveloping the Albanese government.

The inexcusable Dreyfus press conference and his reaction to a question on accountability is possibly the worst mistake engulfing the government on this issue. Dreyfus's reaction has no place, it highlights the total cock-up from the High Court decision to the political ass covering that has occurred without prioritising the victims of detainee actions, victims who should never have been exposed to the risk created by the court and the government.

Large numbers of migrants continue to poke the housing issue. With the benefit of hindsight, the government made several missteps in the management of the immigration portfolio. This goes beyond the bungled handling of indefinite detention. Errors include sticking with migration targets set by the previous Coalition government; underestimating the effects of the so-called catch-up after the pandemic; and altering visa conditions to make Australia an even more attractive destination for less skilled migrants.

The key here is net overseas migration: the difference between long-term arrivals and long-term departures. Before Covid, net overseas migration was averaging just more than 200,000 a year. According to the latest figure, NOM was more than 450,000 for the year ending in the March quarter. More recent figures point to annual NOM exceeding 500,000. Simply too much, too quick?

Hybrids vs Electric cars

Self-confessed, I am a petrol head. I love the sound of the engine revving from actions I make flicking gear pedals on the steering wheel.

For many reasons I am not going electric, noise is one and battery safety is very much a new reason. I did have a hybrid Toyota Rav4 rental car last week. I can see where that is heading and the fuel bill was substantially less than my guzzling 'mid-life crisis car'!

Hybrids are appealing to cost-conscious buyers because they are thousands of dollars cheaper than EVs and don't need to be recharged.

Federal Chamber of Automotive Industries chief executive Tony Weber said the hybrid shift reflected the fact that EVs weren't yet the answer for many car buyers.

"Batteries are expensive and therefore, EVs are inherently more expensive," Mr Weber said. "The advantage of hybrids is that you get a substantial gain against most petrol and diesel engines with a smaller battery which makes that vehicle more affordable relative to an EV.

"The trajectory is to zero emissions. That will be EV. The question is, what is the trajectory?" Its a good question, asked in the Australian and it is one that needs more time and research.

The concern over fire risk, battery cost, insurance cost and long term value of EVs is questionable. Insurance costs for EVs are escalating globally with many cars written off because of battery damage.

Check the story on the last page of this Letter from Canberra.

Home ownership dilemma

If a problem is, by and large, one of perception and expanded on with high migration levels we seem to have very successfully managed to work ourselves into a weird concern over home ownership.

The banks have all been announcing profits recently, and there has been plenty of profit to announce!

ANZ decided to tell us that they feared home ownership is becoming the domain of the rich.

Yet, we do this against the backdrop of first home buyers being represented by the largest presence in the market ever; 30% of all home sales go to first timers.

Are they all rich? That, I guess, is the first question - what is rich? Who decides what rich is? Is it kept simple by defining it by just house ownership?

First home buyers are also receiving help from families, family homes are being sold for smaller ones, often in regional locations while kids receive a helping hand from family home equity to enter the metropolitan markets. Plenty of evidence of this happening, particularly as rents soar and as new suburbs are created quickly on the outskirts of major centres.

We forget in our modern-day obsession that home ownership has always been hard. It doesn't mean you had to be rich, but it was always hard. I remember having a house young, sitting in a furniture-less lounge no doubt paints the picture of many a first home buyer.

Then you've got the banks themselves, or at least the Reserve Bank. Needing 20% for a deposit in a major city is a couple of hundred grand. Now, that is hard. Harder than it needs to be. 5% is plenty, equity gains on the family home are safe bet and not taxed! Housing is a very stable commodity in this country and if you are in a town or city where the average cost is \$600,000, 5% is \$30,000. That's doable.

For better or worse, we obsess about housing. We think it's a right, which it never was. But that's part of the angst and that's why we obsess about prices and builds and consents. The simple truth is for some, housing was always a stretch and always will be. But there are too many of us who started with barely anything, sacrificed hard, did our homework, bought smart and started the climb.

You want it? You can do it.

The 30% number tells you that is still the reality.



EVs & the charging risk

We will soon explain our growing interest in batteries. Suffice to say I would not put a lithium-ion battery on the side of my house to charge an electric car. Its just not happening and, building owners and body corps are now considering new rules with regard to not charging electric vehicles when buildings are occupied.

A state-owned group which runs a number of Melbourne medical facilities has banned its staff from charging their electric vehicles in hospital car parks, citing fire risks. As first reported by The Driven, Monash Health - which operates 11 hospitals and medical centres in Melbourne - announced the new rules in an online safety alert to staff, telling them they can no longer charge electric cars and battery-powered mobility devices within sites run by the group.

"Monash Health employees must immediately stop charging their personal Light Electric Vehicles (LEV) and Electric Vehicles (EV) within the confines of Monash Health sites, including all car parking areas," the safety alert read, according to The Driven. According to us - battery mobility must be titanium not lithium-ion, which presents the fire risk.

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December's "what do you think of this?"

We agree with Independent economist Chris Richardson who says the Federal government could help the RBA and the community in two ways: first, by reducing the amount of spending in the economy; second, by helping offset some of the cost of living pain. "Yet that's easier said than done because those two things can pull in different directions," says the Rich Insight principal.

The Coalition's Treasury spokesman is Angus Taylor, one of the least convincing politicians period. It boggles the mind how ineffective he has been in the portfolio he holds when the state of the economy is the only domestic political topic in town. Was he worse as Energy Minister? Peter Dutton urgently needs a reshuffle to move Taylor on.

May we just confirm public suspicions that big infrastructure projects, from roads to energy, are made only to benefit those that profit from them?

There is one number that explains why the Prime Minister is in trouble; 60% of 35 to 49-year-olds now feel worse off financially than they did two years ago. This is middle Australia, the voters who decide elections.

They won't say its this simple but - ultimately the country must decide whether we want massive infrastructure spending or lower rates.

The High Court refugee release debacle these last few weeks might even put pink batts in the shade.

I haven't recommended any shows I have been streaming for a while. For those who like "spy genre" the third season of Slow Horses on Apple, the two seasons of Furia on SBS on Demand and Red Election, also on SBS are well worth a watch.

Optus will need to do much more than change CEOs to restore its reputation with the public, on reliability and with Canberra.

The 2023 Dutch general election has given Geert Wilders' far-right Party for Freedom a landslide victory. Dutch centre-right parties have contributed to the mainstreaming of Wilders' far-right views and are now trapped in a dance over the formation of a new government

Leaders must change the way they deal with government, we can help but much more dedicated effort needs to be pointed to advocacy for your business, your industry and your issues. If you need help, call us.

Thank you for reading, we are glad for any feedback we receive and we encourage you to engage with Affairs of State.