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PWC TAX SCANDAL'S AFTERMATH:
IT'S TIME TO SERIOUSLY REGULATE THE BIG 4

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PWC TAX SCANDAL'S AFTERMATH: IT'S TIME TO SERIOUSLY REGULATE THE BIG 4

Prof Janek Ratnatunga

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A tax expert from Australia started speaking like a spy in the dead of winter in 2015. He emailed classified information obtained from a confidential briefing by the *Australian Tax Office* (ATO) to associates with the message, *"For your eyes only"*, knowing they would subsequently exploit this information to benefit clients and profit handsomely.[1]

That email and dozens more like it have embroiled *PricewaterhouseCoopers* (PwC) in a scandal that has compelled resignations[2], raised the possibility of criminal and corruption investigations [3], elicited ire and accusations of insider trading[4], and threatened future government contracts worth hundreds of millions of dollars[5]. This scandal has been unfolding for nearly eight years.

This latest scandal, and many other accounting and auditing scandals before, raise some fundamental questions of the relationship between government and the accounting and auditing profession, especially the Big-4:

1. Why are governments getting advice on policy matters, especially on Tax Policy, from the very consultants from the Big-4 who will be advising clients on how to take advantage of such policies?

2. Why are governments allowing the accounting and auditing profession to determine what outcomes are expected from a statutory audit?

3. Why are governments allowing the accounting and auditing profession to self-regulate in the wake of continuing scandals that put into question their ethical and moral integrity?

4. Why are the professional bodies such as the Chartered Accountants, and the global umbrella body for the accountancy profession, the *International Federation of Accountants (IFAC,)* keeping silent on these scandals?

5. Why are governments using the big private consulting firms (with big price tags) when there are public sector organisations such as universities and scientific institutes that already employ experts in the field, and who are less likely to have a conflict of interest?

6. Why are governments not having a *Register of Miscreants* of consultants who have been involved in scandals, and banning them from future government contracts?

The Origins of the Scandal

The *OECD G20 Base Erosion and Profit Shifting Project* (or BEPS Project) is an OECD/G20 project to set up an international framework to combat tax avoidance by multinational enterprises ("MNEs") using base erosion and profit shifting tools[6]. The project, led by the OECD's *Committee on Fiscal Affairs*, began in 2013 with OECD and G20 countries, in a context of financial crisis and tax affairs (e.g., Offshore Leaks). The report was delivered in 2015. OECD member countries and jurisdictions had agreed to join an accord to impose a two-pillar global tax reform plan which imposes global minimum corporate tax of 15%. The BEPS project is now in its implementation phase, and 116 countries are involved including a majority of developing countries.

Peter Collins, a former PwC advisor, was assisting the Australian government in developing stricter multinational tax legislation at the time. The BEPS Project was a part of an international campaign to stop large corporations from reducing their tax obligations and moving profits elsewhere. Collins agreed to keep the information secret and had signed confidentiality agreements with the Australian government.

However, instead of keeping the information confidential, Collins sent in 2015, an internal PwC email consisting of 144 pages to his PwC colleagues so they could warn clients about impending events. Collins also gave a private copy of an OECD draught document on *"mandatory disclosure of tax planning schemes"* that highlighted potential steps to minimise tax evasion globally; and included information about various tax efforts, meeting agendas, anticipated timings, and government thinking. [7]

PwC had, two years before, identified US tech as representing a significant upside sector for the Australian firm to provide tax advice as the ATO had problems with their structures. PwC diligently built relationships with key offshore buyers [8]. The stakes were high. The *Australian Financial Review* reported that three of the largest global corporations – Apple, Google and Microsoft – were among those targeted with confidential information about the government's plans to focus on tax avoidance [9].

One PwC internal source told the Sydney Morning Herald, *"We were aggressive in telling these relationships they needed to act early (heavily helped by the accuracy of the intelligence that Peter Collins was able to supply to us)."*[10] With this confidential information on hand, PwC partners created "a global team" to think about how this information may be exploited for commercial gain globally, but especially in the United States. [11]

This was just months before an alarmed *Australian Tax Office* sent out a series of alerts when it became apparent that multinationals had responded with extraordinary speed to anti-avoidance measures under the *Multinational Anti-Avoidance Law (MAAL).*

Australian MPs are now disparaging of PwC, calling the whole episode a *"A sickening example of a lack of integrity"*. One senator in parliament compared PwC to a cancer and warned other governments that the company may also be conducting "deception and betrayal" in other nations.

The Global Scope of the Scandal

The global PwC business is desperate that the Australian scandal does not bleed into their international business.

However, the horse may have already bolted.

It has been reported that PwC employees from Singapore, the Netherlands, and the US collaborated on the US project, which brought in around $2.5 million in revenue. Senior UK partners made separate comments and suggestions on the private information. [12]

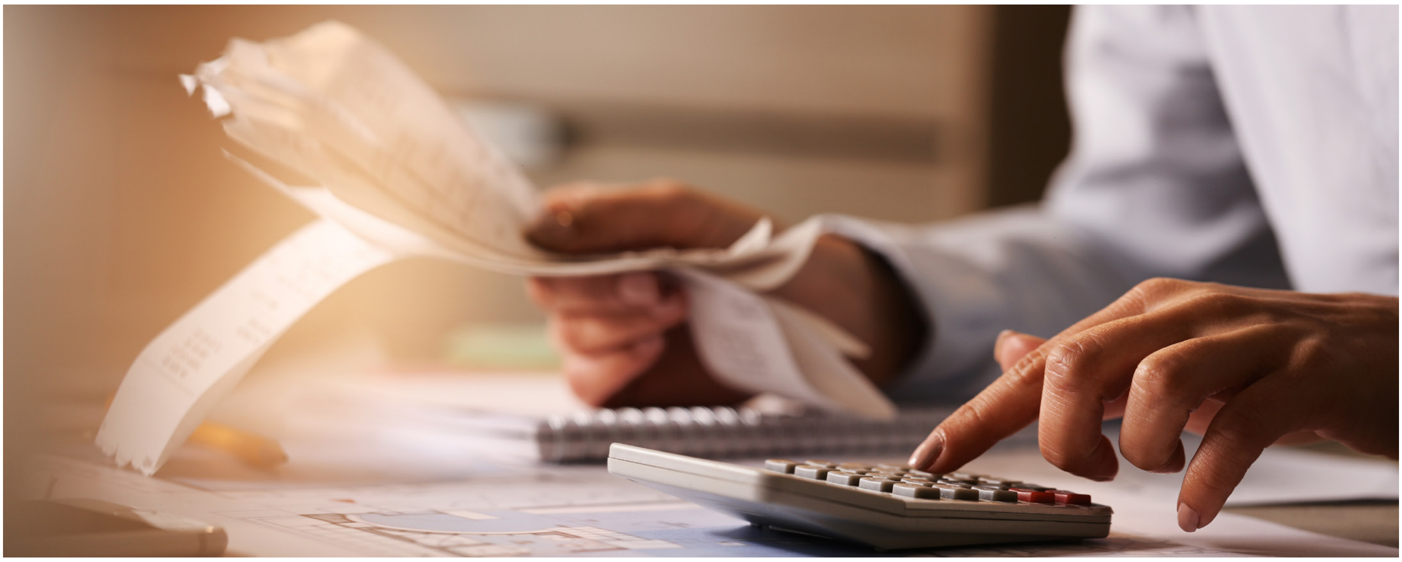
The PwC corporation has been accused of not being transparent about the worldwide scope of the problem and how many employees may have been involved, according to the Australian senator who demanded the release of the PwC emails. The emails that have been released to date show that PwC employees from Singapore, the United Kingdom, Ireland, the United States, and Europe collaborated internationally on this problem.

Ms. Deborah O'Neill, a senator for the Australian Labor Party, stated that as PwC is a global organisation, *"This is a disgraceful breach of trust, a sickening example of a lack of integrity, and it reveals a toxic culture of unprofessional practise at PwC that stretches across the globe."*

Accounting and Auditing Scandals Worldwide

This is not the First Case Embroiling a Big-4 Firm. They have been the auditors in the biggest accounting scandals in the last 25 years, including:

- *Waste Management Scandal (1998) – Arthur Andersen (AA)*
- *Enron Scandal (2001) – Arthur Andersen (AA)*
- *HIH Insurance (2001) – Arthur Andersen (AA)*
- *WorldCom Scandal (2002) – Arthur Andersen (AA)*
- *Tyco Scandal (2002)- PricewaterhouseCoopers (PwC)*
- *HealthSouth Scandal (2003) – KPMG*
- *Freddie Mac Scandal (2003) – PricewaterhouseCoopers (PwC)*



- *American International Group (AIG) Scandal (2005) – PricewaterhouseCoopers (PwC)*
- *Lehman Brothers Scandal (2008) – Ernst & Young (EY)*
- *Satyam Scandal (2009) – PricewaterhouseCoopers (PwC)*

In many Western economies, the "too big to close" syndrome continues to prevent effective regulatory retribution of the auditors. However, in India, under Section 140 of its Companies Act, PwC was banned in early 2018 from auditing listed companies in India for two years after being accused of negligence in its audit work at the now defunct *Satyam* Computer Services. The Securities and Exchange Board of India said that PwC chose to rely on "glaring anomalies" and huge differences in Satyam's balance confirmations during its audit work between 2001 and 2008.

Although the initial ban did not include ongoing 2017-18 audits for listed companies, the date was extended into 2019, and PwC was allowed to carry on auditing its clients until 31 March, 2019. In 2019, [13] Indian regulators also pushed for a five-year ban on Deloitte and KPMG over allegations the firms helped conceal bad loans at *Infrastructure Leasing & Financial Services*, a major infrastructure and finance group whose default last year triggered a credit crisis. [14]

In South Africa, some notable audit failures included:

- *Steinhoff International* Holdings NV a listed global retailer that inflated its profits and assets in 2016 by ZAR 250 billion, becoming the largest accounting scandal in the market to date. The auditor was Deloitte.

- *Tongaat Hulett Ltd*, South Africa's largest sugar producer that overstated its 2018 equity by ZAR 3.5-4.5 billion. The auditor was Deloitte

- *South Africa-based Gupta family,* whose leaked conversations with several key state officials in 2017 led to allegations of state capture eventually ending Jacob Zuma's presidency in 2018. The auditor was KPMG.

These events ultimately resulted in their investigation by the *Independent Regulatory Board for Auditors (IRBA)*, the country's audit regulator. [15]

In Australia, in 2019, a scandal erupted when a treasure-trove of leaked documents was handed to the Australian newspapers *(The Age and the Sydney Morning Herald)* by a whistle-blower that shone an embarrassing light on the private workings of the bank and the cosy relationship it had with its auditor of 13 years, Ernst & Young (EY). The leaked documents included confdential minutes of a meeting where NAB's chairman Ken Henry privately told EY consultants in the midst of t*he Royal Commission of the Banking and Financial* sector that he was "confident" the bank was still selling products that ripped off its customers and would eventually trigger compensation. The documents made for disturbing reading.[16]

In 2021, the Australian arm of one of the world's biggest and most prestigious accounting firms, KPMG, was fined A$613,000 by the US accounting watchdog, the *Public Company Accounting Oversight Board (PCAOB),* after a review found widespread cheating by staff on training tests over a four-year period. [17]

In 2023, it was reported that a senior partner at consulting giant *Deloitte* ran a suspected multimillion-dollar fraud while working at the firm, ensnaring dozens of executives, and many of the prestigious company's own partners. The figure at the centre of the suspected scandal, ex-Deloitte lead partner *Amberjit Endow,* can no longer be found by the worried investors who advanced him millions of dollars. Some investors estimate the 13-year company veteran's suspected fraud could involve more than $60 million. Victoria Police is now investigating following a complaint in December 2022, while other investors have made separate complaints to police in NSW. Investors now have hired asset tracers to find him and the money he personally guaranteed was safe. [18]

In the USA, in March 2023, *Silicon Valley Bank* failed just 14 days after KPMG LLP gave the lender a clean bill of health. Signature Bank went down 11 days after the accounting firm signed off on its audit. What KPMG knew about the two banks' financial situation and what it missed will likely be the subject of regulatory scrutiny and lawsuits. [19]

Why are so many companies around the world failing after getting clean audit reports? Because the audit report does not tell us what we think it certifies.

What the Audit Report Tells Us About the Company

The audit report of financial statements uses the term '*True and Fair'* to express the condition that financial statements are truly prepared and fairly presented in accordance with the prescribed accounting standards. As such, an unqualified audit opinion of the financial statements' states that the audited financial statements are *true and fair* in all material respect, i.e., after the auditors performed their audit, they found no material misstatements in the financial statements and that financial statements are correctly prepared. [20]

They do not attest that the value of the company as stated in the financial statements (called book value) is a true and fair measurement of its market value; nor do they attest that the financial transactions recorded arose out of only ethical practices; and they do not attest that there has been no fraud. They only attest that the financial reports are prepared and presented in accordance with the prescribed accounting standards. In addition, the auditors have significant influence over the development of accounting standards through direct involvements in standard setting bodies like *International Accounting Standards Board (IASB)* and intensive lobbying activities throughout the standard-setting process.

Using a university analogy, it's like the Big-4 are setting the subject syllabus, preparing the exam paper, writing the answers to the exam, and finally giving a grade. If there is a complaint, they are the adjudicators of the quality of their own work!

It is time for an independent body, such as Parliament, to be responsible for setting accounting standards. [21]

Regulating the Accountants and Auditors: From Self-Regulation to Statutory Regulation

In the case of the KPMG exam cheating scandal discussed above, why was it that it was a USA watchdog, the *PCAOB*, that was fining Australian auditors? In most cases involving the Big-4

Australia's own watchdogs, the *Australian Securities and Investments Commission (ASIC) and the Financial Reporting Council ('FRC')* have kept silent. Also, the *Chartered Accountants of Australia and New Zealand (CA ANZ)* – the professional body to which a majority of Big-4 auditors belong – also keeps silent. [22] Further, the International Federation of Accountants (IFAC) the global organization for the accountancy profession, which poses as an accreditation organisation, but instead is a lobby group, has no teeth to impose any bans on recalcitrant member organisation bodies or their members. *[More on this later].*

Unlike in Australia and the most countries in the world, the regulation of the accounting profession in the United States has now shifted from *self-regulation by peer review to* ***statutory regulation*** by the *Public Company Accounting Oversight Board (PCAOB).*

The main reason for the U.S. policy on oversight changing over the years – from a fairly hands-off approach, then to a negotiated oversight of self-regulation by the profession, and now to a statutory-based oversight that is independent of the profession – is mainly due to the *Enron* and *WorldCom* accounting and auditing scandals in the early 21st Century.

Following these scandals, a *Senate Banking Committee* was set-up in the USA to evaluate the effectiveness of the profession's self-regulatory framework, which included the peer review system and the *Public Oversight Board (POB)* – a forerunner to the PCAOB. The Senate Banking Committee found that the peer review system had never resulted in an adverse or qualified report on a major accounting firm in its 25 years of existence! [23]

Even after *Enron* revealed its accounting errors, its auditor *Arthur Andersen* received a clean bill of health from the peer review system. How could this be? The answer was obvious, peer reviews were *"mutual back scratching"* exercises. Audit firms choose their own reviewers, who were likely to be connected through prior relationships and tended to receive 'friendly' reviews. This led to the inescapable conclusion that independent standards-setting and independent oversight, while perhaps not guarantees of reliable financial reporting and auditing, are still indispensable elements of a strong financial reporting and auditing system. [24]

In the latest PwC scandal, former Telstra chief *Ziggy Switkowski* was named to head an independent review of the firm's governance, accountability and culture following the issues identified by the *Tax Practitioners Board's* investigation into the firm's use of confidential information.[25] Greens Senator Barbara Pocock was not impressed with the PwC review, saying:

"Regardless of who they put in charge, it's still paid for and run by PwC. Promising to release a summary of the findings is not the same thing as making the findings available to the public,"

"We can't have any confidence in it. This is a matter for the National Anti-Corruption Commission where it will be properly investigated."

Due to the whitewashing often done in a *self-regulation* by peer review process, the USA Senate Banking Committee *rejected self-regulation* of the Auditing Profession and required instead *independent oversight and standards-setting.* The US Congress passed these recommendations as the Sarbanes-Oxley Act of 2002 by a near unanimous vote.

In addition to examining the profession's self-regulatory system, the USA Senate Banking Committee also examined the effectiveness of *accounting and auditing standards-setters.* Among other things, the Committee focused on was whether private standards-setters' funding mechanisms fostered inherent biases.

Upon consideration, Senate Banking Committee Chairman Paul Sarbanes assessed the risk of undue influence over standards-setting as follows:

". . . the current arrangements of the standard setting bodies, both FASB and the international standards-setters … are funded by basically going around with a tin cup. So, you go to the very people who are going to be most intimately affected by the standards, you ask them for money to support the operation, and if they don't like what they think the standard setting body is going to do, they're obviously either unwilling or reluctant to give money. [26]

Chairman Sarbanes went on to propose an independent funding source for both the new oversight board, as well establishing auditing and related professional practice standards applicable to public companies, and any accounting standards-setters.

The U.S. experience teaches the auditing professions in other parts of the world, including Australia, many lessons, some of which are:

- That rigorous auditor oversight is critical to maintaining an environment in which auditors can stand up to clients and enforce comparability in financial reporting.
- To gain public confidence, oversight must be independent of the profession, both in fact and appearance.
- U.S. efforts at more modest oversight did not fail for lack of highly competent practicing auditors – they failed because they used highly competent practicing auditors.
- This is not to say that expertise in auditing should not play a role in oversight, but it must be expertise that is independent of the profession itself.

Unfortunately, these lessons have had little or no impact in the regulation of accounting standard setters and auditors in Australia and other parts of the world.

The Regulation of the Accounting in Australia

Why is it that it was the US audit watchdog the PCAOB, and not the Australian watchdogs, ASIC and FRC, that fined KPMG Australia in the exam cheating scandal? Why were CA ANZ and IFAC silent in the KPMG Scandal and provided only muted responses in the latest PwC scandal? And why are the members of the *Global Accounting Alliance (GAA)*, comprising 10 of the world's leading professional accounting organisations (supposedly set up to promote quality professional services) trying to keep a lid on this and other multiple incidents of bad ethical behaviour amongst its members?

It was reported by the *Australian Financial Review (AFR)* that in the KPMG exam cheating case, ASIC had in fact, assessed the material and concluded it did not have the power to sanction KPMG partners and staff over internal training misconduct. An ASIC spokesman had told the AFR that:

"ASIC has no power to intervene directly on such matters … it is of course very disappointing. The audit profession is in a position of considerable authority and trust, and it is important that the corporate and broader communities can rely with confidence on their expertise, honesty and professionalism." [27]

Typical of the glacial speed at which chartered accounting bodies worldwide move with regards to disciplinary matters involving the Big-4 professional service firms – KPMG, Deloitte, EY and PwC – CA ANZ told AFR reporters that it was, "monitoring the case". Had the PCAOB report from the USA not been published, it is most likely that CA ANZ would be monitoring the case forever.

None of the chartered accounting professional bodies in countries that have had major scandals from just a few years ago, have disciplined their Big-4 members (or the chartered accounting partners within these firms) for professional misconduct.

This is because globally, chartered accounting professional bodies like CA ANZ that are responsible for enforcing the professional standards of its members, receive major funding from Big-4 auditing firms – and almost always have Big-4 partners on their boards.

The Big-4 are also major sponsors of the *IFRS Foundation* and the IASB that issues *International Financial Reporting Standards (IFRS)* – according to which 'true and fair' opinions are given. As such, they have a strong voice in those organisations, the whole process of standard setting can be seen as somewhat incestuous.

Independent Oversight is Needed of Professional Bodies that can Undertake Audits

CA ANZ is one of the three generalist professional accounting bodies who have members that provide public practice services in Australia; and are recognised in s88B of the Corporations Act (Australia) to issue a certificate under paragraphs 708(8)(c) or 761G(7)(c) after compiling or auditing a financial report in public companies. The other two are *CPA Australia and the Institute of Public Accountants.* All these bodies supposedly hold their members accountable to the principles set out by their *'codes of conduct and professional standards'.* However, very few cases are enforced where the rulings are reported publicly, and almost never against the member who is linked to the Big-4.

All three bodies – as well as many other accounting bodies globally – are also members of IFAC, which is a global advocacy organisation mainly for the financial accounting and auditing professions. On IFAC's website it states that it supports the development, adoption, and implementation of international standards for accounting education, ethics, and the public sector as well as audit and assurance. It says that it also supports four independent standard-setting boards, which establish international standards on ethics, auditing and assurance, accounting education, and public sector accounting; and issues guidance to encourage high-quality performance by professional accountants in small and medium business accounting practices.

However, despite these lofty ideals, IFAC is not an accreditation organisation. It is merely a lobby group. Membership of IFAC is not obtained via an accreditation process, but instead, IFAC membership is obtained via an application process that must be sponsored by at least two current IFAC member organisations. No individual members belonging to its professional bodies globally has been brought in front of it for disciplinary action.

Therefore, it is time that all three generalist professional accounting bodies in Australia come under strict independent scrutiny of their auditor training programs and professional qualifications; similar to how the *Tertiary Education Quality and Standards Agency (TEQSA)* reviews higher education degrees issued by higher education providers. Also, although Universities have self-accrediting power, TEQSA regulates them through the re-registration process.

This is the only way to ensure that Australian reputation in corporate governance is maintained and capital markets are protected.

Controlling the Consulting Gravy Trains

Governments all across the world, including those in Australia, utilise the services of consultants. Since the 1990s, commercial companies that provide advice and assistance to government and non-government organisations have played an increasing role in the political scene. The global consulting services industry was estimated to be worth between US$700 billion and US$900 billion (A$1.06 trillion to A$1.37 trillion) in 2021-22. [28] The benefits of organisations using external consultants is that they may need an independent view for consensus building and decision making. Organisations cannot afford to employ, cultivate, and retain the wide range of skills and expertise they might need for specific projects. Also, they may lack the in-house capacity, or have difficulty recruiting the right skills to deliver key projects. Most importantly, in these times of budget restrictions, organisations can achieve results within defined fixed term and cost parameters.

There is no question that the right consultants, with the right expertise in the right contextual situation can bring value to organisations.

However, critics claim that governments and the larger public sector have, frequently to their harm, become unduly dependent on a few big consulting firms, especially when they are appointed in an opaque process without any perceived expertise in the area, carry an expensive price-tag, and are not accountable when the advice they give is a failure in the implementation.

In the 2021–2022 fiscal year, five major consulting firms: *Accenture, Deloitte, EY, KPMG, and PwC* received $2 billion in contracts from the Australian Federal Government. Of these, the *Australian Department of Defence* employed consultants from these five firms in the greatest numbers. Around a third of the Commonwealth's $2 billion in 2021–2022 defence spending was spent on contracts with those five companies, totalling nearly $700 million. [29]

Such consulting assignments were also illogical, especially because there were public sector organisations that already employed experts in the field. When legitimate research institutions such as universities and scientific institutes like the Australian government-funded *Commonwealth Scientific and Industrial Research Organisation (CSIRO)* are bypassed despite having the kind of expertise required for a specific project, questions are being raised as to why consulting firms with little to no expertise and experience in the subject matter are awarded the contract in the first place.

The *Australian National Audit Office* estimates that the overall committed value of contracts linked to private consulting firms was $888 million in the fiscal year 2022. [30]

Several analyses and investigations have also brought attention to many issues with regards to the Commonwealth's reliance of consultants — including the high cost of external advisers; [31] the regular cost overruns that go along with them [32]; and the resultant deskilling of the public service.[33]

Register of Miscreants

As the major four accounting/advisory firms are significant government clients, it was tactically inconceivable that any firm would abuse this trust. This scandal alone should guarantee that they will never receive consulting work again. Governments should have a *Register of Miscreants* of those consulting firms that have been involved in scandals and banning them from future government contracts.

In the case of the latest PwC scandal, PwC made the wrong decision in trying to take advantage of government secrecy violations by betraying the one institution, the *Australian Tax Office (ATO),* that carries a big stick and is a lucrative source of consulting income.

Government administrations around the globe have suffered from their naiveté in terms of who they admit into their confidentiality. In the PwC tax scandal case, the ATO should not have invited a fox to give advice as to how to protect the chicken coop. The good news for the Australian government (but the bad news for PwC) is that there are many ways to publicly torture someone, such as a Senate estimates interrogation that resulted in the release of a variety of PwC internal emails that showed how widely the information had been disseminated within the company and how it was being used to attract new business. [34]

In addition to that, in order to stop the rot once and for all it is time that governments around the world start looking at the accounting and auditing profession from ground up: questioning the need for a statutory audit; financing an independent body to set accounting and auditing standards; having a statutory-based oversight that is independent of the profession; and stopping the gravy train for consultants by using more qualified experts such as scientists and academics to support the public service.

After all, the ATO could have consulted leading tax law academics for the BEPS Project to develop stricter multinational tax legislation. Most likely, Peter Collins and other Big-4 tax accountants often would have consulted the textbooks written by these academics in providing tax advice to their clients!

Prof Janek Ratnatunga is CEO of ICMA (Australia & New Zealand)

The opinions in this article reflect those of the author and not necessarily that of the organisation or its executive.

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THE ENVIRONMENTAL IMPACT OF THE GLOBAL FOOD SYSTEM: THE CURSE OF ULTRA-PROCESSED FOODS.

Prof Janek Ratnatunga

Our globe is faced with a formidable challenge: producing enough high-quality, diversified, and nutrient-rich food within the confines of our planet to feed a growing population. This entails considerably decreasing the global food system's environmental impact.

Climate change may seriously affect our ability to produce enough food in a world with a growing human population.

A significant factor in environmental change is agriculture. One-third of all glasshouse gas emissions [1] and roughly 70% of freshwater use are caused by it. [2] In addition, it consumes 38% of the world's land [3] and is the main reason for biodiversity loss.[4]

More than 7,000 different plant species can be used to make food.[5] But today, just three cereal crops—rice, wheat, and maize—provide 90% of the world's energy, with more than half of the world's population depending on them.[6]

This continuous trend is most certainly being greatly influenced by the rise of ultra-processed foods (UPFs). Therefore, cutting back on the production and consumption of these items presents a special chance to enhance both our health and the food system's environmental sustainability.

This is of particular importance to management accountants who need to consider environment, society, and governance (ESG) issues in driving 'sustainable' value enhancement of their organisations. Consequently, the manufacturing, marketing and waste-management of UPFs presents a significant challenge to our cost management systems.

The Global Agricultural System and Food Costs

In more recent times the global agricultural system has remained largely strong despite the impact of climate change, increasing deforestation, and decreasing soil productivity — and, thankfully, there have been only a few severe food shortages. This is because the volume of crops grown per hectare varies from year to year by about 30%, according to research published as far back as 2007[7]

On the other hand, food costs have been fluctuating more and more during the past few decades.[8] While there are many factors that can affect food prices, such as crop yield, weather, trade, speculation in the markets for food commodities, and land management techniques — the majority of open trading systems have made it possible for shortages of food in some areas to be offset by surpluses and increased production in other areas.

Unfortunately, the stabilising effects of global trading to counter climate change, deforestation and soil degradation could start to break down with the globe now appearing to move towards higher trade barriers. The twin pressures of climate change and trade barriers alone could result is the increase of food prices significantly, placing stress on budgets of poor people in rich countries as well as those living in poor countries.

Also, whilst over the past 50 years crop growth per hectare has increased significantly; in more recent times this growth has decreased relative to earlier decades. According to recent studies, bad weather may have prevented up to 30% of the anticipated growth of European crops.[9] It is most concerning that the most noticeable shifts have frequently occurred in nations that are at high risk of climatic impacts on food supply and cost, such as those in sub-Saharan Africa, which includes South Africa.[10]

This is especially evident in the cases of barley, maize, millet, pulses, rice, and wheat. It appears that the countries most at danger for food shortages are also those hardest impacted by global warming. [11]

The Impact of Rising Temperatures

According to the *Intergovernmental Panel on Climate Change (IPCC)* — the world's foremost experts on climate science —the increased frequency of extreme weather events and higher average global temperatures brought on by climate change will decrease the reliability of food production. [12]

The IPCC has also provided evidence that increased heat and rain brought on by climate change are deteriorating land and decreasing soil productivity. This is due to the loss of organic matter and soil nutrients, which has a negative impact on crop production. Also, when sea levels rise more quickly due to global warming, there will be more saltwater intrusions and agriculture land will be permanently flooded, all of which will exacerbate these negative effects. [13]

With losses ranging from less than 1 tonne per hectare in Central Asia to 100 tonnes per hectare in South-East Asia, recent modelling of soil loss in wheat and maize fields reveals significant differences between tropical climate zones and regions with a substantial amount of flat and dry land. The five largest producers of wheat and maize demonstrate the strong influence of topography and climate on simulated water erosion. Water erosion is relatively high in Brazil, China, and India, where a large portion of cropland is in tropical regions, while annual median values are much lower in Russia and the United States. [14]

Fertilizers and Food

The increased use of chemical fertilisers and irrigation has been able to offset a significant amount of soil degradation. This has largely corrected historically bad land management in Europe and the US. For instance, according to one study, the decline in soil quality would have caused American maize yields over the past 100 years to drop from roughly seven to just over one tonne per hectare without fertiliser. Nonetheless, while costing farmers more than $500 million-year, fertiliser has allowed yields to be generally maintained.[15]

However, chemical fertiliser overuse can contribute to soil acidification and soil crust, thereby reducing the content of organic matter, humus content, beneficial species, stunting plant growth, altering the pH of the soil, growing pests, and even leading to the release of greenhouse gases. [16]

These findings have grave repercussions for less developed regions of the world where the quality of the soil is deteriorating but there are not enough resources to add fertiliser – chemical or organic – to make up for it. Climate change will exacerbate the situation, and its impact will become much more concerning.

Growing new crops, or the same crops in various locations, in response to rising temperatures is just one of the many facets of land management for food production that have evolved in recent decades. In many regions of the world, the overall impact of these changes has considerably enhanced food yields, and land managers may be expected to modify their plans in response to climatic changes.

However, if multiple major breadbasket regions (the parts of the world that produce most of the food) simultaneously experience failure of important crops like wheat, maize, and soybeans due to climate change, the risks of price increases making food too expensive in less developed regions of the world could increase. [17]

The Impact of Ultra-Processed Foods on the Planet

Another significant impact on climate change is the planet's dependence on Ultra-processed foods (UPFs). While studies have shown how western diets strong in caloric [18] and animal products [19] often have negative effects on the environment, UPFs have also been related to environmental issues. [20]

Whilst the effects of UPFs on human health are well-explained, the environmental implications have received less attention. Given that ultra-processed foods make up a large portion of the food supply in high-income countries, this lack of attention to their environmental impact is surprising, and may suggest the possibility of strong lobbying by UPF manufacturers to keep the issue off the table. [21] Sales of UPFs are also rapidly rising through low and middle-income countries where there has been no discussion of their impact on the environment.[22]

A recent study, also makes the argument that the production, processing, and consumption of "traditional" foods are negatively impacted by increasingly globalised diets heavy in ultra-processed foods.[23]

How To Recognise Ultra-Processed Foods

Ultra-processed foods refer to a class of foods described as *"formulations of ingredients, mostly of exclusive industrial use, that arise from a succession of industrial processes."*

They typically contain cosmetic additives and little or no whole foods. You might imagine them as foods that would be difficult for you to prepare at home. Examples include candy, soft drinks, chips, pre-made meals, and quick food items from restaurants.

In contrast, "traditional" foods, which are those that have undergone little processing or are produced using conventional processing techniques, include fruits, vegetables, whole grains, preserved legumes, dairy products, and meat products.

Fermentation, canning, and bottling are examples of traditional processing techniques that are essential to ensuring food safety and global food security. Yet, foods that are ultra-processed go beyond the minimum requirements for food safety. [24]

Australians consume a lot of food that has undergone extreme processing — 39% of Australian people' entire daily energy consumption comes from these items.[25] This is more than Belgium, Brazil, Columbia, Indonesia, Italy, Malaysia, Mexico and Spain[26] – but less than the United States, where they account for 57.9% of adults' dietary energy. [27]

The ultra-processed foods that contributed the most dietary energy to Australians aged two and over included ready-made meals, fast food, pastries, buns, and cakes, breakfast cereals, fruit drinks, iced tea, and confectionery, according to an analysis of the 2011–12 Australian Health Survey (the most recent national data available on this). [28]

Unfortunately, although not the view held by governments and Big Food, quite a few researchers have shown that we are being poisoned by ultra processed foods because of:

- High concentration of simple carbohydrates – especially worrisome being the high fructose corn syrup used as sugar in most ultra processed foods, especially those prepared in the USA.
- Additives – for example, for taste, colour, food preservation.

•Heat – there is evidence to suggest that the application of very high heat (typical in ultra food processing) causes chemical changes in the 3 main ingredients of the food, i.e. sugar, carbs and proteins.

- Leaching – often the plastic wrapping can leach into the food item.

What are the Effects of Ultra-Processed Foods on the Environment?

Because only a few crop species are used in ultra-processed foods, the habitats where these ingredients are grown are burdened. Good examples include oil seed crops (like palm oil), maize, wheat, soy, and soy. Food producers choose these crops because they are affordable to grow and have high yields, allowing for mass production.

Moreover, nutrients from animals that eat these same crops are used in ultra-processed foods.

Fruits, vegetables, grains, legumes, meat, and dairy products are just a few of the minimally processed whole foods that have been supplanted by the rise of easy and affordable ultra-processed foods. This has decreased the diversity of our food supply as well as the quality of our diet.

In 2019, the most common ingredients packaged food and drink supply in Australia were milk (11.0%), wheat flour (15.6%), sugar (40.7%), and vegetable oil (12.8%). [29]

Unfortunately, there is a substantial correlation between biodiversity loss and specific substances found in ultra-processed foods, such as chocolate, sugar, and some vegetable oils. [30]

The Cost Impact of Ultra-Processed Foods

The production costs of ultra-processed food can vary depending on various factors such as the type of product, ingredients used, manufacturing processes, and scale of production. Ultra-processed foods typically undergo extensive processing and contain additives, preservatives, and other artificial ingredients.

Some of the key cost components involved in the production of ultra-processed foods are:

Ingredients: The cost of ingredients can vary significantly based on their quality, availability, and sourcing. UPFs often rely on inexpensive and bulk ingredients, such as refined grains, cheap oils, sugars, and additives, which can help keep costs relatively low.
Processing: The extensive processing involved in producing ultra-processed foods requires specialised machinery, labour, and energy consumption. The costs associated with processing include equipment maintenance, energy bills, and the wages of skilled operators and technicians.
Packaging: Ultra-processed foods are typically packaged in individual servings or larger containers. The cost of packaging materials, labelling, and design can add up, especially for brands that invest in attractive and informative packaging to appeal to consumers.
Marketing and Advertising: Promoting ultra-processed foods involves significant marketing and advertising expenses far beyond those required for ‘traditional’ brands. These may include advertising campaigns to spuike the benefit of an additive in their UPF verses that on a competitor; product endorsements by public figures such as sportspersons; product placements; and other promotional activities to create brand awareness and drive consumer demand.
Research and Development: Developing new ultra-processed food products or improving existing ones requires investment in research and development. Companies may spend considerable amounts on market research, product formulation, taste testing, and quality control to meet consumer preferences and maintain a competitive edge. These costs drive prices up.
Regulatory Compliance: Ultra-processed foods are subject to various regulations regarding food safety, labelling, and nutritional content. Complying with these regulations often involves additional costs for testing, certifications, and compliance procedures.
Distribution and Logistics: The costs associated with transporting ultra-processed foods from the manufacturing facilities to retail stores or distribution centres should be considered. This includes transportation fees, warehousing costs, and inventory management expenses.
Waste-Management: An entire article can be written on this. Most UPF manufacturers totally ignore what happens to the packaging after consumption. As most often UPFs come in soft-plastic wrappers, or soft and hard plastic combined containers, these are disposed as waste, and ultimately end up in landfills or in our oceans.

It is important to note that specific production cost figures can vary widely depending on the product and the manufacturer. The food industry is highly competitive, and companies often aim to optimise costs while maximising profits. Nutrient values and the impact on the environment take a distant second.

Any Solutions?

It is possible to reduce the environmental impact of highly processed meals. These foods are not only unhealthy, but they are also not necessary for human nourishment. Ultra-processed food consumption is also associated with a number of diseases, including type 2 diabetes, cancer, irritable bowel syndrome, heart disease, and depression.[31]

In order to combat this, food production resources might be redistributed globally to produce wholesome, less processed meals. For instance, large amounts of grains like wheat, maize, and rice are ground into refined flours that are then used to make refined breads, cakes, doughnuts, and other bakery goods.

They might be diverted to the production of healthier foods like whole-wheat pasta or bread. This will increase global food security and give major breadbasket nations like Ukraine and Russia better protection from natural disasters (let alone armed warfare).[32] Ukraine and bordering parts of Russia are home to the famous mineral-rich ‘black soil’ that provides the perfect growing conditions for grains, giving the region its fame as the ‘world’s breadbasket’. The other breadbasket country is Brazil. Obviously, the best way to lessen your impact on the environment and enhance your health is to consume fewer ultra-processed foods.

By completely avoiding the usage of some substances, additional natural resources could be preserved. For instance, changing consumer tastes for healthier foods could drastically lower demand for palm oil, a prominent ingredient in ultra-processed foods linked to Southeast Asian deforestation.

Obviously, the best way to lessen your impact on the environment and enhance your health is to consume fewer ultra-processed foods.

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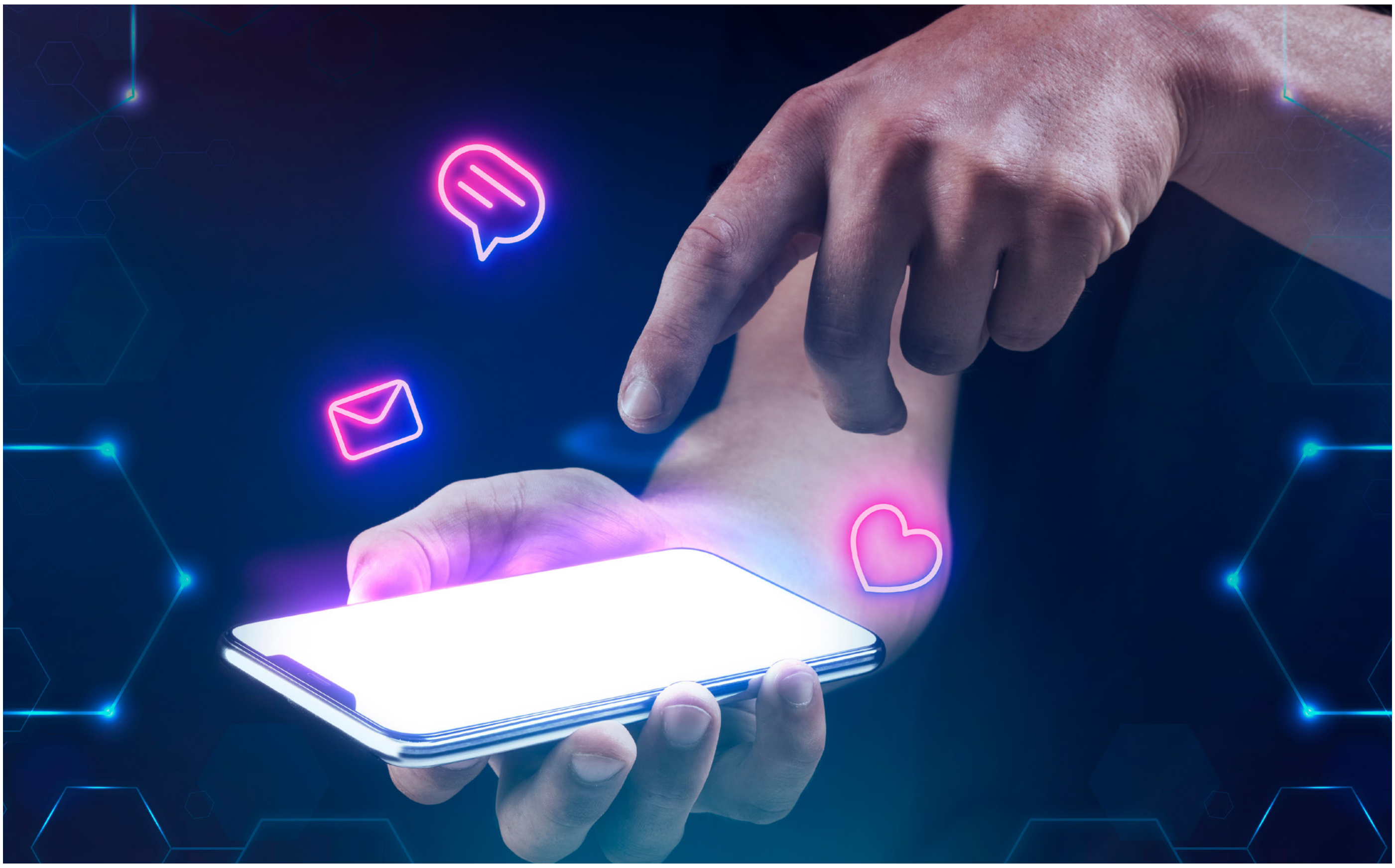

DO YOU NEED A NEW DIGITAL PATH TO REACH THE NEW DIGITAL CUSTOMER?

Jim Little, Savi Thethi & Raghavendra Rengaswamy

Staying ahead of ESG regulations on a global scale can be a challenge but businesses cannot risk falling behind on supply chain policies.

Two Questions to Ask

What are the challenges global organizations face with ESG compliance and how should it shape the policies of businesses that trade globally?

These requirements will have to involve several departments and teams within an organization. How can this be made more efficient while streamlining cost?

Modern supply chains span the globe in an impossibly complex web, yet one stark image is all it takes to sum up the risks they carry. When the 400m-long cargo ship Ever Given wedged across a narrow stretch of the Suez Canal, its bow and stern "docked" on opposite banks in 2021, it blocked the canal for almost a week, freezing close to US$10b of world trade each day. Together with the ongoing disruption caused by the COVID-19 pandemic, the viral image of the mishap showed that, when it comes to globalized supply chains, plain sailing is not guaranteed.

Companies now have even more reason to be concerned about the smooth flow of their goods. These days, environmental, social and governance (ESG) compliance is putting supply chains under pressure too.

Around the world, governments are introducing measures, from local laws to bilateral and multilateral treaties, that set ever more stringent ESG standards for trade in the name of positive causes – to protect the environment, aid the fight against climate change and improve living conditions for their populations. Companies have to show that the global sourcing, production and distribution of their products stand up to that scrutiny.

All of this creates a complex and fast-moving landscape for any company looking to ship goods across borders. They have to ensure their supply chains meet this panoply of new standards, potentially facing penalties and taxation if they don't. And they have to track and report their efforts correctly too.

"Consumers are demanding the increasing transparency of supply chains," says Ilona van den Eijnde, Senior Manager in Global Trade and Sustainability Services at Ernst & Young LLP. "They want to know where their clothes are made, where their food is coming from. Meanwhile, countries are looking for new revenue streams, and to tie that to something that benefits the environment and society. With these demands, authorities are putting ever greater pressure on businesses to provide insight on their global supply chains. And that means greater demands on data collection."

New Demands Take Many Forms

Those new demands take many forms, even under the "E" of ESG alone. The Paris Agreement of 2016 enjoyed close to universal participation and has since led authorities around the world to introduce environmental programs of their own.

One prominent example is the European Green Deal Industrial Plan, announced by the EU in January 2023. This comprises a range of ambitious measures, such as reducing the impact of plastics, and tracking and trading carbon. It includes both financial obligations, including the taxation of a range of damaging products and processes, and a slew of reporting requirements.

The Green Deal has the potential to be confusing and resource-heavy for businesses. It also provides a fine illustration of the kind of work companies will be required to complete as global ESG compliance develops. “Companies need to understand how these taxes will be calculated,” says J. Michael Heldebrand, EY Americas and US Global Trade Leader. “Second, are there incentives or credits to help offset some of the tax burden? Third, what’s the impact on the end user of the product? Are they happy to absorb the cost of the tax because they see it as a benefit? Or is it an unfair burden that would impact the value the customer sees in the product and delays the purchase?”

These changes present significant upfront costs, especially when there’s no unified method to how they’re applied. The EU takes a largely harmonized approach to certain taxes, such as VAT, where it sets a common minimum rate, and has made further proposals to simplify registration across the trading bloc. But its new sustainability measures mostly lack harmonization. The EU’s member states are creating their own independent regulations. And beyond the EU, a country-by-country reporting burden, and lack of agreed standards, extends for new environmental measures around the world.

As such, many initiatives will lack a clear business case to support the expenditure, as heavy investment doesn’t bring clear rewards.

“Even those that aspire to be carbon-neutral, minimizing and electrifying their fleets because they believe customers and markets will like it, don’t know whether they’re doing the right thing, simply because the terms haven’t been fully defined at a policy level,” says Jeroen Scholten, EY Global Trade Leader – Indirect Tax; Partner, Indirect Tax, Ernst & Young Belastingadviseurs LLP. “And if it is the right thing to do, they still need to know what they get from it and what their customers get from it.”

Meeting New Compliance Obligations

One of the current key business challenges is ESG compliance. Companies are asking whether they know enough about what happens before the taxable event, and what happens after, in order to fully comprehend the potential impact.

“The ESG compliance responsibility may outweigh what can be a simple tax collection and remittance,” says Heldebrand. “Companies struggle with how to make sure they’re doing it correctly. And there may be penalties for not doing so. Those penalties can rack up quickly when companies don’t understand their obligations.”

Having to maintain such a vigilant watch on global compliance can carry severe implications in terms of strategy, planning and commitments. Many organizations will need to overhaul internal processes to make them more streamlined and transparent. The changing ESG picture may also demand improvements to automation and system capabilities to provide the insight to keep pace with evolving regulation.

While many executives have long-term sustainability goals for their supply chains, few have the visibility, technology, or sufficiently comprehensive programs in place to measure their progress.

“It’s absolutely going to stretch companies,” says Scholten. “In many cases, adding or changing data elements requires significant investments from companies with systems that have either been attuned or closely aligned with existing requirements. That is a huge issue. And while they may have a deluge of data at their disposal, many still struggle to make it useful – for figuring out alternative sourcing. The data is powerful, but it’s still manual in the context of using it to make informed decisions.”

In many cases, adding or changing data elements requires significant investments from companies with systems that have either been attuned or closely aligned with existing requirements.

Achieving Transparency in Supply Chains

Another key challenge of ESG compliance lies in the difficulty of making global supply chains transparent; of being able to track and quantify practices in the first place.

In recent years, a number of jurisdictions, including Canada and the US, have introduced measures to prevent the importation of goods manufactured using forced or child labour. This has seen major global apparel brands have their products held up at the US border until the companies in question can prove the production process was free of forced labour. US customs has since looped forced labour requirements into its trusted trader program (C-TPAT Validation). It means that for everything from coffee to sneakers, companies are required to have a documented social compliance program in place. At a minimum, that means addressing how their overseas partners ensure that the imported goods aren’t mined, produced or manufactured using any forced, imprisoned or indentured labour. It requires detailed risk-based mapping, and the filing of an annual self-assessment.

“The presumption is that your product is made with forced labour – unless you can prove it doesn’t,” says Lynlee Brown, Partner, Global Trade at Ernst & Young LLP. “And that’s very difficult to do. That’s a big challenge, and companies need to be ever vigilant and mindful of it.”

Given the general direction of travel of socially conscious measures, it’s safe to assume other jurisdictions will introduce similar forced labour regulation of their own. This means establishing greater transparency, further in the supply chain than ever before. It’s a hugely collaborative requirement.

“Someone needs to inform departments across the company what documents they need to keep and decide how they’re going to retain for audit purposes,” says Brown. “That pulls in the sustainability team, trade compliance and legal. What can you ask vs. mandate and require of suppliers versus what can you not. Plus, the operations team, to be able to get those documents. None of that is straightforward. Nor can it be templated. It’s different and bespoke for every situation.”

This sparks a further question of responsibility: Who owns ESG, and how should they approach it?

"Should they tackle it like other initiatives such as tax reform or climate sustainability?" asks van den Eijnde. "And where do those roads converge? Trade professionals are struggling with whether they should own it, as a lot of them don't have the expertise. So, they're having to ramp up, or having to use external partners to help put everything into perspective and manage the specific risks. There has to be a collective view, but few know where that collective view happens. That's a serious challenge."

Constant Evolution in Trade

The EU Green Deal and US forced labour rules are just two examples of new ESG regulations, taxes and standards. It's safe to say there will be many more. Supply chains have been globalizing for decades, a trend that can't be quickly reversed. And global trade is evolving all the time, with smartphones opening up more regions of the world to on-demand deliveries of consumer goods. At the same time, even lovers of convenience are demanding fairer and less impactful processes; and with the governments of the world seeking new revenue streams, many will look to link this to measures that benefit the environment and society.

As most companies still lack the knowledge, capacity or appetite to handle this rapidly escalating tax and compliance picture, an experienced third party may be required to offer cross-functional experience, helping to improve planning and manage risk across the spectrum of supply. External service providers can help structure transactions, collect the requisite data across complex value chains, and help improve communication across disparate departments, ensuring everyone's talking the same ESG language and aligned on ESG KPIs. They can also handle the ongoing work of continuous improvement, looking downstream at not only emerging technologies and trends, but understanding the factors that are driving the current environment and what is likely to change.

The good news is that companies are getting smarter. They are now more agile, flexible and able to anticipate changes to standards and regulations. Many can be more proactive and predictive about what constitutes a taxable event. And as the global construct becomes more complex and interdependent, the cross-functional collaboration required is serving to elevate the role of tax and trade functions within organizations.

"In the last three years, I've seen more VPs of global customs than ever before," says Brown. "Businesses are now much better equipped to adapt to these measures than they were four years ago. They're better aligned and make better business decisions. From a policy perspective, they've become more able to handle these knee-jerk rules because they've done it before. Now it's a case of 'let's do it again', rather than spinning wheels and losing productivity figuring out how to address it."

This can-do approach is fitting. After all, while ESG measures require a radical overhaul for many businesses, they are ultimately about making better decisions, and creating better practices, for the good of the whole.

"Nobody wants harmful chemicals in the ground or children making garments in apparel factories," says Brown. "So while it is a major challenge from a company perspective, figuring out who's going to do what and how to do it, it's heading in a direction that's far better for everyone."

Three steps businesses should take now.

Here are three key steps to help companies navigate the changing ESG trade landscape:

Establish ownership. As ESG is a complicated and multidisciplinary issue, it's often passed around within organizations like a hot potato. A common approach is to form a multidisciplinary ESG task force, pulling together different teams to react to specific developments. Yet this is a sticking-plaster measure at best. Determining who's in charge is an important first step.

Understand your supply chain end-to-end. Companies may take for granted that they know their suppliers. Yet the latest ESG standards require a true understanding of what's happening right up the chain, everywhere in the world. Gain an appreciation of every step of the value chain, from sourcing raw materials and components to landing at the customer's door. This may mean updating your technology or partnering with the right third-party expertise. Remember: there are often penalties for getting it wrong and incentives for getting it right.

Set yourself up for continuous improvement. ESG is affected by everything from consumer taste and behaviour to new regulations and revenue streams, all of which are changing all the time. While it can be daunting to jump into such an uncertain picture, companies need to act now to avoid falling foul of evolving expectations. That means establishing a long-term, holistic view of your organization and the operating environment, and this may mean seeking external assistance.

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Source:
https://www.ey.com/en_gl/cio/do-you-need-a-new-digital-path-to-reach-the-new-digital-customer

KICKING THE GAS CAN DOWN THE ROAD

Ariel Liebman

Why a gas price cap is the worst way to protect energy consumers?

The Australian federal government's plan to extend the gas price cap is not surprising, given fundamental market issues remain.

For as long as the war in Ukraine continues, Australian gas will attract premium prices overseas. So the "temporary" $12 per gigajoule cap on wholesale domestic prices – intended to protect local energy users – will no longer be lifted in December, but will stay for a further 18 months at least.

This is just kicking the can down the road, rather than developing a coherent energy policy.

A price cap is the worst of all credible options to establish market or price stability. It creates perverse incentives to continue with inefficient industry and residential energy use practices. It also delays progress towards emissions reduction and transition to renewable energy.

The optimal regulation of natural gas markets has been well-studied and applied internationally, and state and commonwealth governments would be well advised to learn from such expertise. The government should, at the very least, consult a range of experts and develop a variety of policy options.

These options should include a gas reservation policy and a new tax on excess gas industry profits that would be shared among consumers.

In tandem, the government should also institute a first-principles review of all energy market frameworks, as this issue (among others) shows the fundamental assumptions underpinning current energy market frameworks no longer hold.

Introducing a Code of Conduct

The extension of the gas price cap is just one part of the Albanese government's proposed mandatory code of conduct (gas code).

It's worth noting the consultation paper, released on 26 April states the gas code "will ensure domestic prices are reasonable by establishing a price anchor through:

- a price cap, initially set at $12/GJ

- conditional exemptions from the price cap for producers on the basis of satisfactory voluntary enforceable supply commitments, or being a small producer who exclusively supplies the domestic market.

So, large gas producers can apply to exceed the price cap. That might explain the term "price anchor".

The draft code has already been subject to consultation with gas producers and big industrial users over recent months. The Minister for Climate Change and Energy, Chris Bowen, told the ABC this was about striking "the right balance".

Large gas producers are being asked to make submissions on the supply and price commitments they would be prepared to make in the context of the proposed exemption framework by 8 May.

Submissions on the second and final round of consultation will close on 12 May.

Wholesale electricity prices have come down since coal and gas price caps were introduced. (The wholesale electricity price is heavily influenced by the gas price).

But the wholesale gas price for the first quarter of this year is still the highest first-quarter price on record. The average price across all Australian Energy Market Operator markets in March was $9.43/GJ, the lowest since January 2022, which was $8.81/GJ. The quarterly average price across all AEMO markets was $11.86/GJ, compared to $9.93/GJ in Q1 2022.

Retail prices for electricity and gas continue to increase.

A Fragile Framework in Need of Repair

The relatively minor reduction in gas supply, due to sanctions on Russia, exposed the delicate balance of supply and demand, and the fragility of the global fossil energy system. In the long term, the solution is clear – move to renewables that are not subject to short-term supply-demand shocks, and are now cheaper than coal and gas.

The switch to renewables also has another significant benefit – decentralising the production of electricity from concentrated sources of fossil fuels. This can start to address some of the key sources of geopolitical instability related to oil and gas in the Middle East, Russia, and similar sources.

However, in the short term, the Australian government must curb the worst excesses of the unfettered free market in natural gas and retail electricity. We must give Australians short-term relief by decoupling the Australian natural gas market from global markets for a limited period.

The price cap is a poor attempt to do this, but the only sure way is a domestic reservation policy. This would reserve a proportion of gas produced on the east coast for the domestic market.

Western Australia already has one, which mandates 15% of the gas extracted in the state must stay there. That's why WA gas prices are cheaper. Now the east coast of Australia needs a strong gas reservation policy.

A Double-Whammy

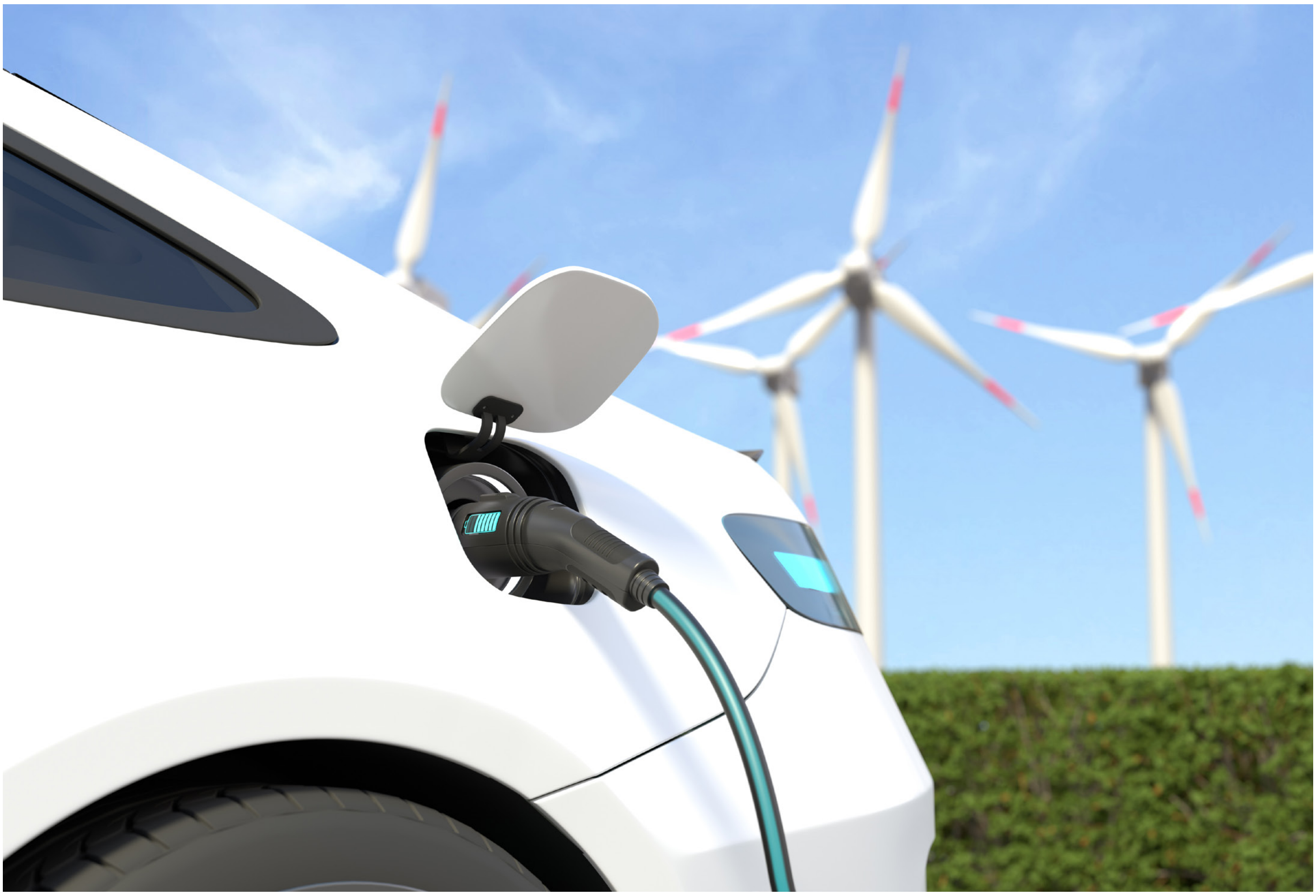
Coupling domestic gas and electricity markets to the extremely volatile and constrained international market is not in the national interest.

It is a double whammy, because not only are power prices overinflated, the resulting profits are not taxed appropriately.

We must fix this, properly.

Ariel Liebman is Director, Monash Energy Institute, and Professor of Sustainable Energy, Faculty of IT

https://lens.monash.edu/@technology/2023/05/03/1385716/kicking-the-gas-can-down-the-road-why-a-gas-price-cap-is-the-worst-way-to-protect-energy-consumers



SOLVE
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THE TRICKY ECONOMICS OF SUBSIDISING PSYCHEDELICS FOR MENTAL HEALTH THERAPY

Cathy Mihalopoulos, Chris Langmead & Mary Lou Chatterton

Australia is the world's first country to legalise the medical use of psychedelics. But not everyone is sure the timing is right. There are still major issues to work out for this move to benefit those most in need.

In particular, there is the question of whether psychedelic medicines will be publicly subsidised, given the lack of data about their cost-effectiveness compared with other treatments.

From July 1 2023, authorised psychiatrists will be able to prescribe psilocybin and MDMA for post-traumatic stress disorder and psilocybin for treatment-resistant depression, to be used in conjunction with psychotherapy.

The Therapeutic Goods Administration (TGA), which regulates medicines and medical devices in Australia, made this decision in February, reclassifying psilocybin and MDMA from "Schedule 9" (prohibited substances, only legally available for use in research) to "Schedule 8" (controlled substances).

Many in the field were surprised. Advocacy group Mind Medicine Australia, which lobbied hard for the decision, was delighted. But mental health experts such as former Australian of the Year Patrick McGorry questioned the sufficiency of evidence.

The TGA considered the effectiveness and safety of psilocybin and MDMA, as the regulator is supposed to do, but not their cost-effectiveness. This is not a requirement of TGA approval processes, but it is for the regulatory bodies that must approve these treatments for a public subsidy.

The paucity of such evidence is going to be a high hurdle.

Will They Be Subsidised?

How much will such therapy cost? One estimate is $20,000 to $30,000, comprising the cost of the medication and therapists' time for sessions.

The pharmaceutical-grade psilocybin and MDMA used in Australian clinical studies has largely been supplied free by US-based not-for-profit organisations such as the Usona Institute and Multidisciplinary Association for Psychedelic Studies. The bureaucratic requirements to import these medications include a permit from the TGA and an import licence and permit from the Office of Drug Control.

Increasing supply will require streamlining these import controls. There is also work to be done on the potential for local production. But for now the major determinant of costs for patients will be if the medicines and therapy are subsidised, as many psychological treatments and most psychiatric medications are now.

A subsidy for the psilocybin/MDMA component will require approval by the Pharmaceutical Benefits Advisory Committee, the independent body of medical experts that advises the federal health minister on which drugs should be listed on the Pharmaceutical Benefits Scheme.

This will require a detailed submission (usually from the pharmaceutical supplier) explaining how the medicine will be prescribed, its effectiveness, safety and cost-effectiveness compared with alternatives. Submissions must also include budget impact analysis – that is, how much it will cost if the medicine is listed on the PBS.

A subsidy for the psychotherapy component will require listing on the Medicare Benefits Schedule, which funds services such as blood tests, diagnostics and allied health services.

This will need endorsement from the Medicare Services Advisory Committee (MSAC), which is not a statutory committee like the Pharmaceutical Benefits Advisory Committee but has a similar function.

Are They Cost-Effective?

To date there are no published studies on psilocybin's cost-effectiveness, and only three on MDMA – all on its use in treating PTSD.

The first of these studies was published in 2020, the second in February 2022 and the third in March 2022. All three used economic modelling to simulate long-term benefits and costs of MDMA-assisted psychotherapy compared with standard health care, extrapolated from the results of clinical trials (involving a few hundred people).

Phase 3 clinical trials show therapy with MDMA and psychotherapy substantially reduces PTSD symptoms compared to psychotherapy and placebo. Shutterstock

All three conclude MDMA-assisted therapy is a potentially cost-effective treatment for people with chronic and severe PTSD. However, the modelling assumes the effects of MDMA-assisted psychotherapy taken from clinical trials of relatively short durations (with maximum follow up of 18 weeks) will extend over 10 to 30 years. This may be overly optimistic. They were also based on the treatment patterns and costs from the US that differ to those in Australia.

PBAC and MSAC will likely need to carefully weigh this type of evidence to make an assessment about cost-effectiveness.

Estimating 'Off-Label' Use

Another issue to be carefully considered is how many people will likely use these medicines in routine practice. Such estimates are complicated by the risk of off-label use – psychiatrists prescribing psilocybin and MDMA for purposes not listed by the TGA.

An estimated 40–75% of anti-psychotic medicine use is "off-label". For example, the anti-psychotic medicine quetiapine is registered for treating schizophrenia and bipolar disorder, but is often used off-label for conditions such as anxiety or insomnia. This is despite the rules for prescribing quetiapine (the prescriber must state why they are prescribing it).

Allowing only authorised prescribers of psilocybin and MDMA may reduce the risk but not eliminate it. It could mean the cost of the medicines to the health budget ends up being a lot higher than estimated.

The upshot of all this means, in practice, Australia is still a way off from offering a public subsidy for these psychedelic treatments. Which means, come July 1, the number of Australians able to afford these treatments will be small.

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Exercise
Spend time with nature
MINDFULNESS
Walk BAREFOOT
Open Min
POSITIVE THINKING
Plant
Cook
FORGI
FORGI
FORGI
Chat with friends
(listen)
Take a bath
Take the dog for a

NEPAL

A delegation of 22 CMA members from Nepal visited the ICMA Secretariat at CMA House on May 9 2023.

ICMA (ANZ) President Prof Brendan O'Connell welcomed the delegates, and there were speeches by Mr. Kumar Khatiwada, ICMA Regional Director; Kedar Math Paudel, President, AUDAN and Mohan Raj Regmi, Immediate Past President, AUDAN. Amongst the distinguished guests were Mr. Bhumi Raj Acharya, Director, Office of the Auditor General Nepal and Ram Chandra Khanal, Chairperson, Association of Certified Management Accountants of Nepal.

Prof Janek Ratnatunga, the CEO of ICMA(ANZ) and Mr. Kedar Math Paudel, President, AUDAN had a MOU Signing ceremony followed by a Photo session. This was followed by a CMA PIN distribution to new CMA members given by Prof Michael Tse, Chairman of ICMA(ANZ).

At 1pm all participants met at lunch at the 'Airstream Café', Glen Waverley.

ICMA (ANZ) President Prof Brendan O'Connell and ICMA (ANZ) Chairman Prof Michael Tse, listening to the speeches by Mr. Kumar Khatuwada, ICMA Regional Director; Kedar Math Paudel, President, AUDAN and Mohan Raj Regmi, Immediate Past President, AUDAN

SRI LANKA

The ICMA(ANZ) Regional Director for Sri Lanka, Mr. Kapila Dodamgoda visited the ICMA Secretariat at CMA House on May 29 2023. The Sri Lankan regional office is one of ICMA(ANZ)'s most active offices and conducts both the CMA program and the GMA Conversion program in the country. It was also the first overseas office established in Sri Lanka. Its first partner was the Institute of Chartered Accountants of Sri Lanka, and now the programs are organised by the Academy of Finance. Despite its long association with ICMA(ANZ), this was Mr. Dodamgoda's first visit to the secretariat.

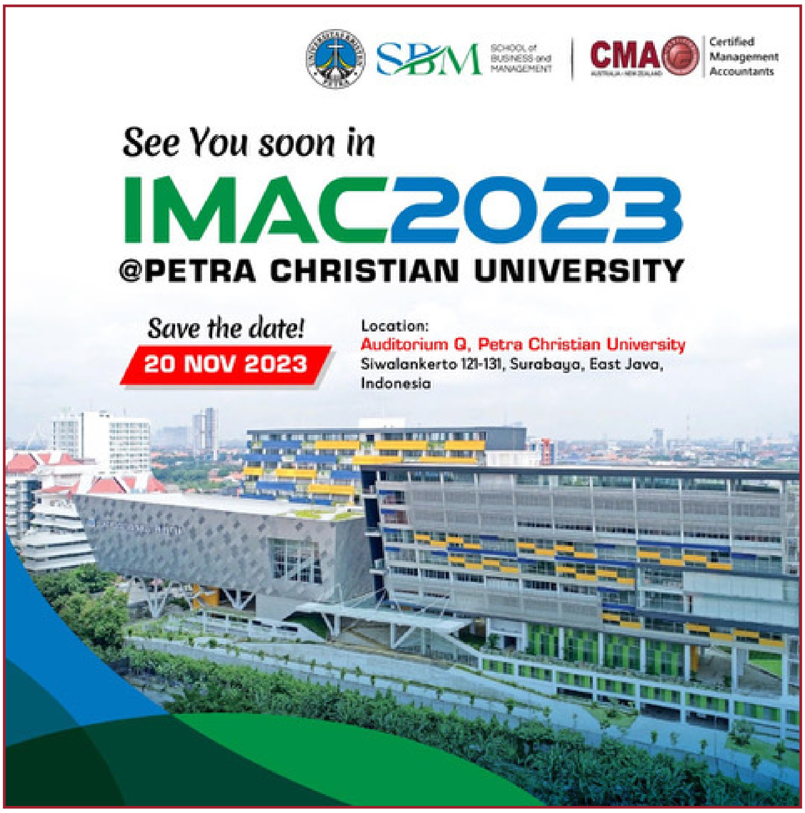
Mr. Chris Perera, the ICMA Executive Officer meets Kapila Dodamgoda, for the first time despite 1000's of emails between them over the years. Also, in the pic is Prof Janek Ratnatunga the ICMA (ANZ) CEO.

Mr. Kapila Dodamgoda, the ICMA (ANZ) Regional Director for Sri Lanka,
with Prof Janek Ratnatunga and Dr. Chris D'Souza at CMA House

INDONESIA

The Indonesian Branch of ICMA Australia & New Zealand and the School of Business and Management Petra University will be hosting the International Management Accounting Conference (IMAC) 2023 at Surabaya, Indonesia on **20 November 2023.** The ICMA Australia's Indonesia President is Mr. Daniel Godwin Sihotang, CMA and the Dean of the School of Business and Management Petra University is Dr Josua Tarigan. Prof Janek Ratnatunga and Dr Chris D'Souza will be giving presentations at the conference.

CPD Programs continued in Indonesia with a *Certified Business Valuer (CBV) and Certified Enterprise Risk Analalyst (CERA) programs organised by RAD Indonesia and Lean Visi Indonesia* and delivered by the Academy of Finance and Management Australia (AFMA) over Zoom on June 10 and June 11.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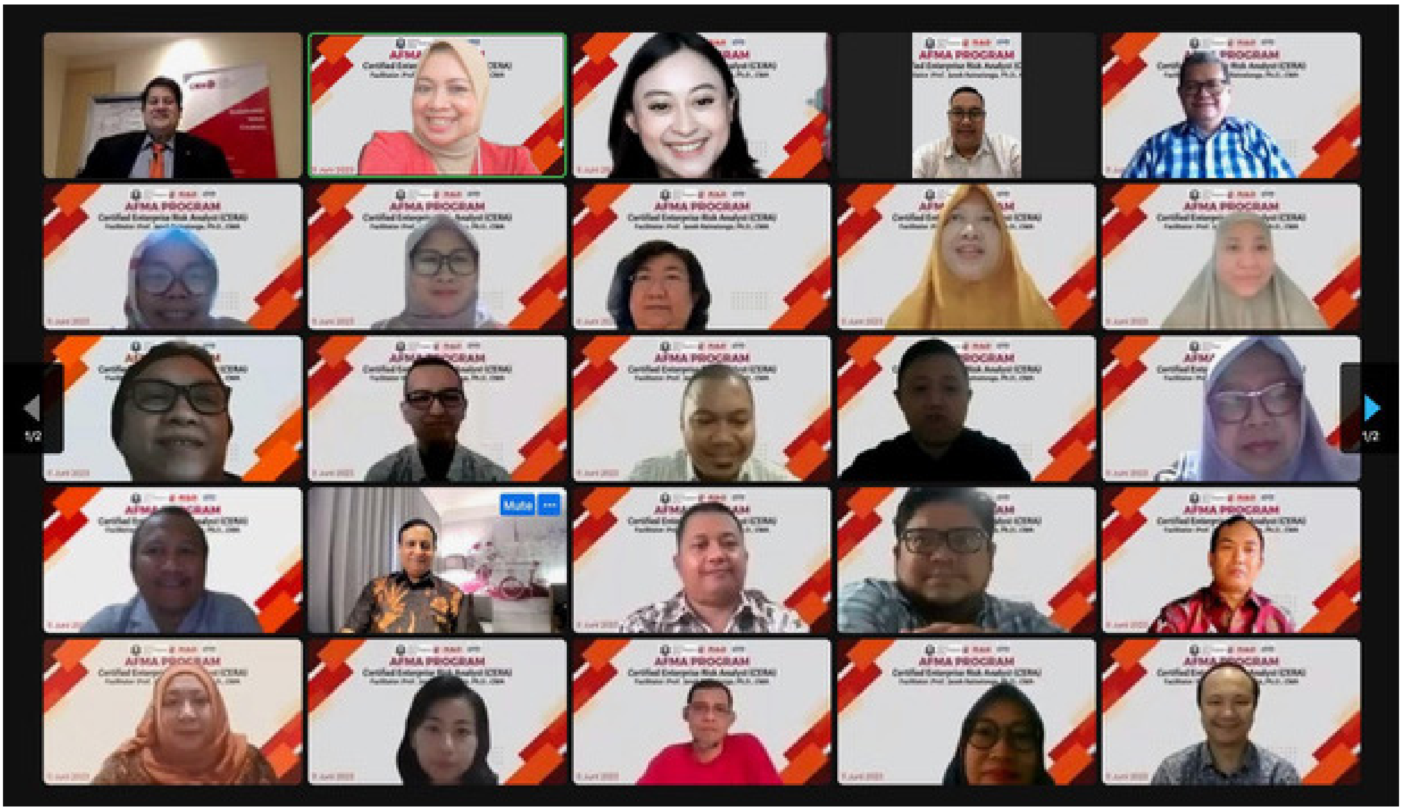
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CMA EVENTS CALENDAR

August 5-11, 2023:
CMA Program Workshop, Jakarta, organised by RAD Indonesia and Lean Visi Indonesia.

August 17-18, & Aug 21-25, 2023:
CMA Program Workshop, organised by Uniciti International Education Hub (UIEH), UIEH Pierrefonds Campus, Mauritius.

September 2-4, 9-10 & 16-17, 2023:
Seventh CMA Global Zoom Program in Strategic Cost Management & Strategic Business Analysis, Syme Business School, Australia. (Zoom).

September 23-25, 2023:
Certificate of Proficiency in Strategic Cost Management, SMU Academy, Singapore (10th Intake).

September 29- Oct 2, 2023:
Certificate of Proficiency in Strategic Business Analysis, SMU Academy, Singapore (10th Intake).

October 6-8 and October- 27-30, 2023:
The first CMA Program Workshop, Bangkok, organised the Thai Federation of Accountants (TFAC)

October 14-22, 2023:
CMA Program Workshop organised by Academy of Finance, Sri Lanka.

November 4-12, 2023:
28th CMA Program Workshop organised by SMART Education Group, Dubai.

November 4-12, 2023:
28th CMA Program Workshop organised by SMART Education Group, Dubai.

November 20, 2023:
International Management Accounting Conference (IMAC), organised by the CMA Indonesia Branch, and Petra University, Surabaya, Indonesia.

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Wharton Institute of Technology and Science (WITS), Australia

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Academy of Finance, Sri Lanka

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Singapore Management University Academy (SMU Academy)

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