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Submissions  
Climate Change Authority  
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Updating the Authority's previous advice on meeting the Paris Agreement

### **Submission by the Responsible Investment Association Australasia**

The Responsible Investment Association Australasia (RIAA) welcomes the opportunity to make a submission to the Climate Change Authority (CCA) – *Updating the Authority's previous advice on meeting the Paris Agreement* and to comment on the CCA's policy toolkit to help position Australia to meet its 2030 emissions target and to put Australia clearly and firmly on the path to net zero emissions by the middle of the century.

### **About RIAA and our members**

With over 240 members managing more than \$9 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand. Our membership includes super funds, fund managers, banks, consultants, researchers, brokers, impact investors, property managers, trusts, foundations, faith-based groups, financial advisers and individuals.

RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy and champions responsible investing and a sustainable financial system in Australia and New Zealand.

RIAA achieves its mission through:

- providing a strong voice for responsible investors in the region, including influencing policy and regulation to support long-term responsible investment and sustainable capital markets
- delivering tools for investors and consumers to better understand and navigate towards responsible investment products and advice, including running the world's first and longest running fund Certification Program, and the online consumer tool Responsible Returns
- supporting continuous improvement in responsible investment practice among members and the broader industry through education, benchmarking and promotion of best practice and innovation
- acting as a hub for our members, the broader industry and stakeholders to build capacity, knowledge and collective impact
- continuing to be a trusted source of information about responsible investment.

## Overall feedback

The success of RIAA's work depends on its members' ability to participate fully in their opportunities to invest in a productive, participatory and prosperous economy.

In our view, the finance sector has the means to do the heavy lifting to help Australia meet its 2030 emissions target and put the economy on a path to net zero emissions. However, to do this efficiently and within a meaningful timeframe, it needs long, loud and legal signals. These signals would include for example, regulation and policy as well as other enabling support through the financial sector to discourage flows away from unsustainable investments and unlock financial flows towards lower carbon assets and companies.

RIAA largely supports the intent of the CCA to ratchet up Australia's responses to maintain its trade competitiveness and transition the Australian economy in keeping with contemporary science on climate change and its impacts.

## Submission scope

RIAA's submission is focused on the areas of the CCA's toolkit for which it and its members have a program of work. This includes:

1. Previous recommendations: What has changed since this advice was given and how should the advice be updated to account for those changes?
2. Zero-emissions economy in the long-term:
  - a. How can the Government assist the positioning of the Australian economy to best take advantage of opportunities associated with the global transition to net zero emissions, while managing any risks? And what are these opportunities and risks?
  - b. What is the role of prudential regulation and macroeconomic policy in assisting the Australian economy transition?
3. Supporting innovation, finance and new industries: What role is there for Government in developing an enabling environment to support increased flows of green finance?

## Specific feedback

1. **Previous recommendations: What has changed since this advice was given and how should the advice be updated to account for those changes?**

RIAA acknowledges that since the CCA's previous toolkit, that the climate science, understanding of climate change impacts and the emissions budget consistent with the Paris Agreement have all changed.

New analysis of the global carbon budget by Intergovernmental Panel on Climate Change (IPCC) authors finds a remaining allowance of 580 gigatonnes—equivalent to less than 15 years of global emissions at current rates—to have a 50% chance of keeping warming below 1.5 degrees. From a risk perspective, these odds demonstrate that the global community needs to respond quicker to deliver net zero emissions if we are planning on avoiding the worst impacts of physical climate change.

The second change is the rapid emergence of legislation and policy to set about limiting greenhouse gas emissions and driving national economies towards a net zero emission target by the middle of the century. According to [The Carbon Brief](#), between 1997 and 2017 there was a 20-fold increase in the number of climate change-related laws ratified (from 60 to 1,200 relevant policies from 164 countries). In the past two years alone, there have even more laws including but not limited to the [Victoria Climate Change Act, 2017](#) and the New Zealand Climate Change Response (Zero Carbon) Amendment Act, 2019 including improvements to the New Zealand Emissions Trading Scheme.

Another change worthy of note, is the appetite and tenacity of global investors seeking to manage the downside risk that climate impact presents for their portfolios and can be evidenced in several initiatives including for example:

- The global corporate engagement initiative [Climate Action 100+](#) which calls on better climate risk management by the world's largest corporate greenhouse gas emitters;
- The world's largest sovereign wealth fund ([Norway](#)) [divestment from large coal miners and large coal power generators](#) impacting several Australian-listed companies;
- Globally, financial sector regulators acknowledging the financial stability and economic risks posed by climate change as these move from an unquantifiable long term risk to become foreseeable and actionable risks, as seen by the Central Banks and Supervisors' [Network for Greening the Financial System](#), which has as a member the Reserve Bank of Australia; and
- Other global investor initiatives such as [The Investor Agenda](#), [Montreal Carbon Pledge](#), the [Portfolio Decarbonization Project](#).

## 2. Zero-emissions economy in the long-term:

- a) **How can the Government assist the positioning of the Australian economy to best take advantage of opportunities associated with the global transition to net zero emissions, while managing any risks? And what are these opportunities and risks?**

### **The risks**

From an investment viewpoint, there are many downside risks already presenting themselves in terms of readying the Australian economy and its constituent businesses to productively and profitably participate in a net zero carbon economy. Possibly one of the most salient is that Australia's trading partners are increasingly demanding action.

In the US, front-running Democratic Party Presidential Candidate Joe Biden has a [policy](#) of imposing "carbon adjustment fees or quotas on carbon-intensive goods from countries that are failing to meet their climate and environmental obligations." In the same way, China has imposed tariffs on the import of coal both to retain the competitiveness of Chinese coal and to push price signals to develop less polluting and lower-emission power generation consistent with human health and greenhouse gas emission reduction objectives. Furthermore, the European Union, through a series of on-going policy measures, is implementing the recommendations of the [Technical Expert Group on Sustainable Finance's action plan](#) to ensure the region's economic competitiveness within a carbon constrained future, including a focussed Taxonomy for green finance, Green Bond Standards and Low-Carbon Benchmarks. Each of these initiatives once fully implemented stand to pose a risk to our coal exports and ultimately our balance of payments.

In addition to the rapid adoption of more laws to address climate change (see section 1 above), is the emergence of initiatives and policies for, and with the financial services sector with a view to enabling it to do the heavy lifting in directly and indirectly delivering emissions reductions.

RIAA has identified a growing number of diverse economic regions and countries are aligning policy signals and setting frameworks to enable the financial system to deliver a resilient and sustainable

economy, and to help achieve global goals on climate change. Countries around the world are working to establish themselves as leaders in green and sustainable finance.

According to a [UNEP report](#), sustainable finance plans showing how the financial services sector can directly and indirectly assist with meeting the Paris Agreement exist for more than 50 nations and include but are not limited to some of Australia's key trading partners:

- China – Green Credit Guidelines, Green Finance System as well playing inaugural host to the Global Green Finance Leadership Program
- South Korea – Green Finance Scheme and Emissions Trading Schemes
- Singapore – Singapore Government's plan to position itself as a green finance hub in ASEAN and Asia
- New Zealand – Aotearoa Circle, the Productivity Commission's report on low emissions economy
- United Kingdom – Green Finance Taskforce
- European Union – Action Plan for Financing Sustainable Growth
- Indonesia – Indonesian Sustainable Finance Initiative and roadmap
- Canada – Expert Panel on Sustainable Finance Report
- Norway – Roadmap for Green Competitiveness in the Finance Sector

These policies from other jurisdictions impacts the desirability of Australia's export offerings (including minerals and financial services) and if not orderly and justly transitioned, will place economic and social strain on communities and regions.

### **The opportunities**

Global consultancy [Mercer calculates](#) a stock portfolio in a world aiming for no more than a 2-degree Celsius temperature increase, and oriented towards sustainability, will deliver an additional 1.6 percent returns per annum by 2030. As carbon gets closer to being correctly priced in, investment returns in oil and gas will be 7.1 percent lower per annum by 2030 while returns on renewable energy will be 6.2 percent higher per annum.

### **Ways the Government assist**

Backing winners is a tricky task for anyone, let alone government; but the business sector (including the financial services sector) is well placed to wear the risk of investing in the opportunities to position the Australian business and industrial sectors for a net zero economy. However, for the financial services sector to do some of the heavy lifting, it needs clear, meaningful pricing signals, and better disclosures.

A concerted sustainable finance strategy supported by government would enable the unlocking of capital for Australia to participate more fully in the opportunities presented by transitioning our economy onto a lower emissions footing.

The [Australian Sustainable Finance Initiative](#) (ASFI) has been established to set out a roadmap for realigning the finance sector to support greater social, environmental and economic outcomes for the country. ASFI brings together leaders spanning Australia's major banks, superannuation funds, insurance companies, financial sector peak bodies and academia to develop a Sustainable Finance Roadmap, in consultation with diverse sectors and stakeholders. The roadmap, to be launched in 2020, will recommend pathways, policies and frameworks to enable the financial services sector to contribute more systematically to the transition to a more resilient and sustainable economy, consistent with global goals such as the UN Sustainable Development Goals and the Paris Agreement on climate change.

Ways the Australian Government can support action on climate change include:

- I. **HAVING A PLAN:** Resource the CCA to partner with the Productivity Commission and other key stakeholders such as ClimateWorks to undertake an investigation into the opportunities and risks for the Australian economy delivering a net zero economy by 2050.
- II. **PRICING POLLUTION:** Put in place a market-based mechanism to progressively limit and price industrial, commercial and household greenhouse gas emissions, such as a cap at trade scheme.
- III. **SUPPORTING THE FINANCIAL SERVICES SECTOR:** Provide full consider to ASFI recommendations to assist the financial services sector to help position the Australian economy to best take advantage of opportunities associated with the global transition to net zero emissions.

**b) What is the role of prudential regulation and macroeconomic policy in assisting the Australian economy transition?**

Prudential regulation and macroeconomic policy play key parts in the Australian economy transition to net zero.

Increasingly the investors are relied upon to provide accountability services to investee companies supplementing the role of regulators and civil society. There are various ways that the Government could support this objective through such as:

- IV. **IMPROVING DATA:** Recommend the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations requires strengthening of corporate reporting of ESG disclosures.
- V. **CLARIFYING DUTIES:** Instruct APRA to clarify investor duties and codify this in the SIS Act, SPG530.
- VI. **SHARING RESPONSIBILITIES:** Implement a nationally consistent and regulated Stewardship Code, stepping out the responsibilities of trustees in terms of managing ESG factors, participating in the supervision of the investee companies and taking a longer-term view of investment value.

To incentivise longer-term investing, additional voting rights could be provided for shareholders owning company shares longer than say three years. The tax system can also be used to incentivise practices that align with decarbonisation or investing in the research, development and commercialisation required for technologies such as in agricultural management, marine sequestration and energy storage.

**3. Supporting innovation, finance and new industries: What role is there for Government in developing an enabling environment to support increased flows of green finance?**

Whilst we cannot foreshadow the recommendations of the ASFI, the following areas are likely to be addressed and any recommendations should be considered to their fullest extent possible.

- VII. **CLASSIFYING SOLUTIONS:** The adoption of a consistent, regulated taxonomy for classifying low emissions technologies, assets and industries.
- VIII. **SETTING STANDARDS:** Support for the setting of standards that indicate a meaningful scope and ambition to reduce greenhouse gas emissions across a range of high climate-risk sectors.
- IX. **IDENTIFYING ROADBLOCKS AND SUPPORTING SOLUTIONS:** Identify impediments to investment and support sustainability themed investments including green bonds, sustainability-linked

bonds and sustainable innovation equity investments to enable capital to move more confidently into the assets and enterprises necessary for a cleaner, more competitive economy. This includes incentives for private equity and venture capital to re-risk investing and reduce the cost of capital flowing to emergent technologies at scale.

- X. **STRENGTHENING INSTITUTIONS:** Enhance support for institutions such as ARENA, the CEFC and the CCA to continue to provide data and deals that make the transition more orderly, less risky and less costly.
- XI. **ENGAGING CONSUMERS:** Support for and endorsement of sustainable finance labelling to help consumers navigate towards investment and retirement savings options that align with their values and a lower carbon future, such as [Responsible Returns](#).
- XII. **MEASURING PROGRESS:** Resources to lift marketplace confidence in financial product claims around their contribution to lowering greenhouse gas emissions, such as through the sustainability claims verification process that underpins the [Responsible Investment Certification Program](#).

### Summary of recommendations

To best manage downside risk and take advantage of opportunities associated with the global transition to net zero emissions, the Government should endorse, adopt and enact the:

- above recommendations numbered i – xii, moving swiftly to implement a market-based pricing mechanism for cost-efficient greenhouse gas emissions reductions; and
- forthcoming informed and implementable recommendations provided by the Australian Sustainable Finance Initiative.

RIAA also urges the CCA to fully consider the continuing outputs of ClimateWorks as well as the submission from the Australian Sustainable Finance Initiative.

We wish you well in your advice update to Government on meeting the Paris Agreement.



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