



Investor Group on
Climate Change

Joint standing Committee on Treaties

Paris Agreement

Submission by the Investor Group on Climate Change

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Introduction and overview

The Investor Group on Climate Change (IGCC) represents Australian and New Zealand institutional investors with over \$1 trillion of funds under management, along with members of the investment community focused on the impacts of climate and energy issues.

IGCC members are invested across the Australian economy and are part owners of most of Australia's large companies. As managers of retirement savings and pooled investments we are concerned with the evident and increasing impacts of climate change on the global and Australian economies and the flow through impacts for future investment returns.

Investors recognise that climate change will impact returns, that there is an economic transition underway and it is accelerating. IGCC supports a response that is founded in a science based assessment of the carbon constraints required to avoid dangerous climate change.

The Investor Group on Climate Change strongly endorses the Paris Agreement and encourages the Australian Government to ratify the Paris Agreement promptly.

Why investors are concerned about climate change

It is now widely acknowledged that investors have an important role to play in tackling climate change. Continuing to build expertise, skills and capacity to manage climate change related financial risks and opportunities will underpin future profitability in a net zero emissions global economy. The need to integrate climate science scenarios into investment decisions is critical to future-proofing our infrastructure. The impact on investment flows should be a key consideration for policy decisions.

A robust and stable policy framework will drive greater levels of investment into low carbon solutions and will help smooth the economic risks associated with structural decarbonisation of the Australian economy.

In the lead up to Paris, IGCC members joined more than 400 global investors representing US\$24 trillion in assets under management in releasing a joint statement calling on world leaders to endorse a new global agreement¹. Since 2009, investors have been collaborating globally to call for an effective global agreement through the Global Investor Statement on Climate Change.

This joint initiative calls on governments to provide stable meaningful carbon pricing signals, strengthen support for energy efficiency and renewable energy, support the development and deployment of low carbon technology, ensure that national adaptation strategies deliver investment and prioritize rulemaking by financial regulators to require the disclosure of material climate risks.

Again, last month a further 130 investors with more than US\$13 trillion in combined assets under management called on G20 nations including Australia, to ratify the Paris Agreement swiftly and expand low carbon and green investment². We note that China and the United States of America took the opportunity at the recent G20 Heads of Government meeting in China to announce that they had ratified the Agreement.

¹ Available at <http://investorsonclimatechange.org/investor-voice-loud-and-strong-as-climate-negotiations-get-underway-in-paris/>

² Available at <http://investorsonclimatechange.org/investors-press-g20-ratify-paris-agreement-swiftly-expand-low-carbon-green-investment/>

Ratification of the Paris Agreement

Investors are looking for policy which delivers clear and transparent market signals which support investment confidence. Where those policy settings are credible, capital will flow.

The Paris Agreement on climate change delivers an unambiguous market signal to investors, that the global transition to a net zero emissions economy is underway and will accelerate. It does this in three key ways:

1. The Paris Agreement covers over 190 nations, includes all the major emitters and both developed and developing nations.
2. It includes clear goals against which progress can be tracked, including the aim of limiting global warming to less than 2°C and the ambition of a net zero emissions economy by the second half of the century.
3. It establishes a realistic process and pathway for ongoing decarbonisation, which builds upon the nationally determined contributions of each country and works within a process of ever increasing ambition through the review and ratchet mechanism.

This combination of coverage, quantifiable goals and a practical process for change delivers financial markets the policy structure they need to invest.

Investors are increasingly moving to stress test their portfolios against two degree scenarios, and identify opportunities to go further to limit global warming to 1.5 degrees. It is already clear that the Paris Agreement is acting to accelerate investment in low carbon technology, energy efficiency and clean energy.

We are now seeing many countries move to formal ratification with unprecedented speed for an agreement of this scale and complexity.

In order to bring the agreement into force, 55 countries representing at least 55% of global emissions must join. For the Paris Agreement to enter into force, 55 countries responsible for over 55% of global emissions need to formally ratify the Agreement. Among the 75 parties who have ratified the agreement at the time of writing are New Zealand, China, India, the European Union and the US, representing 59% of global emissions in total.

Having passed the milestone threshold on 6 October, the Paris Agreement will likely officially enter into force after 30 days, just in time for COP22 in Morocco in November 2016. This makes it one of the fastest multilateral agreements to ever enter into force.

It is important that Australia remains in step with our major allies and trading partners in ratifying and adopting the Paris Agreement.

Delays in ratification mean that Australia will be excluded from early negotiations on the implementation framework for the Paris Agreement. This creates the risk that decisions will be made which are not advantageous to Australian business and the investment community.

Implementation is vitally important

Implementation of a national policy framework which is able to meet the goals of the Paris Agreement and which is scalable to allow for a smooth escalation in ambition is vitally important.

We note that the Paris Agreement has been broadly supported across the major political parties in Australia. While recognising that there will always be areas of policy debate, investors would strongly encourage all political parties to support the development of a stable policy framework grounded in broad bipartisan support. This framework must align with the goals of the Paris Agreement. It must be durable and scalable to deliver an efficient transition for Australia's economy.

A stable policy environment is attractive to capital. This includes both ensuring that policy settings are capable of achieving Australia's current national emission reduction goals, but also one which establishes a clear pathway for review and ratchet in line with the process dimensions of the Paris Agreement to scale up ambition to limit global warming to less than 2°C and move to a net zero emissions global economy.

As the global economy transitions in line with the Paris Agreement, Australia must take steps to remain economically competitive. Failure to effectively manage climate change creates the risk that Australia will become increasingly uncompetitive as investors look to manage down climate change risk and pursue new low carbon finance opportunities in other markets.

IGCC notes that the Government has indicated that it will be undertaking a further review of domestic climate change policies in 2017. IGCC looks forward to engaging further during the proposed 2017 Review to assess how Australia's national policy settings can best meet our international commitments and position Australia competitively for the low carbon future.

Conclusion

In summary, the Paris Agreement signed by over 190 countries and expected to enter into force in November 2016 marks a clear shift in the international approach to global climate change policy, with significant implications for the development of Australia's climate change policy response.

Australia needs to pursue an integrated climate change policy response which facilitates an economically efficient transition to a low carbon economy, while playing our fair share in the global task of avoiding dangerous global warming.

The Investor Group on Climate Change strongly encourages the Government to move quickly to formal ratification of the Paris Agreement.