Investor Group on Climate Change

Opinion

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Institutional investors increasingly taking their own climate action| Emma Herd

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For decades persistent scientific and economic warnings that Australia is on the frontline of climate change has fallen on too many deaf ears in Canberra. So it's only natural that many Australians now hope that this devastating bushfire season will shake our leaders out of their apathy and open the door for a more constructive approach to climate change.

Whether this proves the case or not, and whether the recent shift in language on climate ambition by our Prime Minister represents real change or more political management, many investors and businesses are already starting to act.

That's because when you face fiduciary duties, manage billion-dollar assets, have millions of members and customers, and are overseen by climate-aware regulators, treating the hard reality of climate change as a culture war is a luxury you cannot afford.

Increasingly financial regulators like the Reserve Bank, ASIC and APRA have already recognised that climate change as a systemic threat to our economy. They are now demanding finance companies treat their exposure to climate change as a 'foreseeable, actionable and material risk' and have a plan to deal with it.

Companies and investors are also grappling with the physical realities of climate change and growing threats to the assets they hope will generate decades of financial returns, like electricity networks, ports, and property. Other assets, especially fossil fuels, are increasingly at risk of being stranded due to changes in global markets and the collapsing costs of clean technologies.

At the same time companies and super funds are feeling pressure from their customers and members, who increasingly want their money invested in climate-positive ways.

None of these forces are going away despite the hope of some laggards that business as usual will continue. In fact, these trends will only accelerate.

In response, institutional investors like the ones my organisation represents, and who the vast majority of everyday Australians are members of through compulsory superannuation, are increasingly taking their own climate change action and engaging with the companies they invest in to ensure they deliver sustainable, risk adjusted returns to their beneficiaries.

We have already seen an acceleration in investor-company engagement on climate change through global initiatives like Climate Action 100+. Launched two years ago, it now involves over 370 global investors managing more than $US37 trillion in assets.

These investors directly engage with 161 of the world's largest emitting companies, collectively responsible for up to 80 per cent of global emissions. Through Climate Action 100+ investors work with these companies to see them commit to cut their emissions in line with the goals of the Paris Agreement and align their business strategy with the transition to net zero emissions by 2050. In Australia there are 13 focus companies including BHP, Rio Tinto, AGL, Woodside, and Qantas.

Only last week the world's largest asset manager BlackRock, which has $US7 trillion in assets on its books alone, joined Climate Action 100+, putting companies on further notice that they ignore their climate responsibilities at their peril.

Despite the clear momentum, investors and businesses still have a long way to go. We know global action is falling short of what is required. But this momentum is a strong signal many in the Australian business community are ready to move forward from the destructive climate debate in this country over the past decade or so.

As we move into a new decade, governments have a perfect opportunity to capitalise on and accelerate investor and business appetite for climate action.

To truly de-risk our economy from climate change, and to ensure a smooth transition that continues to build wealth for our country and create jobs for our communities, we need a comprehensive national climate change strategy. We need an economic plan for climate change.

That must include a 2050 national commitment to net zero emissions and more ambitious 2030 targets than currently on the table. It will have to exclude the use of Kyoto credits to meet our targets because this will only delay the inevitable transition and increase costs in the longer-term.

A national strategy will also require comprehensive policies to reduce emissions and develop investment pathways across all sectors of our economy like energy, transport, farming and heavy industry. Australian business is crying out for clarity. Investors have the capital and are prepared to invest it in climate solutions.

The alternative to a national strategy is a messy transition. One where our economy is fully exposed to the winds of the global transition already underway, and where the communities currently reliant of carbon-intensive industries will face sudden and disruptive shocks. It also involves more extreme weather conditions and greater harm to communities.

This would also be a transition where Australia fails to cash-in on the economic opportunities from clean technologies and where Australian capital goes offshore into other markets. Australia would also cede moral authority to push global laggards to cut their emissions.

The choice is clear. Out of the ashes 2020 can be a climate turning point for our country. Otherwise we will face ratcheting risks to our communities and our economy.

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