



Investor Group on
Climate Change

SEVEN CLIMATE CHANGE PRIORITIES FOR INVESTORS:

A policy framework for an efficient transition to
a sustainable low carbon economy

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ABOUT THIS DOCUMENT

The Investor Group on Climate Change (IGCC) represents institutional investors with over \$1 trillion of funds under management focused on the impact of climate change. 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.

It is increasingly apparent that there is a global economic transition underway, focused on the reduction of the emissions intensity of economic activity in order to stabilise global warming at less than two degrees Celsius and move towards a net zero emissions economy by the second half of the century. These are the goals Australia formally endorsed under the Paris Agreement in late 2015.

Australian institutional investors are seeing the policy response in both developed and developing countries change the fundamentals of their investments globally, and are acutely aware that Australia will need to strengthen our response to climate change. The policy settings which Australia establishes today, will determine whether the process of decarbonisation required to meet the Paris goals will be smooth and efficient or abrupt and disruptive. There are also significant implications for investment flows and Australia's future economic competitiveness.

The seven climate change priorities set out in this document, detail the fundamental framework that investors believe Australian policy-makers need to adopt to begin effectively dealing with the economic implications of climate change. While by no means comprehensive, they represent the foundations of a policy response required to unlock investment in the low carbon economy.

The Investor Group on Climate Change will continue to engage with Governments and policy-makers to promote a smart, economically responsible approach to climate change which reduces costs and impacts for the Australian community and which promotes Australia as an investment destination for global capital flows as the world transitions to a net zero emissions economy.

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SEVEN CLIMATE CHANGE PRIORITIES FOR INVESTORS

- 1. Long-term emission reduction targets**
Long-term targets which align to the goals supported under the Paris Agreement to limit global warming to well below 2°C and move to a net zero emissions economy.
- 2. A durable policy framework grounded in broad bipartisan support**
An integrated policy framework where the key elements are grounded in broad-based bipartisan support and able to deliver a level of investment stability.
- 3. A market based carbon pricing mechanism**
A market based carbon price signal which can be incorporated into investment decisions and which responds to dynamic market conditions
- 4. An integrated approach to energy sector transition**
A policy approach which manages carbon, technology changes and energy market considerations in an integrated manner delivering greater investment certainty.
- 5. Long-term certainty and funding for clean energy public financing vehicles**
A robust approach to public finance provision that provides the long-term certainty needed to unlock and accelerate private sector capital and investment into clean energy and energy productivity opportunities.
- 6. A National Adaptation Action Plan to reduce the cost of climate change**
A National Adaptation Action Plan underpinned by Australian scientific research which delivers a roadmap for managing the costs and impacts of climate change for investors and the community.
- 7. A disclosure framework for climate-related financial reporting**
A financial disclosure framework which acknowledges the financial and economic implications of climate change and promotes better risk management through more effective financial reporting practices of companies.

THE DETAIL

Responding to climate change will require a comprehensive approach across all policy areas to ensure that climate change considerations are hard wired into the policy decision-making process. However, there are certain fundamental policy settings which must form the bedrock of an effective policy framework for climate change in order to drive investment flows.

The Investor Group on Climate Change (IGCC) has sought to set out seven policy priorities which we believe address the critical dimensions of an effective policy response to climate change.

These priorities are not intended to be a comprehensive policy manifesto or to shy away from the need for a more detailed and comprehensive response to climate change across a wide array of industry sectors. Rather, they are intended to provide the basis for an ongoing dialogue between governments and investors on the policy settings required to drive investment across the Australian economy, in a net zero emissions economy.

IGCC will continue to play an active and engaged role in the policy discussion on the best way forward for Australia and to develop the tools, resources and guides investors need to better manage climate change across the investment decision-making chain.

Seven Climate Change Priorities for Investors

1. Long-term emission reduction targets

Australia should put forward long-term targets which align to the goals supported under the Paris Agreement to limit global warming to well below 2°C and move to a net zero emissions economy.

IGCC members believe that Australia has a responsibility to fairly share the burden of acting on climate change given its historic and currently high emissions per capita and the fact that it is a wealthy nation with strong economic and population growth forecast. Australia has the capacity and responsibility to make a strong contribution to global emissions reduction efforts.

Australia's post 2020 emissions reduction target and policy response should be consistent with the international commitments set out in the Paris Agreement, including the commitment to scale up over time. The Paris Agreement commits Australia to limiting global warming to 1.5-2.0°C and moving to a net zero emissions global economy by the second half of the century.

Australia should therefore put forward ambitious, transparent and equitable emissions reduction targets with accountability to domestic and international stakeholders, which enables a considered transition and decarbonisation of the Australian economy.

2. A durable policy framework grounded in broad bipartisan support.

Investors are seeking an integrated policy framework where the key elements are grounded in broad-based bipartisan support and able to deliver a level of investment stability.

An incremental approach to climate policy development risks locking Australia into an inefficient policy framework. Long-term, transparent and predictable policy design can enable deep emissions reductions, a steady economic transition and encourage investment to take advantage of new opportunities for the Australian economy.

With stable policy settings, investors will make long-term, low carbon investment allocations. Delaying the resolution of a long-term policy framework is already leading to underinvestment in energy and emissions productive industry, limiting Australia's options for economic growth and income in future.

While recognising that there will always be areas of policy debate, investors would strongly encourage all political parties to support the development of a durable policy framework grounded in broad bipartisan support.

3. A market based carbon pricing mechanism

Investors continue to support a market based carbon price signal which can be incorporated into investment decisions and which responds to dynamic market conditions in the most cost effective manner.

IGCC supports robust, investment-grade policies to reduce emissions. IGCC members have long supported putting a price on emissions as the most effective and efficient way to provide a long-term, transparent and certain regulatory framework to address carbon risks in investment portfolios.

While there are a number of different approaches to carbon market design, key attributes should include:

- a scheme cap that reflects a quantified emissions reduction objective
- broad coverage of sources of emissions across the economy to reduce costs
- efficient carbon cost pass-through mechanisms
- demand-creation for additional, voluntary market and abatement generation projects in other sectors of the economy
- the ability to access international permits to achieve lowest cost abatement and manage competitiveness impacts
- targeted transitional assistance arrangements for trade-exposed sectors where proven to be necessary; and
- the capacity to respond to deeper reduction targets as necessary without undue policy disruption, investment uncertainty or economic cost.

While there is no doubt that a suite of policy responses tailored to specific industry requirements is required to achieve the structural transformation of the economy required over time, a market based carbon pricing mechanism has the ability to pull together a range of policy interventions into a cohesive integrated framework which can flex and adjust over time in a manner which supports investment certainty and promotes environmental efficacy at least cost. Equity considerations can, and should be managed through strategic interventions which do not undermine the strength of the economic signal over time.

4. An integrated approach to energy sector transition

Investors support a policy approach which manages carbon, technology change and energy market considerations in an integrated manner, thereby delivering greater investment certainty.

It is no longer feasible to manage carbon and energy policy in separate silos. Questions on how to deal with increasing renewable energy investment, managing out ageing coal fired generators, falling demand, energy productivity and the impacts for transmission infrastructure of distributed

energy, for example, are all part of the same policy conversation and must be managed in an integrated manner.

Climate change policies implemented by trade partners and in key export markets will also impact Australia's economic competitiveness. As key export markets set their own decarbonisation pathways incorporating carbon and energy reduction targets, this will flow through to energy exports in particular, with implications for investors.

Governments need to adopt a policy approach which looks at all of the issues playing out across the energy sector and the major structural transformation currently underway in a coherent and strategic manner to achieve the best outcomes for investors, business and the community.

5. Long-term certainty and funding for clean energy public financing vehicles

In order to meet our national emissions reduction targets and facilitate investment in the renewable energy sector, Australia needs a robust approach to public finance which delivers the long-term certainty and funding required to unlock private sector capital and accelerate investment in clean energy and energy productivity opportunities.

An independent financing institution is a key complementary policy measure to stimulate the transition to a low carbon economy. Public finance bodies such as the Clean Energy Finance Corporation (CEFC) and the Australian Renewable Energy Agency (ARENA) have a critical role to play in deploying public sector capital to encourage private sector investment in areas where private sector capital is needed to fund the transition to a low carbon economy.

Institutional investment has a global outlook and will be looking for the most competitive conditions under which to invest. If Australia fails to get the policy settings right, we are in danger of missing out on global low carbon investment.

IGCC believes that a clear investment mandate and stable, long-term funding support for the operation of both the CEFC and ARENA are critical for building investor confidence in the transparency, certainty and longevity of the low carbon financing framework in Australia.

6. A National Adaptation Action Plan to reduce the cost of climate change

Given the level of climate change we are likely to experience, investors are looking for ongoing investment and implementation of a National Adaptation Action Plan underpinned by Australian scientific research, which delivers a roadmap for managing the costs and impacts of climate change for investors and the community.

Australia has a highly variable climate, which already causes challenges for investors through droughts, heatwaves, floods, cyclones and intense storms. Climate change will increase the occurrence and severity of heatwaves and bushfires throughout the country.

Currently, climate change impacts and adaptation planning measures are managed across a range of Federal, State and local government agencies causing fragmentation and inconsistency in the way that the adaptation response is being implemented. Continued investment in a national adaptation response, working alongside state and local government agencies, will facilitate greater investment in adaptation and resilience measures and reduce the costs of climate change for the Australian community.

The impacts of climate change are likely to have a significant effect on businesses, infrastructure and business supply chains. Understanding potential changes to the exposure of investments, and the way in which assets and businesses can be managed to reduce exposure, is critical to reducing costs.

A fully realised National Adaptation Action Plan which builds upon Australian scientific research into regional and localised impacts is vital to reducing the impacts and the costs to the community of climate change.

7. A disclosure framework for climate-related financial reporting

A financial disclosure framework which acknowledges the financial and economic implications of climate change and promotes better risk management through more effective financial reporting practices will reduce the cost of climate change.

Better quality climate change risk disclosure provided in a more uniform and timely manner will allow investors to accurately assess how effectively business is managing climate change risk and strategically positioning for global economic decarbonisation.

It will also help to reduce the likelihood of an abrupt transition to a low carbon economy and allow markets to flex and adjust. This will strengthen financial system resilience and promote more sustainable economic outcomes for all members of the community.

Better integration of financial and emission disclosure through the National Greenhouse and Energy Reporting scheme (NGERs) to strengthen the disclosure of climate-related financial impacts is a key part of the policy framework aimed at tackling climate change and delivering an efficient transition to a sustainable, low carbon economy.

IN SUMMARY

A robust and stable policy framework built upon these seven key policy priorities 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 other jurisdictions globally, governments are moving to implement clear, long-term, stable and effective policy frameworks to respond to climate change. This policy environment is attractive to capital. 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. As the world moves to a net zero emission economy, Australia must take steps to remain economically competitive.

Investors have a key role to play in facilitating a sustainable economic transformation and support the need for an integrated policy response to manage climate change. We look forward to working with the next Government to implement the policy priorities set out in this document, which investors see as necessary to effectively tackling climate change.