Investor Group on Climate Change

Opinion

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Unlocking economic opportunities means moving past scare campaigns | Erwin Jackson

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The current election campaign discussions on climate change fails to address the real challenges that face the nation. The super partisan nature of the debate and the focus on mythical costs of action risks significantly harming our prosperity and resulting in another decade of squandered economic opportunity.

I work for an organisation that represents institutional investors like super funds with total funds under management of over $2 trillion - the Investor Group on Climate Change (IGCC). Superfunds invest to ensure superannuation holders can retire with dignity. The average superannuation holder will retire around 2050 so what we do to address climate change matters a lot to their retirement funds.

Investors and the companies they invest in and own are exposed to policies that governments put in place. What governments decide also influences if they invest, where they invest and what they invest in.

Major investors and companies are run by smart people. They know that climate change is real and that governments will eventually implement significant policies to reduce emissions. It is not credible to think otherwise. Community concern is growing as the impacts of extreme weather events escalate, global markets are shifting, technologies like renewable energy are the cheapest investment options for new electricity generation, and Australia has ratified an international treaty - the Paris Agreement - that will require the nation to achieve net zero emissions.

This realisation has two material impacts. Firstly, companies are acting in response to real world realities and because the investors that own them are asking them to get their act together. This means that regardless of what governments are doing they are factoring in proxy carbon taxes into their investment decisions and business plans. Some prices are low and others are up to $140/tonne in 2040 (to put this in context the starting price under the Gillard government carbon pricing scheme was just over $20/tonne). There is already a shadow carbon price in the Australian economy.

What they are also doing is looking for low and zero carbon investment opportunities. If you know action is coming you get ready to maximise the opportunities of the new investment boom and reduce the cost of complying with emissions reductions obligations.

Energy intensive companies are investing in renewable energy to manage electricity costs, investors are developing zero emissions property portfolios, and asset managers are investing in carbon forestry in Australia and across the region. This is just the tip of the iceberg. The proportion on investors implementing low carbon strategies grew from just over 50 percent in 2017 to around 90 percent last year.

The other consequence of the current policy paralysis is that if you are unclear what the future climate policy framework will look like, while you will prepare and invest in low risk activities, you will be hesitant to make major investments required to accelerate the transition to a net zero emissions economy. One of the most significant barriers impacting long term investment and accessing new economic opportunities is climate policy uncertainty.

Institutional investors have to make long-term returns on their investments for the benefit of superannuation holders. Lack of credible, durable and predictable policy frameworks in Australia means investors will look to other countries where policy is more predictable or if they so invest in Australia they will charge higher risk premiums on investments to hedge against policy risk. This also means it is more difficult for investors to pursue emerging zero carbon investment opportunities.

Despite the rhetoric, Australia's current policy proposal does nothing to address the fundamental drives behind the economic costs of policy uncertainty. It fails to integrate energy and climate policy and we have no plans for how Australia will achieve net zero emissions in line with the objectives of the Paris Agreement.

If this continues the government would be saying to business to sit on their hands and do little for another decade. This is inconsistent with rational business decision making and even their legal obligations to manage their business and investments in the interests of shareholders and superannuation holders. Financial regulators and central banks in Australia and around the world are recognising that climate change represents a systemic risk to economies and financial system and increasing scrutinising whether investors and companies have the governance structures and business plans in place to address growing climate change impacts and manage the transition to net zero emissions.

Put simply, the absence of credible climate policy has a negative impact on the economy and investment decisions.

This comes through electricity bills as investments are delayed in new electricity generation investment. It delays infrastructure as investors try to work out what the impact of climate change and climate policy will be on the value of the asset over the long term. It threatens long-term superannuation returns because the economic impacts of failing to address climate change over the long-term make the Global Financial Crisis look like a walk in the park.

All of this is lost in the conversation because some in the media and politics want to focus on hypothetical modelling of a fantasy economy by Dr Brian Fisher.

For transparency, I have been involved in economic modelling of climate policy myself. This means I understand some of its limitations and what it is useful for. I have written before on some of the problems with this kind of analysis and economists more qualified than me have shown why Fisher's work has limited value in policy making.

What I will point out is that this work ignores the economic cost of policy uncertainty in the analysis. Fisher's modelling ignores a key economic benefit of reducing emissions in line with the objectives of the Paris Agreement. As work undertaken for the Department of Foreign Affairs concluded, "the uncertainty arising from a lack of policy commitment has a large impact on investment and real GDP in the Australian economy. Even a relatively small risk premium shock can have significant consequences for investment in energy production and also on overall economic activity which feeds through all sectors of the economy."

It also assumes that business is doing nothing to respond to global market trends and the signals their regulators are sending them.

So as politicians and the media make sport with imaginary costs of reducing emissions, a deeper economic risk from the failure to implement credible climate policy is building in the economy.

Investors and companies are getting ready to unleash a new wave of investment across Australia. This economic opportunity will only be realised if we move past scare campaigns and start acting seriously on climate change.

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