



Technology, voluntary action and a sustainable economic recovery

Overview

In the past two months, there have been a number of significant climate policy developments. These include the release of the King Review final report and the Technology Investment Roadmap in Australia, ongoing discussions around integrating climate considerations into the post-COVID economic response, and further developments on global policy dynamics.

Key recent policy developments are summarised below, along with an overview of implications for investors and for IGCC projects and activities.

This overview focuses predominantly on Australian policy developments, however some additional detail on ongoing New Zealand policy developments and emerging international dynamics is also included.

About Us

The Investor Group on Climate Change (IGCC) is a collaboration of Australian and New Zealand investors focused on the impact that climate change has on the financial value of investments. The IGCC represents institutional investors with total funds under management of over \$2 trillion, and others in the investment community interested in the impact of climate change. IGCC members cover over 7.5 million people in Australia and New Zealand.

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The King Review

In mid-May, the Government released its response to the final report of the [expert panel](#) examining additional sources of low cost abatement (the King Review). The IGCC media response is [here](#).

Our response focused on the need for governments to establish a comprehensive and stable policy framework that addresses emissions from all sectors of the economy with a clear goal of reaching net-zero emissions by 2050.

The Government formed the expert panel on how to incentivise low cost abatement opportunities from across the economy, with a focus on the industrial, manufacturing, transport and agriculture sectors, and energy efficiency. The panel was led by Mr Grant King (former Origin Energy CEO and former President of the Business Council of Australia).

The final report made 26 detailed and technical recommendations. The review also notes that investor engagement with companies and policy is a key driver of shifting companies from “compliance” to “ambition.” It also specifically notes the work of [The Investor Agenda](#).

The Government agreed or agreed in-principle with 21 of the recommendations and noted five. Most of the recommendations focus on removing administrative barriers to upfront investment in carbon abatement projects. For example, changes to allow Emissions Reduction Fund (carbon offset) methods to award Australian Carbon Credit Units (ACCUs) over a shorter, compressed timeframe and ahead of when abatement is achieved. Across the vast majority of recommendations that the Government agreed with, they have committed to undertake further consultation with no fixed timelines on how to implement the recommendation in practice.

A key recommendation that the Government accepted is to accelerate the adoption of low emission technology in Australia’s largest facilities through crediting emissions reductions below emissions baselines under the Safeguard Mechanism. These credits could then be purchased by the federal, state or territory governments or through voluntary transactions in carbon markets. This proposal is likely to be amenable to the ALP because it is a step towards a baseline and credit emissions trading scheme.

IGCC will monitor the development of these policies to identify policy and legislative opportunities to drive opportunities to unlock additional private sector investment in low emissions activities and technologies.



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Release of the Technology Investment Roadmap

In May, the Government [released](#) its long awaited Technology Investment Roadmap Discussion Paper. The technology roadmap will form a central pillar of the Government's [Long-Term Emissions Strategy](#) to 2050 that is to be submitted under the Paris Agreement before the next major international climate summit in November 2021. The IGCC media response is [here](#). The IGCC response focused on number of key aspects of the roadmap:

- The discussion paper reveals the huge opportunities to reduce emissions right across the Australian economy through technology and projects that would create fresh investment, economic growth and job creation
- The discussion paper largely considers policy options that would guide taxpayer investment in technology development. But equally important is consideration of how Australia can unlock further private capital into the commercialisation and deployment of net-zero emissions technologies.
- Unlocking this private capital will require a clear signal through an integrated and robust national climate policy suite that Australia is heading for net-zero emissions by 2050 consistent with our international obligations.

The Government is proposing that to position Australia as a leader in low emissions technologies development this requires a partnership with other levels of government, the private sector and researchers. To build that partnership it is proposing:

- Low Emissions Technology Statements published each year to communicate progress towards defined technology goals. Each statement will provide an update of global technological developments and fine-tune the Government's investment portfolio while retaining commitment to our long-term vision.
- Ministerial Reference Panel composed of industry, private investment, government and research leaders to advise the Minister for Energy and Emissions Reduction in the preparation of Low Emissions Technology Statements. Technical expert review will seek to ensure the Low Emissions Technology Statements are supported by the best available data and analytics.
- Targeted industry and community consultation to test the assumptions behind the Government's technical analysis and build partnerships with stakeholders.



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Evolving post COVID response and climate change implications

IGCC have been actively engaging to ensure climate change remains central to the national response to the COVID-19 pandemic. Navigating the national policy conversation on the pandemic recovery is made much more complex but the fact that so many actors are seeking to attach their policy agendas to the recovery response.

IGCC's approach has been to make judgements about intervening in significant policy discussions based on whether it advances a whole of economy approach to managing the transition and physical risks of climate change. A number of specific issues are also worth highlighting:

- **Global investor engagement:** In May, The CEO's of the Investor Agenda released a global statement on a sustainable recovery from the pandemic. It recommended that governments prioritise sustainability and equity and accelerate the transition to a net zero emissions economy to mitigate climate risk, create new jobs and catalyse the sustainable deployment of private capital. Recovery plans that exacerbate climate change would expose investors and national economies to escalating financial, health and social risks in the coming years. Governments should avoid the prioritisation of risky, short-term emissions-intensive projects.
- **A gas lead recovery:** Government ministers have coined the term a "gas lead recovery". This has re-sparked the debate about the role of gas as transition fuel and whether the government should subsidise new gas infrastructure. The IGCC response has been:
 - **Governance:** As a decades-long economic, energy and industry policy, it must be required to integrate Australia's long-term climate change commitments under the Paris Agreement and consider all net-zero emissions options for recovery.
 - **Subsidising gas:** Without proper analysis, support for gas infrastructure risks locking Australia into an emissions intensive pathway and further exposing us to growing moves to decarbonise global market. With the flow of international capital increasingly swinging to renewable energy, greener industry and electrified transport, all options to capitalise on this potential investment must be fully explored.



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Financial regulators

IGCC remains in contact with key financial regulators and other relevant agencies in Australia and New Zealand on their work on climate change risk. For example, IGCC facilitated a presentation by the Reserve Bank of Australia to a broad group of

stakeholders on the macroeconomic and financial stability risks of climate change. It is clear that while the economic implications of COVID have delayed a number of significant project streams in Australia at least, work is continuing to integrate climate change into supervisory responsibilities, policies and practices.

The work of the Transparency and Thought Leadership Working Group project on effective corporate climate disclosure will be central to the next stage of engagement.

International developments

It has been officially announced that COP26 will be held in early [November 2021](#). There are significant international efforts required to make it a success and investors will be a major focus of efforts by governments and others to ensure they have a strong positive voice in the lead up to and following the COP. IGCC is in regular contact with the COP Presidency in London to coordinate efforts in Australia and the region. We are also engaging with the officials who are supporting [Mark Carney](#), former BoE Governor and now the UK's finance champion, on the work they are doing to help investors identify opportunities in transition to net zero. To do that, they will develop a framework for measuring transition readiness of investment portfolios and credibility of targets. This will draw on a review of different approaches and robustness of specific methodologies. This will have implications for both the work of the Investor Agenda as well as IGCC's own projects and activities to support investor practice.



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Implications for investors and for IGCC

Unlike previous economic shocks, for example the GFC which knocked Rudd's carbon pricing mechanism of course, climate change has not disappeared from the policy debate in Australia. Government processes continue, a diverse range of economic and social actors are urging the government to make climate change risk management central to the economic recovery from COVID-19, and the background memories of summer bushfires linger.

The first critical theme to emerge clearly is that the central philosophy of the current Australian Federal Government is that voluntary action is all that is required to reduce emissions. The "market signal is already there" and all we need to do is invest in RD&D and investors and the market will do the rest. Anything other than that is being positioned as a "tax". This will influence their approach to all policy decisions.

A number of other important themes are also emerging in the Australian policy debate:

- There is a strong need for investors to play a role in the current policy environment. As owners of the economy, institutional investors can step above sectoral battles and present clear long-term thinking on what the nation's economy needs.
- Gas is the new coal? The role of gas in a net zero energy system as a major political and policy issue has accelerated. A clear investor voice on the investment risks and opportunities of using gas in the transition is needed.
- Engagement on resilience measures is still a priority for IGCC: IGCC is building support for important policy measures to help investors better manage the physical risks of climate change, as well as open up opportunities in adaptation investment. Continuing this focus will remain central to IGCC's ongoing engagement with governments.
- New Zealand will continue to move ahead: New Zealand's general election is in September. In the interim, they are pushing ahead with climate policy design including mandatory TCFD disclosure, NZ ETS reform and other resilience and physical risk measures, all integrated into post-COVID economic planning.
- International and regulatory developments will increasingly emerge as factors early in the new year: The announcement of the date for COP26 has set a clear deadline for international actors to put pressure on policy makers, corporates and investors to do more to address climate change. International investor focused events are currently being planned for November to kick off this building momentum. Similarly, financial regulatory process in Australia, New Zealand and internationally are expected to emerge on issues such the stress testing of portfolios and mandatory TCFD reporting in the new year.

Next steps

- IGCC is participating in the engagement and consultation process for the Technology Investment Roadmap and will be providing a submission on the consultation paper.
- IGCC will continue to work through the Investor Agenda Policy Working Group to coordinate global engagement on climate issues.
- IGCC will continue to engage with policymakers and government officials on a number of aspects of our [Policy Priorities](#).