



## **The business case for fixing Australia's systemic failures in climate change | Emma Herd**

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The days of climate change being seen only as an environmental issue are long past. Large swathes of the private sector now recognise our warming planet poses a systemic financial risk to our country. Our major financial regulators, such as the Reserve Bank, also understand the threat.

But sadly, our national public debate has too often been snared on the cost of the necessary climate policy response. We rarely balance this with the far greater costs of inaction.

And too often we have sought the false certainty of economic modelling about policy outcomes decades in the future. If we take a step back, the facts are crystal clear: runaway climate change will do untold and likely irreversible economic damage to our country.

This was the evidence that the Australian Climate Roundtable – a collective of national business, investor, union and civil society organisations – heard in a series of private workshops convened earlier this year in the wake of our recent devastating bushfire season.

The scientific and technical experts who presented were clear that climate change was already hurting the Australian economy. This is not an issue for the distant future.

Examining the evidence presented to us, the Roundtable has concluded Australia is not prepared for the changes already in the system as a result of 150 years of global warming, let alone the worse to come if the world does not swiftly cut emissions and reach net-zero emissions by 2050 or sooner.

As the Roundtable concluded: “There is no systemic government response (federal, state and local) to build resilience to climate risks. Action is piecemeal; unco-ordinated; does not engage business, private sector investment, unions, workers in affected industries, community sector and communities; and does not match the scale of the threat climate change represents to the Australian economy, environment and society.”

The average Australian will experience the economic impact as the damage borne by the increasing frequency and intensity of natural disasters fuelled by climate change including bushfires, drought and heatwaves. They are the cost of more extreme conditions.

This is a major component of the financial risk we face, and includes the expense of having to rebuild property and infrastructure, disruption to production and the value hit to those important assets, including our homes.

Australia is also a highly carbon-intensive, trade-exposed economy. Our continued economic reliance on fossil fuels could swiftly become a financial liability as energy technology costs change and countries impose tighter emissions controls.



Our investments in coal, gas and oil assets, and the infrastructure to support it, is increasingly at risk of being stranded. What the Bank of International Settlements calls a potential "green swan" event that could drive a fresh financial collapse. In fact, many analysts believe this phenomenon is partially behind recent widespread downgrades by oil and gas companies, alongside the impact of the COVID-19 pandemic.

The combined size of the potential physical and transitional climate risks we face means that much of the financial downside may be "unhedgeable" for investors. Investors can take forward-leaning positions in their portfolios and use their equity holdings to try to drive emissions reductions in companies. But if the whole economy is affected by climate damage then so will be returns, no matter the portfolio make-up.

Remember those are the returns intended to help build the retirement savings of millions of working Australians through our superannuation system.

Our lack of preparedness should concern all Australians. But we should also be confident that there is progress and we have the tools to respond.

Many existing government and regulatory bodies, along with the private sector, unions and civil society, are implementing actions that we can build on. And many more in the financial sector and private enterprise recognise their stewardship role.

Australia is an educated and wealthy society, with a strong democratic foundation, robust institutions and significant natural advantages to adapt to unavoidable climate change, cut emissions and build new jobs and industries based on clean technology. We should see action on climate change as an investment in future economic value, in resilience and our ongoing prosperity. An investment, not a cost.

Ultimately, acting on climate is responsible economic management.

*Emma Herd is chief executive of the Investor Group in Climate Change, which is a member of the Australian Climate Roundtable.*