



Investor Group on
Climate Change

Investor Group on Climate Change (IGCC)

Submission to:

Climate Change (National Framework for
Adaptation and Mitigation) Bill 2020

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ABOUT IGCC

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 investment. 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.

Overview

The Investor Group on Climate Change (IGCC) welcomes the opportunity to make a submission on the proposed *Climate Change (National Framework for Adaptation and Mitigation) Bill 2020* (the Bill).

The proposed Bill would provide a responsible national framework, setting a clear goal for net zero emissions by 2050 and ensuring independent guidance on emissions reductions and building climate resilience.

Investors do not see this as additional bureaucracy but as a robust governance framework, which will reduce the costs of managing climate change risk by providing clarity, transparency and predictability around government decision making.

Australian companies, investors and their directors and trustees in particular, have a [legal obligation](#) to manage climate change risks and opportunities.¹ Having a clear 2050 target as proposed by the Bill would support company directors and investor trustees to focus their resources and efforts on a narrower range of climate-related risk scenarios and reduce the costs to businesses.

We support the proposal that the Federal Government maintains its role as the primary decision maker on Australia's commitments under international treaties such as the Paris Agreement. The proposed Climate Change Commission can play an integral role by providing advice to the Parliament and the Federal Government to inform this decision-making process. The role of the proposed Climate Change Commission could possibly be performed by the existing Climate Change Authority (CCA). The CCA has a similar remit, and subject to amendment of its legislation, could perform the functions outlined by the proposed Bill.

In this submission, IGCC has sought to provide important context for the consideration of the Bill from an investor perspective and provided detailed input on the specific elements of the Bill.

We welcome the opportunity to discuss these matters further.

Introduction

Climate change is a systematic risk to investment returns, financial stability, communities and economies

The decisions that governments, investors, companies and individuals make today will have a material impact on the superannuation returns of millions of Australians. The Reserve Bank of Australia [notes](#) that ‘climate change is exposing financial institutions and the financial system more broadly, to risk that will rise over time and, if not addressed, could become considerable’.² Risks to financial stability arise from both physical and transition risks.

Based on the best available analysis, central banks [project](#) that under currently implemented policies global emissions will continue to grow until 2080 leading to over 3°C of warming and severe physical risks.³ Physical damages result in up to an annual 25 per cent GDP loss by 2100.

These physical impact estimates are also subject to limitations, which mean impacts would likely be much larger. They typically do not adequately account for all sources of risk, including low-probability high-impact events, extreme events and societal changes like migration and conflict. As the central banks conclude: “As a result, damages in this scenario will be larger than models suggest, particularly in regions with lower resilience and capacity for adaptation.”

The proposed Bill provides a practical framework to both mitigate the transition risks and reduce the scale of the challenge that physical risk poses to Australia.

A critical mass of countries, investors and companies are transforming their economies and business and investment strategies in line with net zero emissions

Over 70 per cent of Australia’s two-way trade is now with countries with targets to achieve net zero emissions around 2050 (Table 1). This is expected to grow as more countries commit to net zero emissions targets and other emissions mitigation actions in advance of the Glasgow Climate Summit at the end of 2021 (COP26).

The conversation within the investment community on meeting the objectives of the Paris Agreement has moved on from ‘if’ to ‘how’ and what that means for invested capital.

Capital markets are hungry for net zero opportunities and wary of climate-sensitive assets and industry sectors. As countries seek to attract private capital to stimulate the economy, countries which integrate long-term opportunities, such as achieving net zero emissions by 2050, and mitigate risks, such as the impacts of climate change, will be in a better position to attract global private investment.

The measures set out in the proposed Bill establish a clear national framework to address climate change that will help to unlock investment opportunities and attract private investment to Australia.

Economic [modelling](#) commissioned by IGCC and undertaken by consultancy Energetics estimates that Australia would create \$63 billion in fresh investment opportunities over the next five years by strengthening climate targets and policies in line with reaching net zero emissions by mid-century.⁴

Table 1: A net zero emission economy is the destination for a growing number of Australia's major trading partners. Overview of progress towards 2030 targets and net zero commitments by G20 countries.⁵

	Top ten major trading partners (% trade)	AUD Sustainable Recovery (% of total fiscal stimulus spending)	On track to meet 2025/30 target	Mid century net zero target
Australia		\$3.7bn (1.1%)	N	N
Top Trading partners in G20				
China	1st (24.4%)	\$12.38bn (0.7%)	Y	Y
EU	2nd (13.3%)	>\$400bn (30%)	Y	Y
France		~\$54.4bn (6.6%)		
Germany		~\$50.34bn (3.6%)		
Italy		\$1.25bn (<0.1%)		
Japan	3rd (9.7%)	\$0bn	Y	Y
USA	4th (8.8%)	<\$1bn (<0.1%)	N	Yes (under Biden)
Republic of Korea	5th (6.5%)	~\$37bn (5%)	N	Y
India	6th (3.6%)	\$0bn	Y	N
UK	8th (3.5%)	~\$43bn (7.3%)		Y
Other selected G20 and major trading partners				
Canada		\$4bn (2.8%)	N	Y
Brazil		\$0.4bn (0.2%)	N	N
Indonesia		\$0.3bn (0.2%)	Y	N
Singapore	9th (3.5%)	\$0bn	Y	N (in 2nd half of the century)
New Zealand	7th (3.5%)	No data	Y	Y (all gases ex. farm methane)

Technology development is an important component of Australia's long-term response to climate change

Australia is well placed to play a role in advancing technology to reduce the costs of achieving net zero emissions. Certain technologies present Australia with clear opportunities for significant export growth and for the development of new sectors.

The Federal Government's policy largely focuses on options that would guide taxpayer investment in this technology development. While this is an important part of the equation, a more comprehensive and coordinated national strategy is needed to unlock further private capital for the commercialisation and deployment of net zero emissions technologies. Governments can support private sector investment in new technologies by ensuring the enabling environments to large-scale investment exist and that the well-recognised barriers to institutional investment in zero and low emissions technologies are overcome. Policy and regulatory uncertainty remains one of the key [barriers](#) in institutional investment in net zero solutions.⁶

Implementing the objectives of the proposed Bill would enhance the effectiveness of existing Federal government policies aimed at accelerating uptake of low emission technologies by reducing policy uncertainty and encouraging large scale private investment.

Investors, companies and governments will need to work together to achieve a resilient net zero emissions economy by 2050

The need for cross-sector and public and private collaboration will be particularly acute as governments will be more fiscally challenged after deploying immediate COVID-19 relief. Mobilising private capital will therefore be critical to recovery and unlocking net zero investment opportunities. Action will be needed across a [range](#) of fronts⁷:

- [Policy](#): Governments and financial regulators delivering durable long-term climate, finance and energy policy.⁸
- [Engagement](#): Collaboration between investors and companies on delivering net zero emissions strategies.
- [Disclosure](#): Organisations providing effective, investible climate-related financial disclosures.
- [Investment](#): Businesses and investors shifting investment practices.

In relation to policy action, the proposed Bill is a significant step towards delivering durable, long-term climate policy consistent with the objectives of the Paris Agreement and supporting a prosperous and resilient net zero emissions economy by 2050.

Specific comments on the Bill

Part of Bill	Overall comment	Notes
Part 2 — National climate change risk assessment	Support in principle	<p>Sophisticated investment tools are rapidly emerging to strengthen the resilience of infrastructure, the economy and our communities to the physical effects of climate change. Investment in building resilience is also recognised as far more cost effective than funding disaster recovery.</p> <p>However, Australia is far from understanding its systemic vulnerability to climate change, determining adaptation pathways and timing of adaptation actions required and the level of investment needed.</p> <p>Much of this investment will need to be financed by private capital.</p> <p>IGCC believes that a crucial first step, supported by the proposed National climate change risk assessment process under the Bill, is an up-to-date national assessment of infrastructure at risk to the effects of climate change and an indicative quantification of the investment required into adaptation, to facilitate private sector capital flows.</p> <p>However, we also note the Federal Government’s response to Recommendation 3.5 of the Royal Commission National Natural Disaster Risk Arrangements, which will see the establishment of a national resilience, relief and recovery agency. This and other responses to the Royal Commission will have a direct bearing on national resilience to climate change impacts.</p> <p>IGCC believes the Bill should be amended to reflect the Federal Government’s new commitments to ensure that climate change resilience measures are integrated across government in a coordinated fashion.</p>
Part 3 — National adaptation plan	Support in principle	<p>Governments and regulators can help unlock adaptation investment through coherent national plans and by facilitating better disclosure of climate-related financial risks.</p> <p>See point above on the Federal Government’s response to the Royal Commission National Natural Disaster Risk Arrangements.</p>
Part 4 and 5 — Emissions reduction targets and budgets	Supportive	<p>Long-term planning, supported by the proposed framework for emission reduction targets and budgets, can be used to define a country’s long-term competitive advantages and identify new economic opportunities.</p> <p>Also, without visibility of long-term goals, short-term decisions can create path dependency by locking in high emissions infrastructure.</p>

		<p>Institutional investors take a long-term view on investment and seek to manage risks across the whole economy and their portfolios. A clear and robust long-term strategy to manage the systemic economic risks of climate change and achieve net zero emissions would support economic growth, avoid unnecessary disruption, unlock investment opportunities, and support a just transition in communities impacted by shifting global and domestic markets.</p> <p>Specifically, for institutional investors a credible long-term strategy would support them in managing transition and physical risks and opportunities across their entire portfolios.</p> <p>Greater transparency around future policy direction enhances the efficient allocation of capital by supporting investors in better pricing current and future climate risks. It also reduces the risk that investments will be stranded as governments increase action through time or act abruptly with sharp policy interventions at a later date. Finally, it allows investors to identify investment opportunities across the economy and support new industries where Australia will have competitive advantage.</p>
Part 6 — Climate Change Commission	Supportive	<p>Both the Federal Government and Opposition support the Paris Agreement and achieving net zero emissions (albeit on an uncertain time frame under the government). Through the framework of the Paris Agreement and other external developments, such as shifting capital markets and technology cost reductions, governments will be continuing to lift their level ambition on climate change at least every five years.</p> <p>This reality increases the risk that the political system will continue to respond with a myriad of (in some cases very costly) policy interventions.</p> <p>The Climate Change Commission’s functions, as outlined in the proposed Bill, could greatly assist the government by carrying out detailed assessments and providing expert, independent advice. Credible, transparent and independent governance can play a role in avoiding this through countering vested interests and providing the Parliament with alternative policy options to achieve the national interest with the least amount of cost and disruption.</p> <p>By providing business and investors with clarity and confidence in government decision making business will be able to plan better as even if policy is changed, there is an established and independent process upon which policy decisions are made.</p>

Conclusion

Public and private sectors will need to work together to achieve a resilient net zero emissions economy. With trillions of dollars in capital under their management, investors will be critical to addressing the two challenges of accelerating the recovery from the COVID-19 pandemic and addressing climate change. This is particularly the case as governments will be more fiscally challenged after deploying immediate COVID-19 relief, and therefore unlocking private capital will be critical to both recovery and net zero investment opportunities.

The proposed Bill provides a responsible national framework, setting a clear goal for net zero emissions by 2050 and ensuring independent guidance on emissions reductions and building climate resilience. Credible, transparent and independent governance can play a critical role by providing business and investors with clarity and confidence in government decision making and support investment in addressing the critical challenge of climate change.

Investors do not see this as additional bureaucracy but as a robust governance framework that will both reduce the costs and increase the opportunities of responding to climate change.

IGCC supports the approach set out in the proposed Bill and will continue to work with governments, companies, investors and other stakeholders to pursue a policy response that delivers a prosperous and resilient net zero emissions economy by 2050.

¹ IGCC (2019): https://igcc.org.au/wp-content/uploads/2020/06/IGCC_Policy-Briefing_Fiduciary-Duty_FINAL_1.pdf

² RBA (2020): Financial Stability Review, October pp.43-44:
<https://www.rba.gov.au/publications/fsr/2020/oct/pdf/financial-stability-review-2020-10.pdf>

³ NGFS (2020): <https://www.ngfs.net/en/communique-de-presse/ngfs-publishes-first-set-climate-scenarios-forward-looking-climate-risks-assessment-alongside-user>

⁴ IGCC (2020): <https://igcc.org.au/adopting-paris-aligned-climate-plan-would-create-billions-of-dollars-in-fresh-australian-investment-opportunities/>

⁵ See stimulus data from *The Smith School Tracker of Recessionary Fiscal Stimulus* (O'Callaghan et al. 2020); Hepburn and O'Callaghan at Centre for Policy Development (2020): <https://cpd.org.au/wp-content/uploads/2020/09/COVID-19-fiscal-recovery-stimulus-to-win-on-economics-and-climate-Hepburn-and-OCallaghan-1.pdf>. For background on national emissions targets see Climate Action Tracker (2020): <https://climateactiontracker.org>. Trade data from DFAT (2020): <https://www.dfat.gov.au/about-us/publications/trade-investment/trade-at-a-glance/Pages/trade-at-a-glance>

⁶ IGCC (2020): <https://igcc.org.au/investor-survey-appetite-for-climate-investment-accelerating-diversifying-and-driving-engagement-with-companies/>

⁷ IGCC (2020): <https://igcc.org.au/adopting-paris-aligned-climate-plan-would-create-billions-of-dollars-in-fresh-australian-investment-opportunities/>

⁸ IGCC (2020): <https://igcc.org.au/investors-set-out-policy-priorities-to-limit-systemic-climate-risks/>