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New report: investors can play an important role in Australia's equitable transition to net zero

A new report from the Investor Group on Climate Change (IGCC) released today highlights the important role of investors in a just transition to net zero emissions for Australian communities and workers.

Empowering Communities: how investors can support an equitable transition to net zero details the opportunities and challenges for investors in helping ensure a just transition for those communities that are currently economically-tied to fossil fuel industries.

The net zero emissions transition is inevitable and represents a huge opportunity to create new jobs and boost economic growth, but only for those countries that get ahead of the curve, the report finds. Governments, companies, investors and all other stakeholders must act to minimise hardship for affected workers in fossil fuel sectors and communities where jobs will be lost, and ensure they are not overly disadvantaged or left behind.

“We know the transition is underway. It is foreseeable. It should therefore be manageable,” says Rebecca Mikula-Wright, IGCC Chief Executive Officer.

“Investors and governments have an opportunity to act today to prioritise a just and orderly transition if we want Australia to emerge a winner in the global race to net zero.”

Based on research by EY Australia, the report finds that the fossil fuel industry faces a range of inevitable domestic and international drivers which have the potential to adversely impact some communities. Unlocking new opportunities in line with a net zero carbon economy is crucial to ensure a just transition where affected workers and communities are prioritised and supported.

The report also emphasises failing to take meaningful action on climate change is anticipated to pose greater economic, social and environmental costs than the investment required to achieve net zero carbon emissions by 2050.

Investors have a critical role to play alongside insurers, lenders and other capital providers, in helping Australia's energy sector decarbonise. Government action and adequate policy signals will reduce uncertainty in capital markets and de-risk investment opportunities.

“A combination of climate action and social inclusion, which can create decent and quality jobs, net zero emissions and thriving communities, should be a priority for investors, the Federal Government and all other stakeholders,” says Rebecca.

The release of the report comes as the global transition to net zero emissions by 2050 becomes no longer a matter of if, but how it will be managed. With many of Australia's major trading partners making net zero commitments, including China, Japan and South Korea, Australia's coal and gas industries are exposed to a significant decline in demand.

The report provides an actionable toolkit for investors to support and benefit from a just transition by pursuing action in five areas:

1. **Investment strategy and capital allocation:** Investors to seek opportunities to allocate capital towards risk adjusted investment opportunities that support just transition outcomes
2. **Disclosure:** Disclose metrics according to the Task Force for Climate-related Financial Disclosure (TCFD) framework, including social and climate-related metrics
3. **Corporate engagement:** Implement and embed just transition principles and protocols that promote fair and decent work in directly owned assets and ongoing asset management
4. **Advocacy and partnerships:** Participate in collaborative initiatives to ensure just transition outcomes
5. **Impact measurement and evaluation:** Assess and monitor positive and negative outcomes for workers and communities associated with the transition to net zero emissions to identify risks, opportunities and just transition priorities

To date, over 161 global institutions with \$US10.2 trillion in assets under management have committed to support a just transition, through capital allocation, investment strategies and policy advocacy positioning.

As the world transitions to a net zero economy, Australia is at a critical juncture to reconsider its climate commitments ahead of COP26 this November.

IGCC produced this report with the support from investors Aware Super, Cbus, HESTA and IFM Investors. The report was prepared by EY in partnership the IGCC and input from a multi-sectoral stakeholder reference group.

Investor quotes

Deanne Stewart, CEO Aware Super

“Aware Super has set clear targets to support our goal of achieving net zero by 2050. Through this research, we have identified some critical opportunities for all investors to support a just transition for communities and companies to achieve this goal while continuing to deliver strong returns for our members.

“As investors it is essential we support communities and sectors that will be impacted by the transition to successfully prepare for the future. Many thousands of our members work and live in the communities who will need to face this challenge head on. These communities must not be left to simply fend for themselves. The time to act is now and everyone has a role to play in supporting communities and businesses to transition, including investors.

“Through our well-established ESG integration framework and direct engagement program we are well-placed to work with the companies we invest in to achieve an equitable transition and ensure we meet our Paris Agreement targets while delivering a more sustainable and prosperous economic future for all.”



Debby Blakey, CEO HESTA

“The world is at a critical juncture. We urgently need governments to commit to a timely and ordered transition to a low-carbon economy. Climate change represents a clear financial risk, directly impacting our members’ financial future and the communities where they deliver critical services.

“HESTA was the first major superannuation fund to announce a Climate Change Transition Plan that will see us drive down carbon in the investment portfolio and invest in transition opportunities. Leading investors around the world are taking similar steps.

“If we have a clear vision for decarbonising our economy, Australia alone has an incredible opportunity to attract global investment and draw on the more than \$3 trillion pool of superannuation savings. Investors stand ready to help power a green-led recovery from COVID-19 and a timely, just transition. But the time to act is now.

Mathew Nelson, Global Leader and Oceania’s Chief Sustainability Officer in the EY Climate Change and Sustainability Service team

“Achieving net zero emissions by 2050 is an environmental imperative, but it also makes good business sense to ensure we get the transition right. Without meaningful action to unlock the potential associated with a net zero emissions economy, many communities across Australia risk being left behind as the domestic and international economy moves to decarbonise electricity generation and other activities.

“The transition to net zero will require government, corporates and investors to work together to unlock the opportunities across our economy. It is incumbent on all stakeholders to smooth the path towards a net zero economy, otherwise jobs, shareholder capital and livelihoods will be needlessly put at risk.

“While effective action is not without challenges, investors can play a critical role in facilitating a just transition as allocators of capital, stewards of assets, and as influential voices in public policy. By focussing on disclosure and better accounting for social impacts, investors will also be well placed to maximise the long-term value of their portfolios as we move to net zero emissions.”

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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 the financial value of investments and the opportunities created by the transition to net zero emissions. 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.