# MAKING THE TRANSITION HAPPEN

INVESTMENT POLICY FOR A NET ZERO ECONOMY
SUMMARY SLIDES

SEPTEMBER 2022

Investor Group on Climate Change

# Unlocking Capital to Fund The Transition

Institutional investors have a fiduciary duty to deliver long-term returns for millions of people.

Unless climate change is addressed in an orderly and just way the long-term retirement savings of millions of Australians are under threat.

Institutional investors also have the capital to help finance the transition to a net zero, climate-resilient economy.

However, those capital allocation decisions are highly dependent on public policy.

Australia can be a prosperous and vibrant economy in a net zero world.

The nation has all the ingredients needed to keep and attract investment across the economy to achieve net zero emissions by 2050.

There are excellent export and industrial opportunities to be realised. Meanwhile, investments made now in climate change mitigation and resilience will have the greatest net benefit for investors' beneficiaries, the wider economy, society, and the environment those exist within.

### 2050 GOALS

- Limit Climate Damage
- Resilient to Physical Risk
- Finance Flows Aligned

### TRANSITION GOALS

- Accelerated
- Just
- Orderly

# Opportunity & Means

# Needs & Benefit

For IGCC's members, and the broader industry, 2022 is a remarkable moment when the opportunity and means to reshape the economic landscape has come together with business commitment and policy direction supporting climate-aligned investment.

IGCC's members manage $3.6 trillion within the Australian economy. We identified $131 billion of climate-positive, viable investments ready to be funded, and the IPCC says that by 2030 OECD countries in our region needs to deploy more than 14x current financing levels towards climate mitigation alone.

## INVESTORS' CAPITAL

$33 trillion IGCC Members Global AUM

$3.6 trillion IGCC Members Australian AUM

## INVESTOR'S COMMITMENT

More than 40% and growing have portfolio-wide net zero targets.

In 2020, investors with $919B AUM achieved:

- 37% reduction in portfolio emissions intensity
- 529 investee companies engaged on climate action
- $5.4B additional investment in climate solutions

## ECONOMIC BENEFIT

The IPCC has unequivocally found that investing now in climate solutions and resilience is the least-cost option.

Australia is also faced with significant opportunities; to be an energy exporter, to lead our region in decarbonisation, and create hundreds of thousands of infrastructure jobs.

## TRANSITION NEEDS

"$420 billion of new investment will be needed over the next 30 years, to position Australia's economy for growth in a low emissions world", according to NAB.

# DEVELOPMENT PROCESS

These policy priorities combine input and perspectives from IGCC's members.

They represent the investment, climate and economic expertise from the largest trustees, advisors, and managers of Australian's retirement savings.

Through the process we also consulted industry peak bodies, climate experts, and policy-makers.

## IGCC Policy Working Group. → Industry Body & Stakeholder Input → Peer Review. → Policy Priorities

**Industry Body & Stakeholder Input:** Including all major agencies and peak industry groups

**Peer Review.:** IGCC members and topic experts


IGCC acknowledges and thanks everyone who considered and provided input and feedback on this work, in particular IGCC's members:

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# THE POLICY PRIORITIES

INVESTORS HAVE RECOMMENDATIONS ACROSS FOUR COMPLEMENTARY GROUPS

## Systemic Policy Foundations

Policies to have systemic impact across the entire economy.

They include:

- Aligning the emissions targets to a 1.5˚C pathway.
- Promoting a just transition response to climate change.
- Establishing stable and reliable climate governance & advice.

## Unlocking Capital Flows

Policies to stimulate capital allocation away from climate risk and towards Australia's needs and opportunities.

They include:

- Carbon pricing using the safeguards mechanism.
- Implementing mandatory risk disclosure.
- Removing fossil fuel subsidies.

## Sector Pathways

Policies and targets to guide investment and the orderly decarbonisation of the critical sectors in Australia's economy.

They include:

- 1.5ºC Sector Goals and Policies.
- Orderly coal exit in electricity.
- Create demand for "green" products.
- Remove barriers to investment in pre-commercial technologies.

## Resilience to Physical Risk

Policies to protect assets and the economy from the direct and indirect physical impacts of the changing climate, including extreme weather and disrupted systems.

They include:

- National coordination to unlock private sector investment.
- Updating building codes and land-use plans.
- Developing the science and data that allows accurate and timely assessment of physical risk.
- Planning for managed retreat

Systemic Foundations.

# Orderly and just transition to 1.5°

**1.5°C:** The greatest net benefit to the economy can be achieved by early policy interventions to align national economic strategies to the objective of the Paris Agreement to limit average global warming to 1.5˚C. Targets should guide all national decision making.

**Orderly:** A clear, robust, and long-term legislative framework to manage the systemic economic risks and opportunities of climate change would support an orderly and just transition.

**Just:** To promote investment, social equity and maintain public support the cost and benefits of the transition need to shared equitability.

Refer to IGCC's full policy priorities document for more details on these recommendations.

**Recommendation One:**

Australia's Nationally Determined Contributions (NDC) under the Paris Agreement should be aligned with limiting average global warming to 1.5˚C.

**Recommendation Two:**

Establish a national climate change legislative framework that enshrines Australia's net zero by 2050 target, embeds a response to physical risk, ensures independent advice to the public and Parliament on key policy matters, and enshrine climate risk management in government.

**Recommendation Three:**

Establish concurrent national and regional transition authorities to support a just and orderly transition.

# Aligning finance flows to an orderly and just transition

**Price carbon:** The more carbon is explicitly priced, the more investment will flow to new zero emissions technologies and the more efficiently industry will be able to ensure economic and overall policy objectives are met.

**Mandatory climate risk disclosure:** Clear and comparable disclosure of information is one of the foundational building blocks of a well-functioning global and Australian financial system. Visible climate risks & opportunities create competitive advantage.

**Remove fossil fuel subsidies:** Fossil fuel subsidies exacerbate the systemic risks of climate change, by distorting the market and slowing the decarbonisation of key sectors.

Refer to IGCC's full policy priorities document for more details on these recommendations.

**Recommendation Four:**
Safeguard emissions baselines should be aligned with emissions and technology pathways consistent with limiting warming to 1.5˚C, and the sectoral goals outlined by the Climate Change Authority.

Settings should reflect which industries have clear future in an Australian net zero emissions economy, and which do not.

**Recommendation Five:**
Phase in a TCFD and ISSB aligned mandatory climate risk disclosure regime.

**Recommendation Six:**
Commit to phasing out all fossil fuel subsidies by 2025, with a process established in consultation with investors, business, and the broader community.

Sector-Specific Policies.

# 2030 and 2040 goal posts for all sectors

## Lowest cost approaches need sector-specific policy

Although national settings define Australia's overall direction, not all sectors or industry pathways will match the national pathway as sectors' climate constraints and opportunities differ.

For example, due to its zero-emissions technology readiness and importance in reducing emissions from other sectors through electrification, the electricity sector can a should decarbonise much faster than the national average

**Indicative 1.5°C sector goal could include:**

- **90% renewable generation by 2030**
- **Phase out of coal generation by 2035 and mid-merit gas generation by 2040**
- **75% of new vehicle sales are EV by 2030**

Refer to IGCC's full policy priorities document for more details on these recommendations.

**IGCC will be publishing a report on policy technology accelerators for institutional capital in Q4 2022.**

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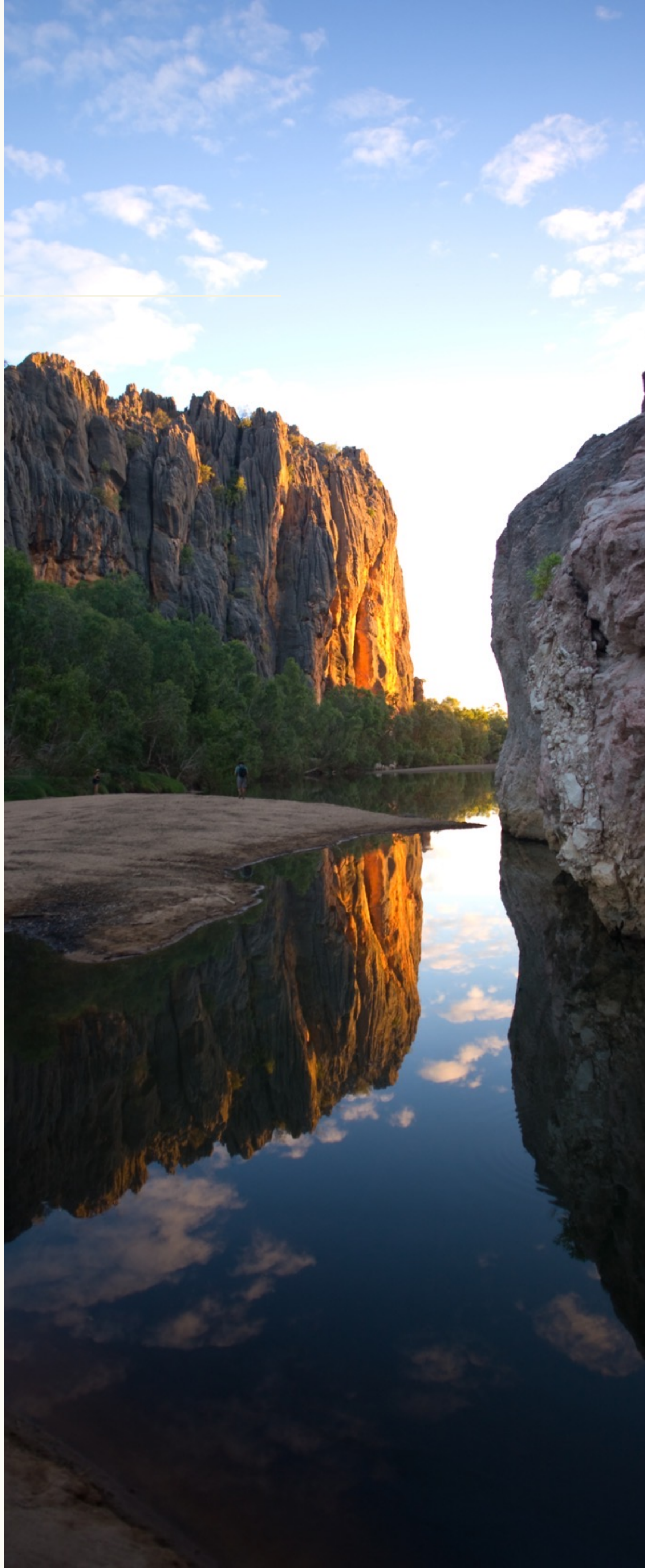
**Recommendation Seven:**
Based on advice from the Climate Change Authority, establish clear 2030, 2035 and 2040 policy goal posts for all sectors.

- implement a sector-wide policy to place an emissions reduction incentive across the electricity market that ensures the orderly and timely closure and replacement of coal-fired generation
- implement targeted policies to build domestic and global demand and consumption of low emissions products such as green hydrogen
- maximise the efficiency of infrastructure assets and support coordination and asset sharing arrangements that enable an energy transition
- ensure just transition considerations and robust environmental regulation are central to the policy making
- support private sector investment in new and pre-commercial technologies by ensuring enabling environments for large-scale investment exist and that the well-recognised barriers to institutional investment in zero and low emissions technologies are overcome



Building Resilience.

# Financing adaptation and resilience

The physical impacts of climate change will cost the Australian economy hundreds of billions of dollars in the coming decades.

Institutional investors are exposed to these impacts directly and indirectly.

For investors and governments, financing adaptation and other climate resilience is a necessity and an opportunity. Innovative financial mechanisms and public–private co-investments will be required to avoid the costs of climate change falling on vulnerable people and communities.

Policy needs to be specifically designed to enable institutional investors to align with and support the objectives and priorities outlined in Australia's existing National Recovery and Resiliency Agency National Action Plan  and National Climate Resilience and Adaptation Strategy.

Refer to IGCC's full policy priorities document for more details on these recommendations.

**Recommendation Eight:**
Amend the National Construction Code and other relevant standards to specifically include resilience to physical climate risk over building's lifetime.

**Recommendation Nine:**
National, state, territory, and local governments should collaboratively develop a consistent process to consider physical risk in land-use planning and make information publicly available. Managed retreat must be central to process.

**Recommendation Ten:**
Governments should provide targeted support to people negatively impacted by changed codes, standards, and land-use plans, including due to increased insurance premiums, decreased property values, and managed retreat

**Recommendation Eleven:**
The Federal Government should provide consistent, accurate, comprehensive, timely, and commercially available records of national physical climate risks, and fund adequate science to produce this data reliably.

**Recommendation Twelve:**
The Commonwealth should establish a standing advisory group with COAG members and the private sector with a core mandate to develop and drive a range of financial products, mandates, and co-investment opportunities to help co-found resilience and adaptation investment.

# Conclusions

Common themes across the policies outlined here include:

- Investors are and can deploy very large amounts of capital into climate solutions across the economy
- Climate change is a systematic threat and opportunity
- A just and equitable transition is central to all policy design
- Policy misalignment with 1.5 °C must be addressed
- The physical risks of climate are already damaging the economy and transformational adaptation measures are required

The policies and principles are a starting point for discussion, not the end, and IGCC hopes they make a positive contribution to ongoing policy decisions.

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## Disclaimer

Although the people listed on page 4, and the wider IGCC membership provided input, these policy priorities are IGCC's recommendations. Readers should not infer that any one IGCC member or group of members specifically endorses these recommendations. Various members may have particular views on none, one, or more of the recommendations, or the analysis presented herein.

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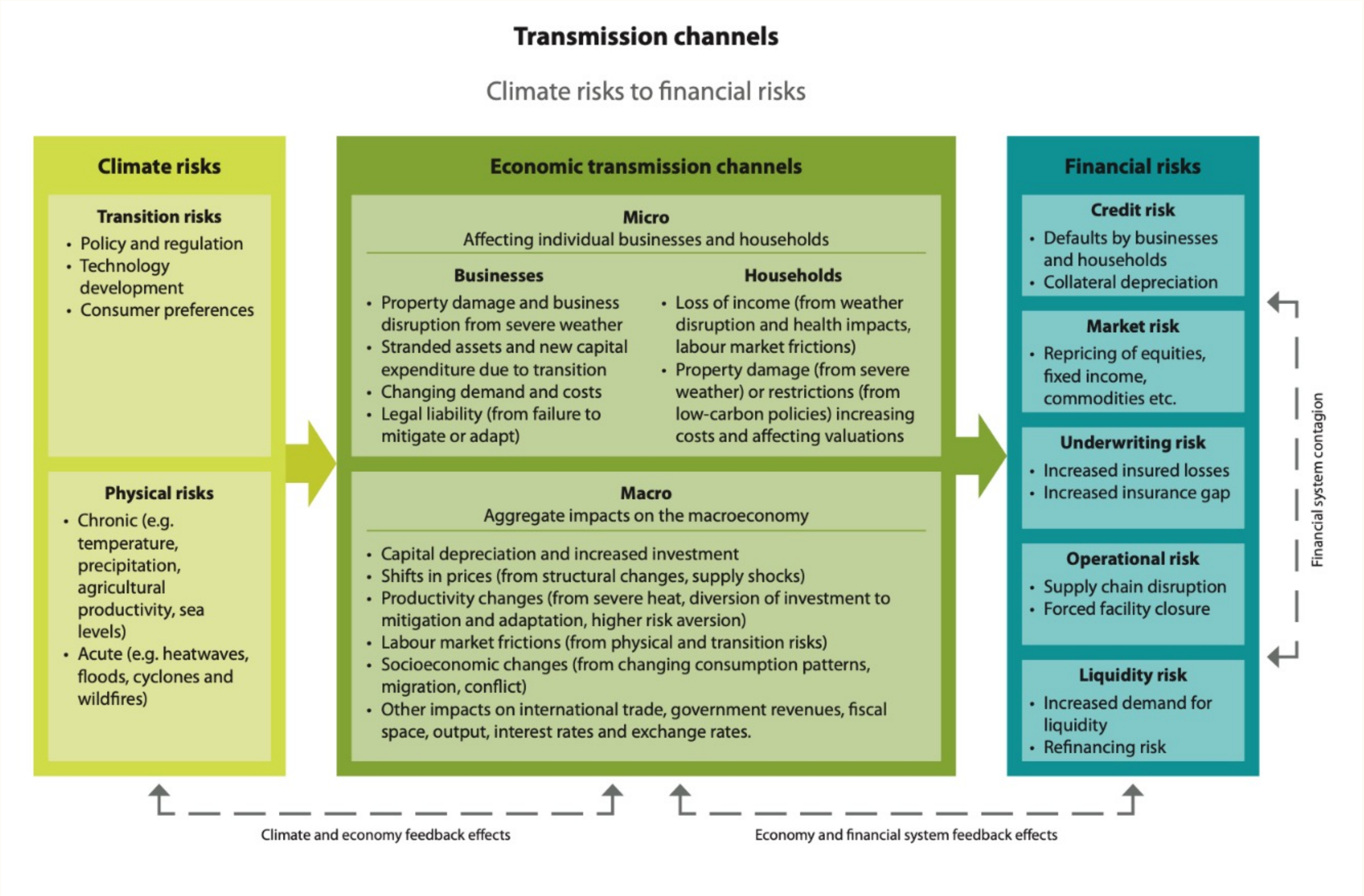
## Climate risks could affect the economy and financial system through a range of different transmission channels




Source: Network for Greening the Financial System

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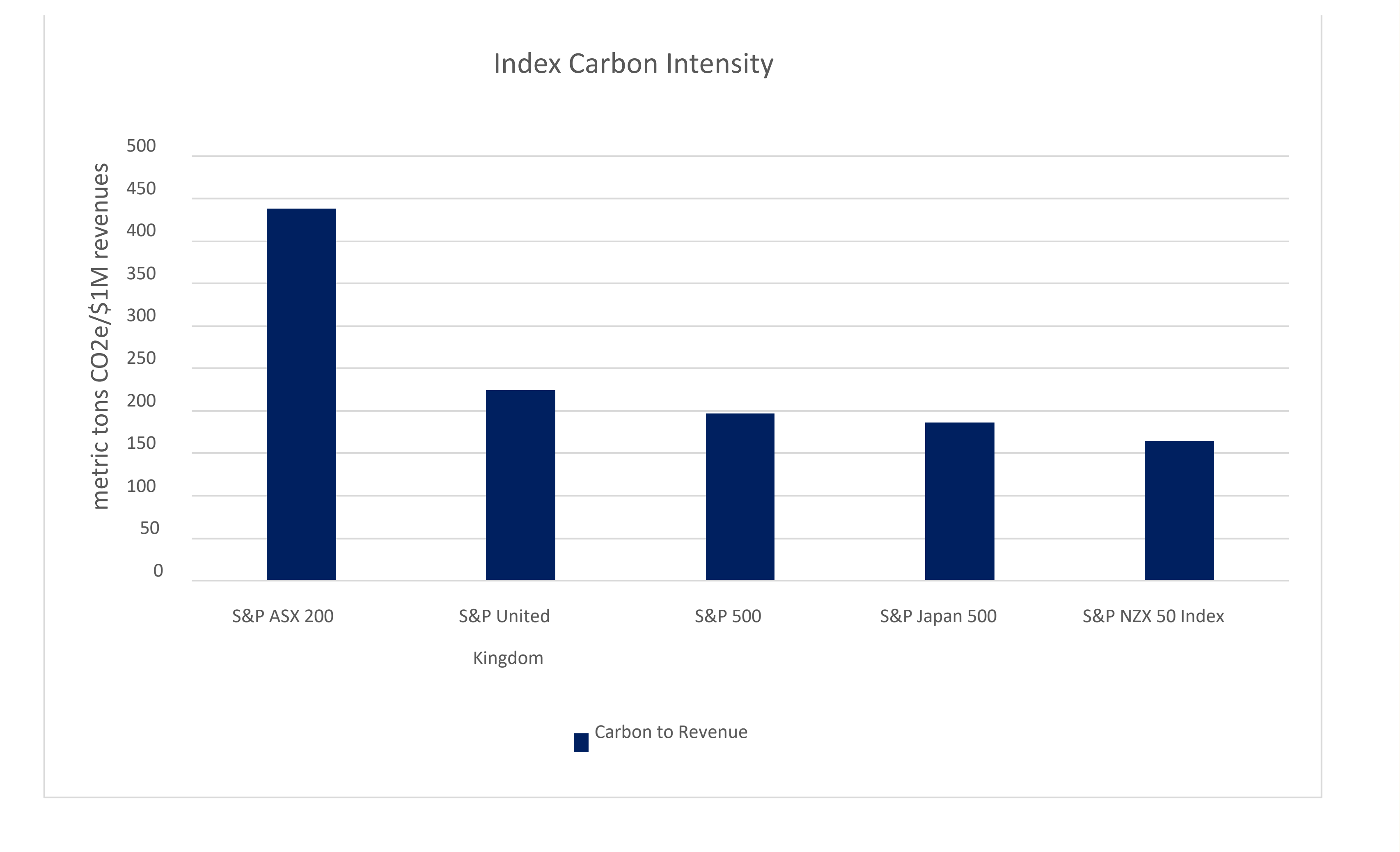
## Australia’s Unique Exposure and Opportunities

**Transition Risk:**

Investment in the ASX exposes investors to high carbon risks




**Physical risk:**

The IPCC has concluded that the scale and scope of compounding climate damages from around 2℃ of global warming put at ‘high risk’ the capacity of Australia’s institutions, organisations and systems ability to address the socio-economic damages of this level of climate change

Source: IPCC, Working Group 2, Australasia

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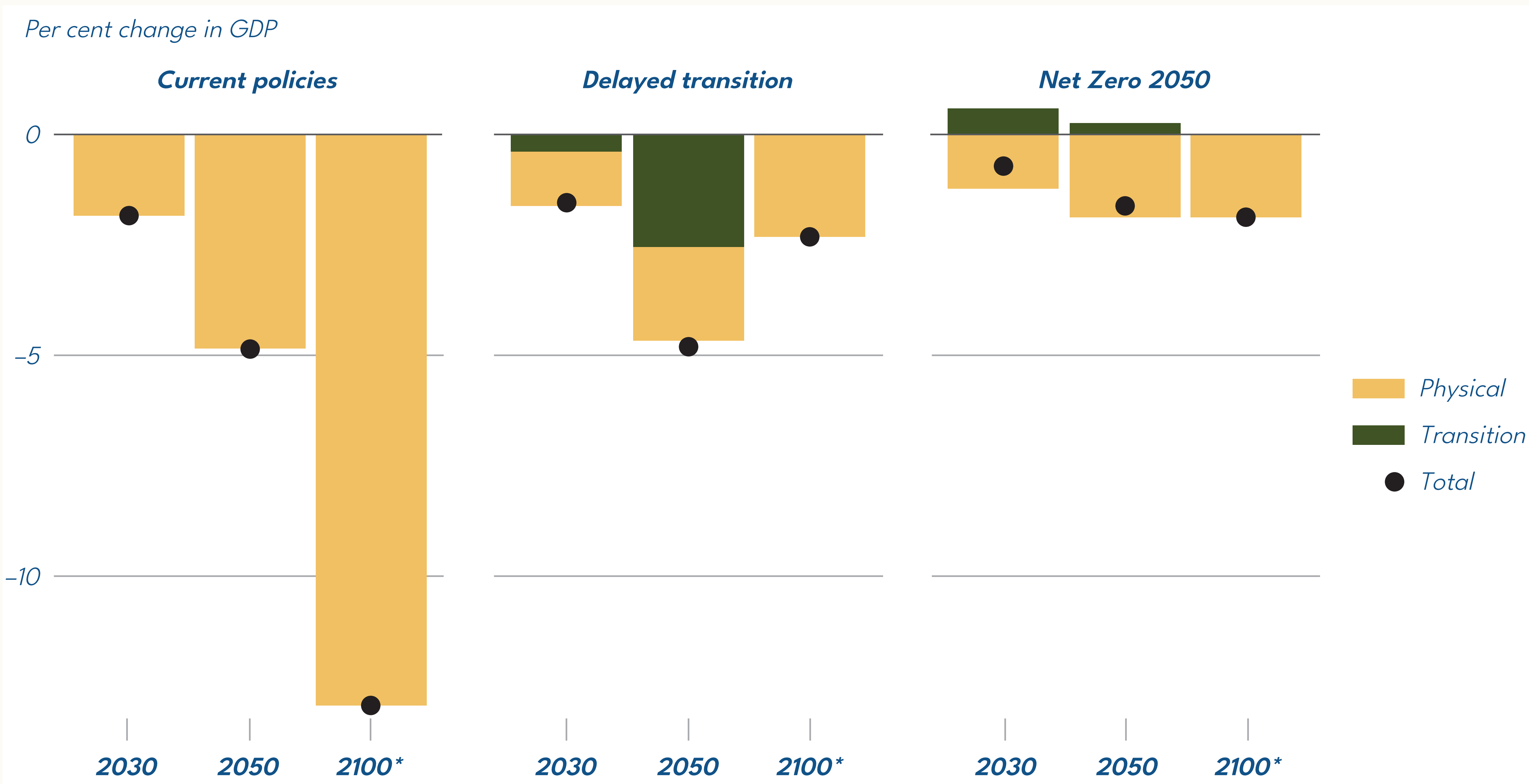
## Early action to address transition and physical risks delivers the greatest net benefit to long-term investment returns




Costs relative to no climate change: Source: Network for Greening the Financial System

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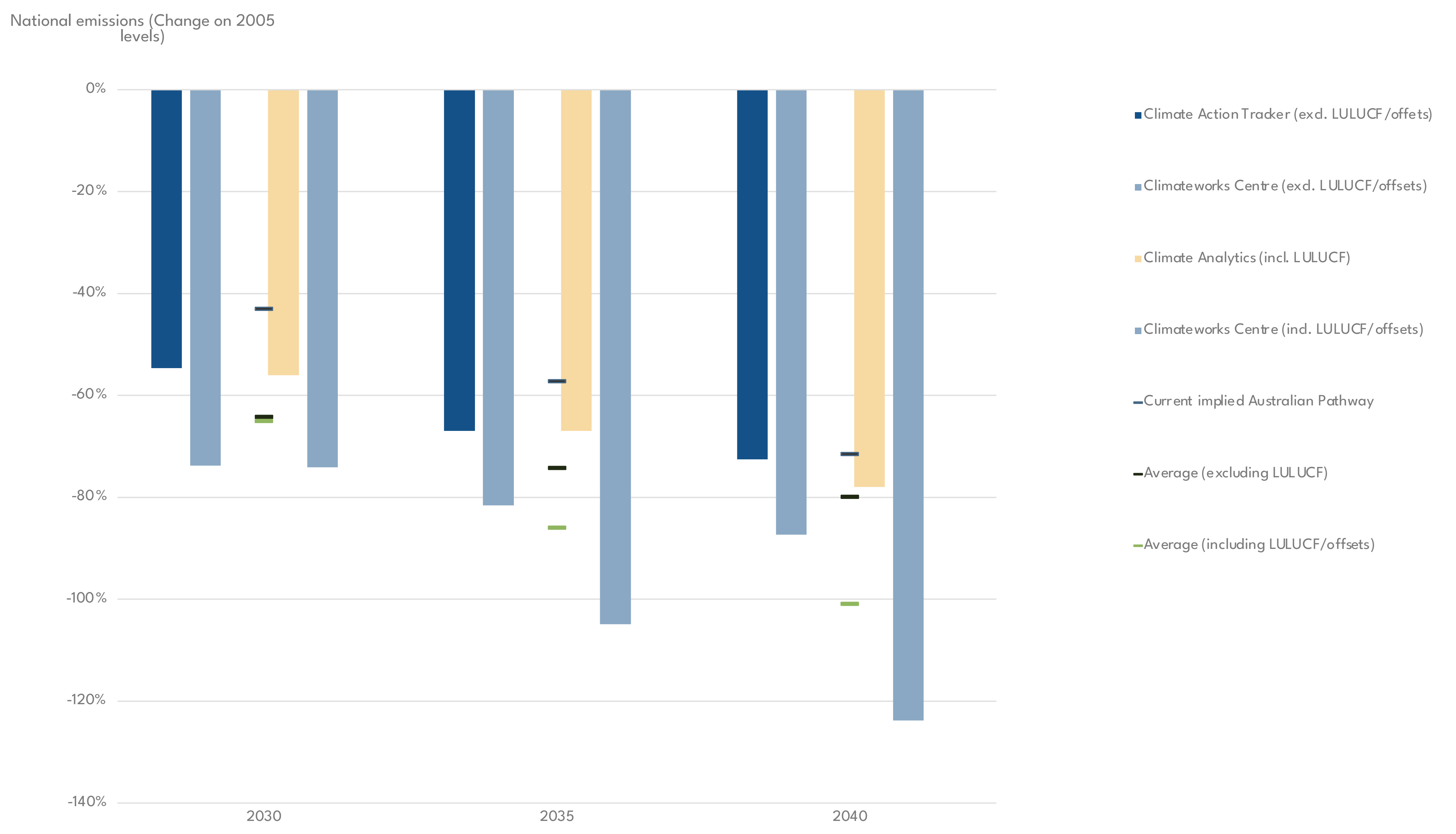
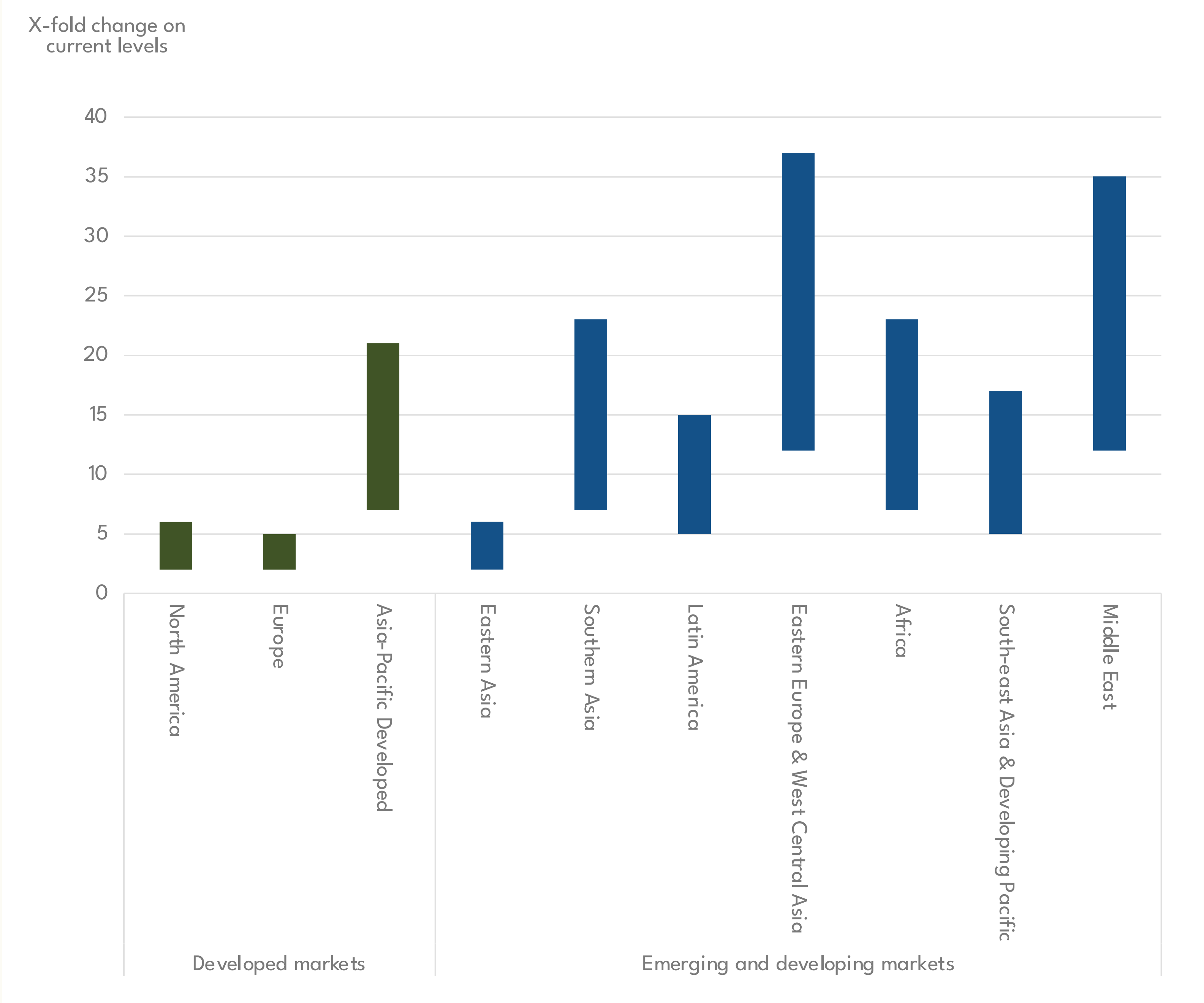
# 1.5℃-aligned emissions pathways for 2030, 2035 and 2040



## Progress towards aligning financial flows to a resilient and net zero emissions economy remains slow

This reflects a persistent misallocation of global capital and persistent and high levels of fossil fuel–related financing from private and public sources.

1.5℃-aligned finance gap by region (relative to today's levels). The bars show a range of estimates of the x-fold increases in annual climate finance need to meet Paris Agreement–aligned 2030 emissions targets.




Source: IPCC, Working Group 3, Finance and investment

Managed retreat matters to investors because policies to address unadaptable climate impacts will impact on the assets they own, including infrastructure and property, and on the systems and communities that support economic development.

There are real and significant barriers to managed retreat. People have valuable connections to place and community. Managed retreat requires coordination and learning. Existing vested interests lobby against retreat, and there may be short-term political incentives and questions of who will pay. Some barriers to managed retreat are outlined in the figure below.

## Managed Retreat: A Conversation and Plan We Need to Have

Managed retreat can be defined as 'purposeful, co-ordinated movement of people and assets out of harm's way'. Historically, managed retreat has occurred reactively in Australia after extreme events, such as the 2011 Grantham floods and the 2009 Black Saturday bushfires.