



Submission

Senate Inquiry on the National Energy Transition Authority Bill

December 2022

Introduction

The Investor Group on Climate Change (IGCC) is a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments. IGCC represents investors with total funds under management of more than \$3 trillion in Australia and New Zealand and \$30 trillion around the world.

Institutional investors have a fiduciary duty to millions of Australians to generate long-term returns that can be safely enjoyed in retirement. This can only be achieved by responsibly managing climate-related risks and the opportunities presented by the transition to a zero emissions economy.

Key Points

IGCC supports the bill and welcomes that the proposed functions will;

- Help attract public and private investment,
- Harmonise relevant laws across jurisdictions,
- Support affected communities and workers.

A broad interpretation of those functions will maximise investment and strengthen the adaptive capacity of Australian communities.

We suggest an expanded role for the National Transition Authority, including

- A structure to support regionally specific transition planning,
- Engagement with stakeholders in the development of advice,
- Development of national principles for a just transition,
- Providing advice on funding for affected regions.

These proposals are discussed below.

Support for the National Energy Transition Authority Bill

Australia has the potential to be a prosperous and vibrant economy in a net zero emissions world. The country has all the potential ingredients to attract investment, across the economy, to achieve net zero emissions by 2050. There are export opportunities which will be driven by increasing demand for existing and new products, including green steel and aluminium, green hydrogen and many raw materials critical to the energy transition.

While the transition to a net zero emissions economy offers an enormous opportunity to Australia, it also presents significant risk. Australia's economy is relatively emissions intensive and has higher carbon exposures than other major markets. In addition, a failure to implement strategies for a just transition with measurable outcomes would also erode public and investor confidence in national climate policy directions.

Promoting a Just Response to Climate Change

Australia's response to climate change will unavoidably involve significant change across most industries and regions. A key consideration for all stakeholders, including investors, is the need to guarantee social equity and a just transition for affected workers and communities throughout the response.

An additional consideration is the need to ensure a high level of social cohesion and broad, ongoing public support for climate action as these conditions are essential to investors' ability to create sustainable financial returns and overall benefits for beneficiaries.

Under the right conditions, investors will be able to contribute to a just and equitable transition, particularly via their stewardship and capital deployment. Decarbonising the energy sector provides an immediate example.

On one hand, there are incumbent sub-sectors, companies, workers and communities that are deeply exposed to the economic and social shocks that would accompany an unplanned and disorderly decline of fossil fuels. On the other hand, there is the potential for significant growth in mature renewable energy generation and storage, and emerging low and zero emissions technology, fuels and services. Investors can make large investments in these areas, which can accelerate the pace of the energy transition, helping to secure Australia's competitive edge as a global clean energy hub while providing new intellectual property and jobs.

Stable climate and energy change policy that has bipartisan support will create the conditions necessary for all stakeholders to participate in a just energy transition.

Comments on the National Energy Transition Authority Bill

IGCC has advocated to the implementation of a National Just Transition Authority (NTA) for many years.¹ As such, IGCC warmly welcomes the Senate inquiry into the proposed *National Energy Transition Authority Bill*.

The proposed independent statutory National Transition Authority will fill a critical coordination and planning gap in the energy transition.

¹IGCC, 2020, Policies for a resilient net zero emissions economy <<https://igcc.org.au/investors-set-out-policy-priorities-to-limit-systemic-climate-risks/>>; IGCC, 2022, Making the transition happen: Investment policy for a net zero emissions economy, <<https://igcc.org.au/investors-need-these-policies-to-fund-the-net-zero-transition/>>

IGCC specifically welcomes the proposed NTA functions to help attract new public and private investment to job-creating industries and social infrastructure in transitioning regions, to harmonise relevant laws across jurisdictions and sectors, and to ensure that robust support and opportunities are in place for affected communities and workers to benefit from the national energy transition.

IGCC encourages a broad interpretation of these functions, to capture the gamut of investment opportunities and innovation that can build a thriving zero emissions economy while strengthening the adaptive capacity, connectivity and wellbeing of Australian communities.

Opportunities to enhance impact

IGCC supports the proposed objects and functions of the NTA. Drawing on our experiences working with institutional investors and emissions-intensive corporates, IGCC also suggests some expanded functions that could help the NTA achieve its objectives.

1) Consider the role of Regional Transition Authorities

Locally relevant approaches will be crucial to successful transitions, as revealed by IGCC's extensive research and consultation with institutional investors, leading community organisations and Australian companies. IGCC's recently published report, *Empowering Communities: How investors can support an equitable transition to net zero*,² provides more detail and evidence for the importance of place-based approaches to transition planning.

Although IGCC recognises the need for national leadership and coordination to deliver an orderly and just transition, Regional Transition Authorities (RTAs) may be better placed to deliver place-based support to affected communities and workers. These RTAs could be established under the auspice of the NTA or could be established by relevant State and Territory governments and convened by the NTA for the purpose of shared learnings and coordination.

2) Expanded functions of the NTA

a. Stakeholder engagement to inform advice

IGCC suggests an expanded mandate, which would include conducting targeted stakeholder consultation to inform the development of the NTA's advice to the Minister, Commonwealth, State and local governments, and other relevant government bodies.

IGCC notes the expertise and experience developed by diverse actors—including local non-governmental organisations, investors, unions, and companies—in relation to the NTA's objectives.

This includes place-based approaches to regional development and economic diversification, managing transitioning workforces, and establishing finance mechanisms that can attract significant additional private investment in affected regions.

IGCC would welcome an opportunity to work with the NTA, including on the development of public-private innovative financing mechanisms that support the growth of renewable electricity generation projects, zero emissions industrial precincts, and other critical social and real infrastructure in affected regions.

² IGCC, 2021, *Empowering Communities: How investors can support an equitable transition to net zero*, <https://igcc.org.au/wp-content/uploads/2021/07/IGCC-Investors-role-in-an-Equitable-Transition-to-net-zero-emissions_FINAL-150720211-copy.pdf>

b. Develop national principles for a Just Transition

The NTA would be well placed to coordinate the development of national principles for a just transition that are appropriate in Australia's social and economic context and enhance the NTA's coordination efforts in affected regions and sectors.

A just transition is a relatively new area of practice for companies and investors, lacking in the robust and increasingly sector-specific standards that exist for other elements of decarbonising the global economy.

IGCC has witnessed the benefit of agreed common principles and standards as part of our work to drive Paris-aligned emission reduction targets. For example, IGCC implements the Climate Action 100+ (CA100+) initiative in Australia, which coordinates engagement with heavy emitting companies. A key benefit of this initiative is delivered through the CA100+ Net Zero Company Benchmark (CA100 Benchmark), which assesses focus companies against ten (10) climate-related criteria. Robust standards are key to Benchmark, providing transparent and comparable assessments to inform investor engagement with focus companies.

National Principles for a just transition may be able to be based on The International Labor Organisation's *Guidelines for a just transition towards environmentally sustainable economies and societies for all*³ ("ILO Guidelines"). The ILO Guidelines include foundational principles against which companies are currently assessed under the CA100 Benchmark. This includes requirements for:

- social dialogue between affected workers, their representatives, government agencies and broader communities
- respecting, promoting and realising workers' rights, and
- efforts to create new jobs in low or zero-carbon industries in affected regions.

The NTA's principles should be grounded in the ILO's Guidelines and reflect input from relevant stakeholders, including affected communities, companies, unions, investors, and government agencies.

These principles can help ensure a shared understanding between the diverse actors that will be involved in a delivering a just transition. These principles could also be integrated in other climate-related regulations and policies, for example, as part of a mandatory climate-related risk disclosure framework.

c. Advise on direct funding for affected regions

IGCC welcomes the NTA's proposed function of helping to attract new public and private investment in affected regions. In addition to identifying and providing advice on appropriate investment models for electricity generation projects and new industries, there should also be a role for the NTA to provide public advice on to the Parliament on the direct Federal Government funding to appropriate projects that support social, economic and/or environmental resilience or development in affected regions.

³ ILO, 2015, Guidelines for a just transition towards environmentally sustainable economies and societies for all <www.ilo.org/wcmsp5/groups/public/@ed_emp/@emp_ent/documents/publication/wcms_432859.pdf>

Many of IGCC's members are universal owners on behalf of Australian people. This means that climate-related transition risks cannot be divested away from, and institutional investors have a responsibility to manage their investment portfolios in ways that reduce climate-related risks and capture opportunities associated with the transition to a zero emissions economy.

The proposed NTA will play a critical role in enabling institutional investors to fulfil these responsibilities as active partners.