



Investor
Group on
Climate
Change

Submission:

Future Gas Strategy

November 2023

Introduction

The Investor Group on Climate Change (IGCC) welcomes the opportunity to make a submission to the Australian Government's Future of Gas Strategy. 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 over \$3 trillion in Australia and New Zealand, and \$30 trillion globally.

As the long-term custodians of trillions of dollars in retirement funds, investors have a fiduciary duty to deliver long-term returns for their beneficiaries that are commensurate with the level of risk taken. Due to the systemic nature of climate change, unless it is addressed in an orderly and just way, the retirement savings of millions of Australians are under threat.

Core comments on the strategy

The Future Gas Strategy should be embedded within the Australian Government's Net Zero 2050 strategy and sectoral decarbonisation plans.

Gas represents around 21% of Australia's emissions. IGCC commissioned analysis of Australian gas demand found that the industry faces extremely high stranded asset risks, particularly post-2030,¹ and emissions increases in this sector mean other parts of the economy will need to reduce emissions faster. To maintain and attract capital for Australia's transition to net zero emissions, actions in different sectors must add up to and be consistent with the Government's stated policy objective of limiting climate change damages above 1.5°C.² Unless the Future Gas Strategy is aligned with this objective, and embedded within a credible set of sector decarbonisation plans, risks to investments will increase.

Fossil fuel strategies should avoid policy misalignment and confusing market signals.

Australia has ratified the Paris Agreement and natural gas will need to be phased out with other fossil fuels to meet the objectives of this Treaty. Government support for significant expansion of gas would, on one hand, indicate that it supports increasing global emissions, while on the other, it supports significant reductions in emissions under the Paris Agreement. Both cannot be

¹ <https://igcc.org.au/wp-content/uploads/2022/04/IGCC-Changing-pathways-for-Australian-gas-FINAL.pdf>

² https://igcc.org.au/wp-content/uploads/2023/10/IGCC-Sector-Pathways-Report_2023.pdf

true. Australia's fossil fuel phase out strategies should be aligned with limiting temperature rise to 1.5°C (with limited or low overshoot).

Sector decarbonisation plans should deliver least-cost outcomes for the overall economy.

To support a least-cost, just and orderly transition to net zero emissions, as part of the following year's sectoral decarbonisation planning process, the Government should consider:

- Setting a clear deadline for gas phase out in the Australian economy, in line with the Government's policy of limiting climate damages above 1.5°C. Domestic use by sub-sector and for export should be set separately, with exports being considered conservatively. These long-term goals will support investment in the transition away from gas and give communities and our trading partners visibility of long-term industry development goals.

Sector decarbonisation plans, for example, should recognise that industrial gas consumers experience more barriers to decarbonising than those connected to the grids³. Australia's emissions budget could be more pragmatically spent on industrial gas consumption while solutions are developed, supported by rapid residential and commercial electrification. The Future Gas Strategy should consider least-cost plans for industrial users to transition from gas, including Government leading consultation for replacing existing shared gas infrastructure.

- Not providing subsidies to the fossil fuel industries such as for (energy sector) Carbon Capture and Storage, and blue hydrogen. The Safeguard Mechanism already provides incentive and support for Australia's top emitters seeking to undertake decarbonisation projects. Fossil fuel subsidies exacerbate the systemic risks of climate change by distorting the market and slowing the decarbonisation of key sectors. For essential hard-to-abate industries, there may be the case where CCS is the only way to decarbonise; in those cases, government support may be justifiable.
- Focusing Government resources on supporting and diversifying the economies of communities impacted by the transition away from fossil fuels and towards industries that have a long-term future in the Australian and global economy (e.g. green hydrogen).

³<https://www.energy.gov.au/sites/default/files/Australian%20Energy%20Statistics%202022%20Energy%20Update%20Report.pdf>

IGCC recently launched the “Investing in Australia’s Vital Regions” paper,⁴ wherein communities built around emissions-intensive industries were interviewed on their needs during the transition. The paper recommends that capital is needed to:

- establish green export industries, from climate technology to value-added materials;
- develop critical multi-user infrastructure, including renewable energy hubs, freight and ports;
- decarbonise essential emissions-intensive industries, including electricity generation, manufacturing, critical minerals mining and agriculture;
- strengthen key emissions-neutral sectors, such as tourism, education and health care, and
- ensure that the regional communities that host major industries flourish, with access to the social infrastructure and services they need and support to adapt to worsening climate damage.

A place-based emphasis on suppliers and services for new infrastructure will be a significant feature of workforce retention for these communities. Government will play a crucial role in aggregating community-scale projects so that they fit the profiles large investors seek.

- Exploring mechanisms in approvals processes that fast track “climate-friendly” projects, create investment clarity around approval process, and ensure robust consideration of community and environmental impacts. This could, for example, include a climate trigger in the Government’s upcoming reforms of the Environment Protection and Biodiversity Conservation Act.

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⁴ https://igcc.org.au/wp-content/uploads/2023/10/IGCC-Investing-in-Australias-Vital-Regions_Report_2023_online.pdf