



Investor
Group on
Climate
Change

Submission:

**Climate Active: program direction
consultation**

December 2023

Introduction

The Investor Group on Climate Change (IGCC) welcomes the opportunity to make a submission on the direction of the Australian Government's Climate Active program. 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 proposed reforms

IGCC welcomes the objectives of proposed reforms to the Climate Active program and its certification settings, which aim to set a credible benchmark for voluntary climate action consistent with contemporary expectations.

The Climate Active program has inspired voluntary climate action amongst Australian businesses and organisations for over a decade, but should be updated to reflect the latest science on climate change and investor and community expectations of industry and corporate organisations.

IGCC agrees with the proposal to discontinue the term 'carbon neutral' to describe the certified claim, and supports updates to the program that place an emphasis on emissions reductions over carbon offsetting. This aligns with global expectations and priorities for corporate decarbonisation. Rather than measures that rely primarily on offsets to achieve a state of 'carbon neutrality', company investor and stakeholder expectations now prioritise the implementation of credible decarbonisation strategies aligned with limiting global temperature rise to 1.5°C.

Climate Active should play a key enabling role to encourage climate action for all types and sizes of businesses and organisations, whilst being consistent with Government climate policy and regulatory expectations

An Australian Government operated program to certify voluntary climate action will provide value by clarifying minimum expectations for Australian companies to engage in the climate transition in a way that supports Australia's national decarbonisation targets and the global transition to a Net Zero economy by 2050.

The Climate Active program could play an important supporting and capacity building role for organisations seeking to voluntarily report against new climate-related disclosure standards or to supply information to entities in their value chain. We encourage Climate Active to consider these opportunities in consultation with Treasury and businesses in the design of its reforms.

To promote longevity and the integrity of Climate Active, it is also important to take account of relevant policy and regulatory expectations, for example regarding climate-related disclosures and greenwashing concerns.

The program should continue to incentivise ambitious voluntary climate action from organisations of all types and size, including those based in regional and remote areas. A tiered approach that acknowledges the range of capabilities and available resources amongst current and aspiring program participants, and that can facilitate participation by accommodating these differences, is a proposal that warrants further exploration.

Requiring emissions reduction strategies that include long-term and interim emissions targets and align with the 1.5 degree Paris Agreement goal will improve consistency with global standards and support businesses to achieve credible action.

IGCC agrees that all businesses and organisations participating in Climate Active should be required to publish an emissions reduction strategy that includes a near-term and long-term emissions reduction target. These targets should align with the 1.5°C Paris Agreement goal, not Australia's national decarbonisation target as proposed. By mandating this expectation, Climate Active would be consistent with global corporate decarbonisation target setting standards, such as those published by the Science Based Targets initiative¹. Consistency with these global standards avoids the need for companies to develop and track progress against multiple sets of targets. This approach would also mitigate the need for companies to revise strategies and goals as national targets change.

¹ <https://sciencebasedtargets.org>

Alongside consultation on Climate Active program reforms, the Australian Treasury has announced plans to support credible transition planning under its Sustainable Finance Strategy, building on climate-related disclosure requirements for large businesses. We encourage Climate Active to engage with Treasury to promote synergies between these initiatives.

IGGC agrees that company transition plans should be based on a mitigation hierarchy that prioritises avoiding emissions; then reducing emissions through further direct mitigation actions; and finally offsetting any residual emissions. IGGC is also supportive of proposals outlined to raise the level of climate ambition and action required under the program.

The proposal to provide additional industry targeted guidance, particularly for scope 3 emissions (including financed emissions) is aligned with IGGC's submission to Treasury on climate-related financial disclosure². These resources should reference and aim to clarify but not deviate from the global standards and guidance typically referenced by companies to define boundaries and quantify emissions, namely those published by the Greenhouse Gas Protocol³ and, in the case of financial institutions, the Partnership for Carbon Accounting Financials⁴. Mandating categories of scope 3 emission that are consistently material for particular sectors would significantly enhance the credibility of the program, although a phased approach to implementation would be sympathetic to the capability of program members to accommodate this requirement.

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² <https://igcc.org.au/wp-content/uploads/2023/07/FINAL-IGCC-Submission-2nd-Consult-Climate-risk-disclosures-in-Aus.pdf>

³ <https://ghgprotocol.org>

⁴ <https://carbonaccountingfinancials.com>