

# Climate Policy Improves Investment Confidence – Australia’s institutional capital market

Policy brief, March 2024

## About IGCC

The Investor Group on Climate Change (IGCC) has over 100 members. They are our country’s largest superannuation and retail funds, specialist investors and advisory groups, and their beneficiaries include more than 14.8 million Australians, and millions more New Zealanders. Our members manage more than \$35 trillion in global Assets Under Management, and \$5 trillion AUM on behalf of local investors.

## Summary

- Investors are more upbeat and confident about Australian climate policy. Policy and regulatory uncertainty as a barrier to clean economy investment in Australia has fallen dramatically. In 2021, 7 out of 10 investors cited policy and regulatory uncertainty as a key barrier in investment. In 2023, that has dropped to just 4 out of 10.
- A key policy priority for investors will be Government’s sector by sector decarbonisation plans (covering energy, transport, resources, and others), and its 2035 emissions target.
- Investors’ emerging policy priorities include;
  - The Government establishing clear timelines for the phase out of coal, oil and gas,
  - Clear policies to build resilience and adapt to the physical damages of climate change.
- Development of mandatory climate-related disclosures is also gaining increased focus with the implementation of legislated requirements in Australia and around the world over the next 12 months.
- On possible climate solutions, investors see renewable energy as delivering the best long term financial returns. Around 5 in 10 investors are currently exploring opportunities to invest in renewable energy.
- Investors are also seeking investment opportunities in a broad range of technologies and options, notably including many where Australia has comparative advantage, including critical minerals and green hydrogen.
- Nuclear energy is last on the list of technologies that investors are seeking exposure too. Less than 1 in 10 investors are exploring new investments in nuclear energy.

## **Background: Australia's \$37 trillion institutional capital market climate survey**

Since 2017, IGCC has undertaken an annual study to gather investor insights into how the private sector is defining and investing in climate aligned opportunities, and the barriers they face in increasing investment.

As long-term investors with a legal duty to act in the best financial interests of beneficiaries, super funds and investment managers are required to consider climate risks and opportunities in their investment decisions. They have determined that a fast and fair transition to net zero emissions will deliver the best long-term returns to their beneficiaries, such as super fund holders.

The survey covers the vast majority of Australia's institutional capital market. This year's survey received responses from 22 asset owners and 41 asset managers and provides the collective views and progress of investors with funds representing more than A\$37 trillion AUM globally and invested on behalf of 15 million beneficiaries in Australia.

Under the right policy conditions, private investors can deploy significant capital to help achieve the national objectives such as driving a just transition to net zero emissions, building resilience to the physical impacts of climate change, and supporting energy security and industry development.

Government policy provides the signals and incentives that direct the flow of capital across the global economy. Credible, investible and durable policy frameworks put in place today will not only support strong investor and beneficiary returns into the future, but also enhance Australia's economic competitiveness and help attract international capital.

IGCC will release the full results of the 2023 Net Zero Survey later in 2024. This briefing focuses on the climate change policy aspects of the survey.

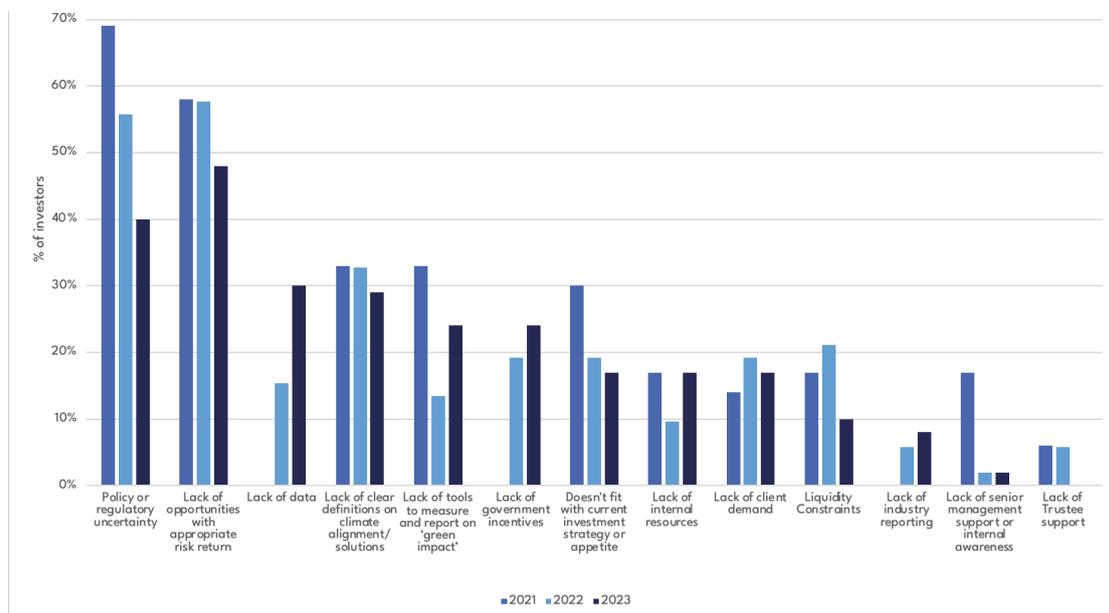
## Key policy findings

### 1. Policy and regulator uncertainty as a barrier to investment in Australia has fallen dramatically.

Since the inception of the survey policy and regulatory uncertainty on climate change policy in Australia has been a key barrier to investment in Australia.<sup>1</sup> As investors are seeking returns over multiple decades, super funds and investment managers need long term policy visibility and stability to invest with confidence in Australia.

In 2021, 7 out of 10 investors cited policy and regulatory uncertainty as a key barrier in investment. In 2023, this decreased to 4 out of 10 investors citing policy as a barrier (Figure 1), a 30-point drop in two years. This improvement in market sentiment is driven by the significant policy progress governments have made over the last two years.<sup>2</sup>

Figure 1: Barriers to climate solution investments in Australia: 2021-23. Respondents could give more than one response.



<sup>1</sup> For example, IGCC (2022), [Recent Climate Policy Improves Investment Environment – New IGCC Data](#);

<sup>2</sup> [Summary of recent policy changes available at Climate Change Authority \(2023\). Annual Progress Advice](#);

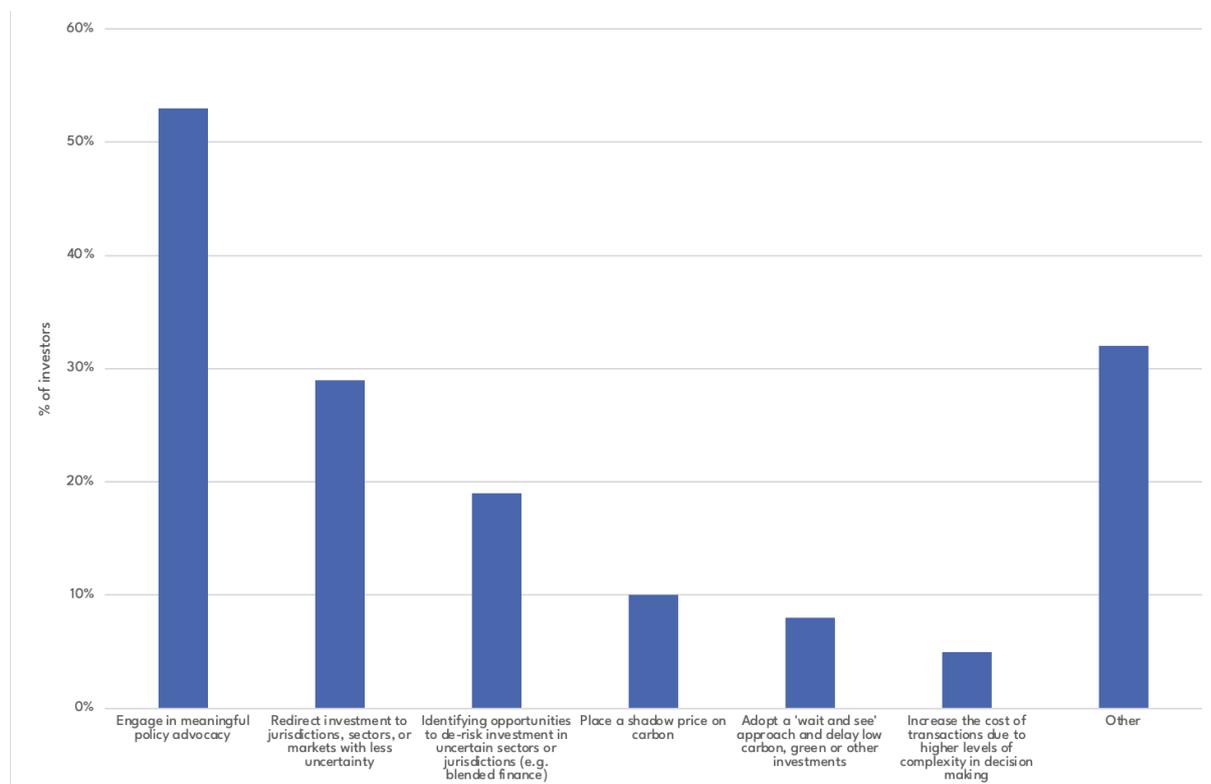
## 2. Continued policy reforms will be required to deliver strong returns for retirement savings and ensure Australia remains an attractive investment destination for global capital.

Significant policy progress has been made in recent years, but ongoing efforts are required. Around a third of investors report that they are investing in other markets to manage existing policy risks in Australia (Figure 2).

The urgency of a fast and fair policy response to climate change has been reinforced by other economies, from giants like the USA, South Korea, Japan and Europe to peers like Canada, that have enacted substantial financial incentives and a variety of other supportive policies to drive investment in new green industries. Global capital, including Australian investors, are following these policies.

To avoid ongoing capital flight, Australia will need globally competitive, proportional, and smartly targeted incentives of our own, designed to suit our economic strengths and values.

*Figure 2: Investor response to policy and regulatory uncertainty. Respondents could give more than one response.*

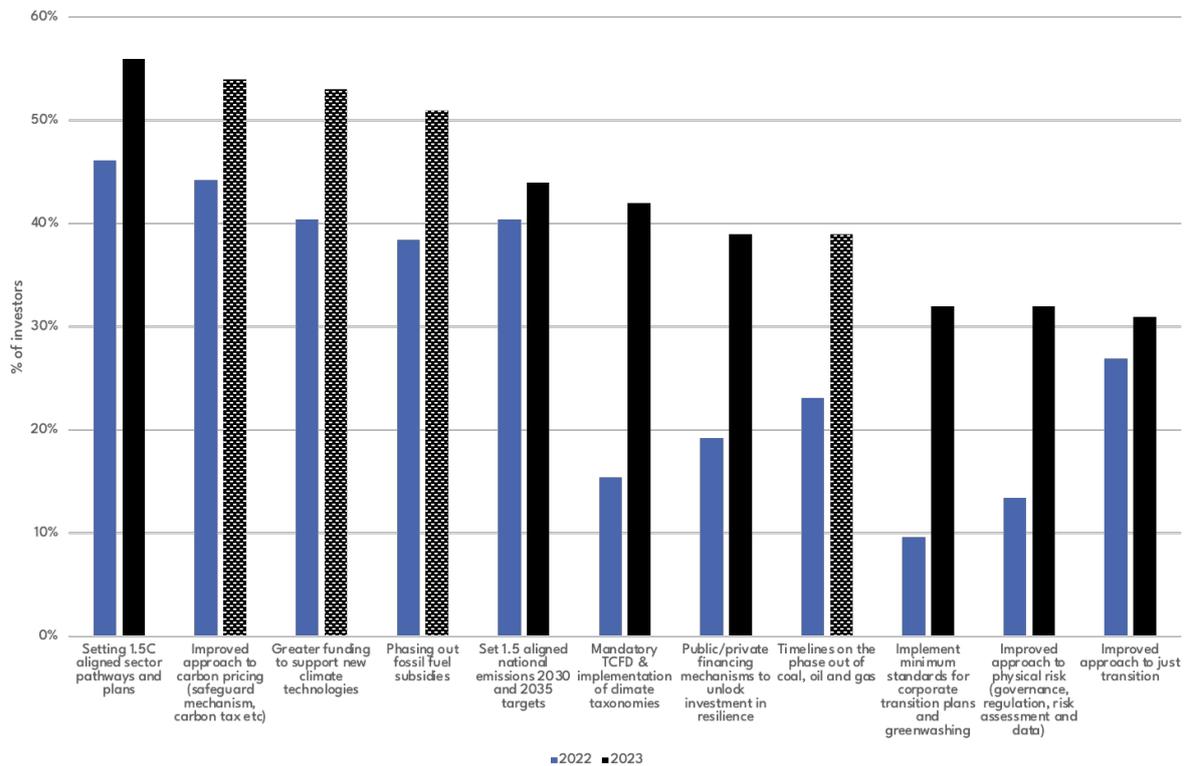


### 3. A key policy focus in 2024 for investors will be the development of sector-by-sector decarbonisation plans and a new national 2035 target.

Sector decarbonisation plans, and policies that can flow from these plans, remain the highest priority for investors in 2024. Priority policy reforms identified by investors are:

- 1.5°C sector-by-sector decarbonisation plans (56%);
- policies that can be addressed by these decarbonisation plans for example, improved carbon pricing through the Safeguard Mechanism (54%), funding support for new technology); and
- a 1.5°C aligned national 2035 target.

Figure 3: Investor policy priorities for Government: 2022-23. Shaded 2023 results are policies that can be addressed through the development of sector-by-sector decarbonisation plans. Respondents could give more than one response.



Australian policymakers are listening to investor needs for clear, well planned, and credible sector plans.<sup>3</sup> In late 2023, IGCC published a detailed discussion paper on what investors need from sector decarbonisation plans.<sup>4</sup> In December 2023 investors, banks and the Government agreed on a series of principles to guide sector decarbonisation plans that are currently under development. The principles agreed include that sector decarbonisation plans should be credible, clear and comprehensive, promote stability, outcome oriented and drive practical action, coordinated and integrated, and dynamic.<sup>5</sup>

<sup>3</sup> Bowen (2023): [Address to The Clean Energy Council](#)

<sup>4</sup> IGCC (2023), [Decarbonisation investment solutions for sectors: A discussion paper on Sector Transition Plans and their importance to investors:](#)

<sup>5</sup> Chalmers, Bowen, Conroy (2023): [Investor Roundtable to help modernise our economy and maximise our advantages](#)

## 4. Emerging policy priorities

The biggest changes in Government policy priorities, deemed by investors, over the last year are (Figure 4, next page):

- Implementing mandatory climate related disclosures (over 25-point increase).  
This is unsurprising given the governments globally are progressing towards legislating climate related disclosures to manage risk and support clean investment opportunities. Related to this, there has been a significant increase in the need for minimum standards for corporate climate transition plans<sup>6</sup> to support continued investment in companies, avoid greenwashing, and to align Australian policy with global moves in this direction.
- Policies to address the physical impacts of climate change and support adaptation (around a 20-point increase).  
Climate is already costing the economy billions of dollars each year. The latest scenarios by a group of 127 central banks and financial supervisors<sup>7</sup> highlight that even if warming is limited to 1.5°C the costs of physical climate impacts to the global economy are (conservatively) five times higher than the cost of reducing emissions and around double the cost of other global events like COVID-19. Under current global policies, economic costs of climate change are more than 10 times the cost of a 1.5°C emissions pathway.

**Proactively overcoming investment barriers in adaptation and resilience is crucial to mitigating these costs.<sup>8</sup> The upcoming National Adaptation Plan presents a pivotal opportunity to drive private finance into urgent adaptation and resilience for Australia.**

- Timelines for the phase out of fossil fuels (over 20-point increase). As a major coal and gas exporter, the Australian economy is highly exposed to the accelerating transition away from fossil fuels.<sup>9</sup> The overall Australian market has twice the emissions intensity of other major markets.<sup>10</sup> This presents investors with a major challenge as they would like to remain invested in the Australian economy, but if Australia does not join the global transition away from fossil fuels, investors will be forced to invest in other markets to protect and enhance the value of the long-term returns for their beneficiaries.

Clear timelines for the phase out of fossil fuels by 2050 will help investors manage transition risks and remain invested in the Australian economy.

Note, the survey was undertaken before the agreement at COP28 where all countries agreed to transition out of fossil fuels and accelerate investment in renewable energy, energy efficiency and low emissions transport.<sup>11</sup>

<sup>6</sup> CDP, IGCC, PRI (2023), Joint Investor Statement: [Corporate climate transition plans are an essential building block on global reporting baseline](#).

<sup>7</sup> NGFS (2023), [NGFS publishes latest long-term climate macro-financial scenarios for climate risks assessment](#).

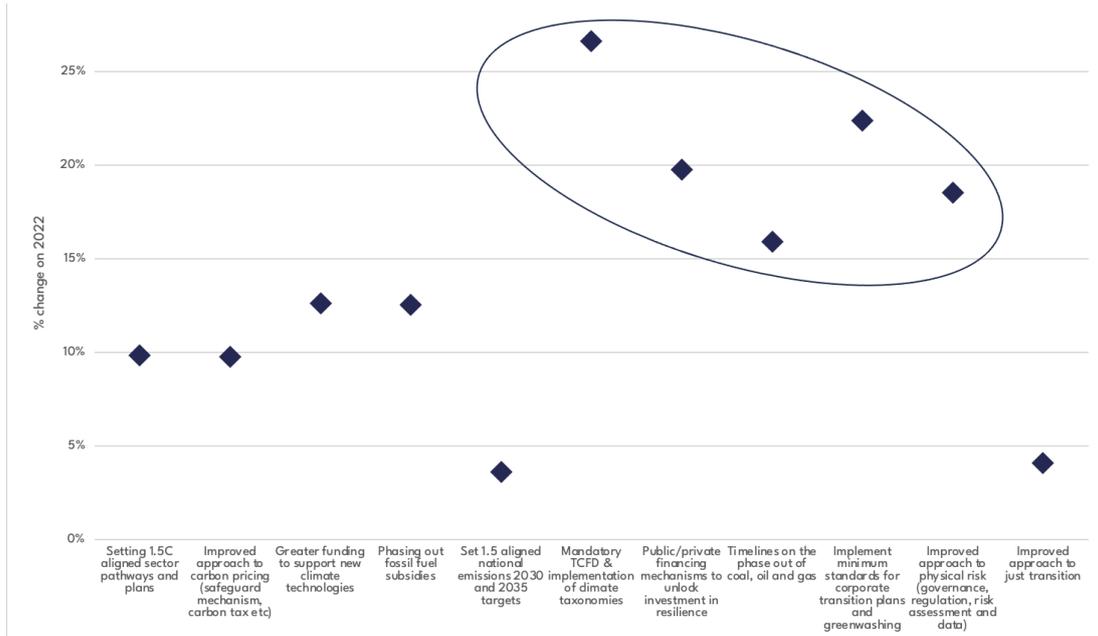
<sup>8</sup> See IGCC (2023), [Road to Resilience: An investor action plan for an adaptive and resilient economy](#).

<sup>9</sup> See for example, IEA (2023), [World Energy Outlook: 2023](#).

<sup>10</sup> S&P Global (2021), Operational and first-tier supply chain greenhouse gas emissions. [More information](#)

<sup>11</sup> UNFCCC (2023), [COP28 Agreement Signals "Beginning of the End" of the Fossil Fuel Era](#).

Figure 4: Percentage point change in policy priorities: 2022-23.

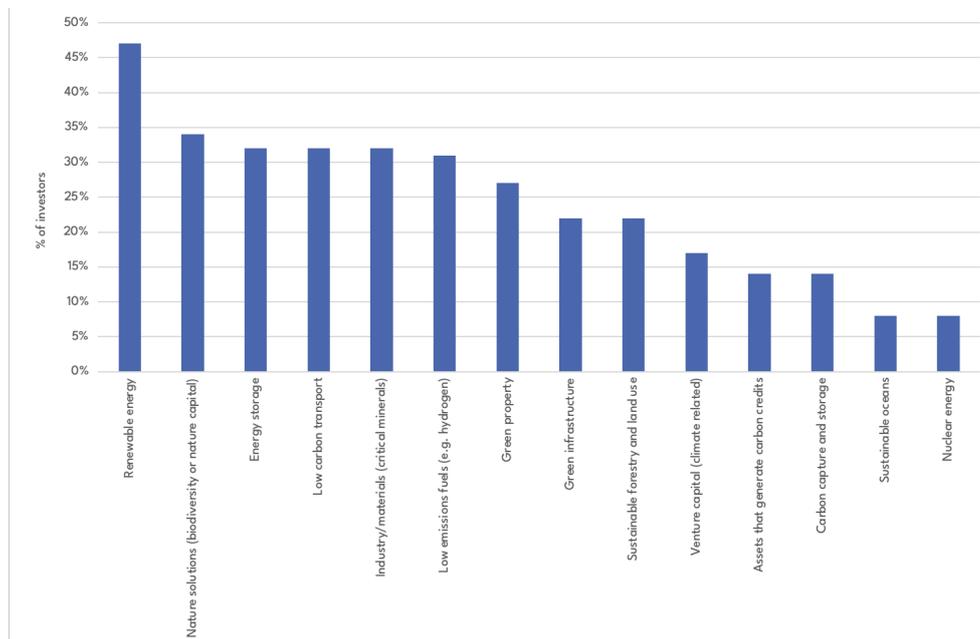


## 5. Investors see renewable energy as a key opportunity to deliver the best long-term financial returns to beneficiaries.

Around five in ten investors are currently exploring opportunities to invest in renewable energy (Figure 5). However, investors are seeking investment opportunities in a broad range of technologies and options, including those where Australia has a comparative advantage including critical minerals and green hydrogen.

While many investors will have some exposure to the nuclear industry through their investments in listed companies and the nuclear industry supply chain, less than one in ten investors are exploring new investments in nuclear projects. This is due to nuclear energy's very high cost, and the lack of maturity and deployment in next generation technologies.<sup>12</sup>

*Figure 5: Climate solutions investors see as delivering best long-term returns.* Respondents could give more than one response.



<sup>12</sup> CSIRO (2023), [GenCost: Annual insights into the cost of future electricity generation in Australia](#):