November 26, 2020

Climate Change (National Framework for Adaptation and Mitigation) Bill 2020 and the Climate Change (National Framework for Adaptation and Mitigation) (Consequential and Transitional Provisions) Bill 2020

Submission by the Responsible Investment Association Australasia

The Responsible Investment Association Australasia (RIAA) welcomes the opportunity to make a submission to the House of Representatives Standing Committee on the Environment and Energy on the above-named bills, in consideration of the Committee’s inquiry and report.

About RIAA and our members

RIAA champions responsible investing and a sustainable financial system in Australia and New Zealand and is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

With over 350 members managing more than $9 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand.

RIAA’s membership includes super funds, fund managers, banks, consultants, researchers, brokers, impact investors, property managers, community trusts, foundations, faith-based groups, financial advisers, financial advisory groups and others involved in the finance industry, across the full value chain of institutional to retail investors.

RIAA achieves its mission through:

• Providing a strong voice for responsible investors in the region, including influencing policy and regulation to support long-term responsible investment and sustainable capital markets;

• Delivering tools for investors and consumers to better understand and navigate towards responsible investment products and advice, including running the world’s first and longest running fund Certification Program, and the online consumer tool Responsible Returns;

• Supporting continuous improvement in responsible investment practice among members and the broader industry through education, benchmarking and promotion of best practice and innovation;

• Acting as a hub for our members, the broader industry and stakeholders to build capacity, knowledge and collective impact; and

• Being a trusted source of information about responsible investment.
About the Australian Sustainable Finance Initiative

The Australian Sustainable Finance Initiative (ASFI) was established to develop a Sustainable Finance Roadmap to enable the financial services sector to contribute more systematically to the transition to a more resilient and sustainable economy, consistent with global goals such as the Sustainable Development Goals and the Paris Agreement on climate change. In November 2020, ASFI released its Roadmap setting out a bold plan to align Australia’s financial system to support a thriving Australian society, a healthy environment and a strong and prosperous economy.

The Roadmap calls for financial system participants to embed sustainability into their organisation’s purpose, strategy, and leadership, and to support the transition of the economy to net zero emissions by 2050. The Roadmap makes 37 recommendations that, once implemented, will enable the financial services sector, together with regulators and governments, to strengthen Australia’s financial system with the aim of recovering from the impacts of COVID-19 and delivering a transition to a net zero, resource-efficient and inclusive economy.

The Australian Sustainable Finance Initiative is modelled on the work and progress internationally to align the finance sector with the goals of a resilient and sustainable economy, including the European Union’s High Level Expert Group on Sustainable Finance and the UK’s Green Finance Taskforce.

Simon O’Connor, RIAA’s CEO is co-chair of the ASFI.

RIAA recommends the Roadmap to the Committee for the purpose of its inquiry and report.

About responsible investing and climate policy settings

Responsible investing continues to be a growth area as Australians become more aware of the environmental, social and governance issues that play out in the world around them, from climate change in the form of devastating bushfires over the previous summer, to global pandemics and destruction of ancient Indigenous cultural sites by a legally operating, listed company.

According to RIAA’s annual Responsible Investment Benchmark Report 2020, a full $1.1 trillion (37%) of professionally managed funds in Australia are invested consistent with responsible investing strategies, be they ESG integration, corporate engagement, normative, negative or positive screens, impact intention or a combination of some or all of these.

Although significant efforts on the part of asset owners and managers are afoot (witness the recent ‘net zero emission by 2050’ commitments of some of RIAA’s largest asset owners and managers¹), RIAA recognises that our sector could deliver stronger results by working hand in hand with policy makers and regulators. Policy direction and pace as well as instruments such as institutions (i.e. ARENA and the Clean Energy Finance Corporation), better disclosures and pricing signals, would all contribute to unlocking capital at pace and scale to achieve our collective goal set out in the Paris Agreement ratified by the Australian Government in October 2016.

¹Announcement by RIAA’s largest asset owners/managers, in 2020 to go ‘net zero by 2050’ include HESTA (June), Aware Super (formerly First State Super) (July), Cbus and IFM Investors (October), Rest, AustralianSuper and QBE (November)
Scope and basis of input provided

The scope of this submission is guided by

- RIAA’s own policy objectives and experience built in pursuit of our mission
- evidence we have assembled from temporal, primary research undertaken across Australia and New Zealand each year for the last 20 years
- evidence collected through RIAA’s member working groups drawing on the expertise of members such as asset owners and asset managers who have themselves have committed to net zero by 2050
- the obligation of our fiduciary members to deliver long term value creation for their beneficiaries
- the business interests of our members including professional services advising on climate risk strategy and reporting against the TCFD, and ESG research provider members, in collecting and analyzing portfolio exposures to carbon emissions and tracking these to benchmarks
- what our members say in RIAA-hosted fora about the need for clearer market signals to assist them to prioritize investment decision aligned with allocating capital towards low carbon assets and enterprises that will assist the Australian economy and its businesses to remain prosperous and internationally competitive
- knowledge amassed over the past 2.5 years being the Secretariat to (and RIAA’s CEO Co-chairing of) the ASFI and its Roadmap for aligning Australia’s financial system with a sustainable, resilient, and prosperous future for all Australians.

Accordingly, our feedback to the Committee about the bills covers the:

1. bills’ objectives and long-term emissions reduction commitment;  
2. installation of regular 5-year budgets;  
3. guiding principles to be applied by decision makers; and  
4. risk and adaptation assessments for all sectors.

The Committee is advised that RIAA strongly supports the introduction of laws that provide a national framework for progressing our transition to a net zero economy – one that is soundly set, rigorously monitored, and appropriately reported. The points provided herein are made by way of ‘exception reporting only’; meaning these are small amendments that the Committee may consider in the spirit of clarifying interpretation of these draft laws and assisting with their more effective or efficient operationalisation.

Specific feedback and recommendations

1. Bills’ objectives and long-term emissions reduction commitment

General feedback: RIAA supports the object of the bills and the codification of the process of setting long and medium-term emission reductions commitments, into law.

During 2020, China, Japan, and South Korea have all announced goals of reaching net-zero greenhouse gas emissions at around the middle of this century. Those three countries buy 75% of Australia's exported thermal coal and nearly 60% of our exported gas. The Philippines – heralded by the mining and minerals sector to be our most promising country in terms of growth for coal exports - announced that it is banning all new coal-fired power stations as it moves to renewable energy. The climate policies of Australia’s key trading partners are and will continue to have an impact on the export opportunities afforded from the Australian minerals and resources sector. By being in step with our major trading partners we improve the likelihood of retaining strong trade relations and hence future export opportunities.
Accordingly, RIAA can support the Objects of the Act because they are aligned with the global Paris Agreement, as ratified by Australian in October 2016 (3.1b); and adequately focused on the key aspects of an orderly but rapid transition to net zero, being prosperity and security, as well as measures to protect livelihoods, business, and the environment.

Possible considerations: In the proposed Objects of the Act, F may not be necessary and could be removed.

It may be useful to have governments to not just assess risk but be charged with acting to control and treat identified risks in policy making and program delivery. Therefore, RIAA also supports the addition (through the Consequential and Transitional Provisions) of Schedule 1, Part 3 19A Duty to consider climate change impacts. This is consistent with recommendation 1 of the ASFI Roadmap which acknowledges that accountability for sustainability is led from the top of institutions; and this is most successfully done when it is integrated into purpose, corporate strategy, risk management frameworks, remuneration structures and organisational culture. It is also in step with key trading partners such as the UK and the EU that have sought a wholesale revision of the obligations of policy making and implementing arms to consider climate change risks and potential impacts as inputs to and consequences of decision making.

2. Installation of regular 5-year budgets

General feedback: RIAA strongly supports the codification of the process of setting long and medium-term emission reductions commitments, into law.

The proposed emissions budget making processes is functionally in line with how New Zealand and other trading parties are managing their respective emissions budgets. The provision of having two consecutive budgets in place at any one time is also helpful for improving business planning, valuations and capital allocation.

Possible considerations: S28 matters relevant to emissions budgets para (2)(iv) the need for emissions budgets that are ‘ambitious but technically and economically achievable’, could be removed mainly because if done as described elsewhere, budgets do not need to be ambitious, they simply need to be based on the analysis of effectiveness, efficiency and fairness. If retained, the concept of ‘economically achievable’ is not a useful term and should be revised. The Commonwealth Government’s response to COVID19 was not necessarily economically achievable but it was undertaken because it was deemed necessary for other reasons. Setting emissions budgets should also be made outside the limitations of what may be considered “economically achievable” as long as they are based on sound science and with consideration to the principles proposed.

3. Guiding principles to be applied by decision makers

General feedback: The guiding principles provided in Division 2 are well founded and when considered together, they provide a sound underpinning for informed and considered decision making. RIAA regards these as being helpful to guide current and future decision making around a transition to net zero emissions by 2050.

Possible considerations:

1. Principle of effective, efficient and equitable action, (c) equity in regard to Australia’s households, business, workers, communities and rural and regional Australia, taking into account their social and economic differences.; this could be improved by revising ‘equity’ with regard to future us and/or future generations. As this is currently drafted, ‘equity’ fails to consider a longer-term horizon of this challenge. By calling out stakeholders in the future (i.e. in 2050 and beyond), this invites decision makers to take a longer-term view of climate risk, their impacts and how decisions are made now. Decisions made through this temporal
lens, may in fact result in more effective and efficient decisions for now and the ‘next now’. See *Principle of fiscal responsibility* where this concept is well codified.

2. With respect to the principle of risk-based, integrated decision making, it is possible that reference to the “competing” nature of long-term, medium-term and short-term environmental, economic and community consequences is out of step with what RIAA’s fiduciary members see. Fiduciaries regard aspects such as infrastructure, the healthcare and education systems as well as the workforce as universal assets – ones that require investment so all other assets operating in the economy can benefit from these (for example the productivity of small business is a function in part of the productivity of the universal asset of fast, reliable broadband). It follows that investments in these should be made at the lowest cost possible but with the most meaningful utility which will often be delivered by extending out investment horizons. There is only the longer-term when we implement mitigation and adaptation strategies with equity in mind…. future us and future generations.

3. Principle of community engagement and self-determination is extremely important for our economy to transition in an orderly and meaningful way and within our democratic political system. It may be worth considering the well-established principle of free, prior and informed consent (FPIC) which is already used (albeit not to its fullest intent) by business and government decisions makers throughout legal, government and community endeavours. See the ASFI Roadmap recommendation 7.

'Decision makers’ is not defined in the Terms section of the bills; adding a definition would remove any potential ambiguity and improve accountabilities as intended in Division 2.

4. **Risk and adaptation assessments for all sectors**

**General feedback:** RIAA strongly supports the scope of inclusions in this section of the bill including the publication by the Minister of the sources used in the delivery of the risk assessments. RIAA also strongly supports the Minister giving consideration to the upside (not just downside) risks presented by climate change mitigate and adaptation measures.

**Possible considerations:** with respect to Division 2 – emissions reduction plans, para 30 *requirement for emissions reductions plan* (4), the Minister may also do well to consider the advice from a broader group of stakeholders than the State and Territory ministers responsible for climate change emissions reduction and the Commission. The Minister may wish to consider stakeholders such as APRA, regulated ADIs and RSEs that are both large investors in and lenders to the business and household sectors of Australia and whose investments made on behalf of beneficiaries shall be materially impacted by the emissions budgets set. However it is possible that a more streamlined way to garner input from the financial services sector stakeholders (including its regulators) is via the consultation process directly with the Commission, such that the Commission’s own recommendations to the Minister are inclusive of these industry views.

**Summary**

Overall, RIAA commends the intent of these bills, which once fully operational would contribute constructively to the required efficient, effective and equitable transition of our economy and communities to one that is in step with key trading partners and within the safe limits of the physical changes to the climate and environment on which life depends.

From RIAA’s perspective the implementation of these bills would provide better policy clarity and reduce uncertainty in decision making. This in turn would lead to better pricing of risks into investments and directly impact the pace and direction of capital flowing into the Australian economy through its businesses, communities and landscapes.
The implementation of these bills would also directly and indirectly lead to better risk adjusted returns for beneficiaries to superannuation – those starting their first job today, as well as those drawing an annuity tomorrow – and the stronger longer term value creation for the universal assets (secure productive workforce, resilient healthcare system, contemporary education system, connected, reliable communications, clean and efficient transportation, secure and sustainable food and water and affordable, reliable energy supply and storage) that underpin the future productivity and competitiveness of the Australian economy.

There are trillions of dollars that RIAA members are looking to invest in assets and enterprises that align with achieving net zero emissions and put the Australian economy on a strong footing now and into the future, which is why a framework of setting emissions budgets shall be immensely constructive for the financial services sector.

We welcome the opportunity to provide evidence before the Committee if invited to so.

We wish you success with this important inquiry.

Yours sincerely,

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