



Investor Group on
Climate Change

Investor Group on Climate Change

Australia /New Zealand

ABN 15 519 534 459

PO Box H26, Australia Square NSW 1215

Level 9, 255 George Street, Sydney NSW

P: (02) 9255 0290

F: (02) 9255 0299

www.igcc.org.au

Christine McDonald
Committee Secretary
Senate Standing Committees on Environment and Communications
By email: ec.sen@aph.gov.au

24th January 2014

Re: Standing Committee on Environment and Communication, References Committee
Inquiry into The Government's Direct Action Plan

IGCC wishes to make a brief initial submission to the Inquiry, noting that it is still considering the Government's Direct Action Green Paper and that it intends to make a supplementary submission as soon as possible. Investors have long indicated that there are elements of a climate policy framework that would give confidence to the market in a low carbon transition. We restate these policy elements in this submission.

IGCC represents Australian institutional investors with over \$1 trillion of funds under management and other members of the investment community. IGCC members are invested across the Australian economy and are part owners of most of Australia's large companies. Members also hold substantial direct investments in infrastructure and property assets in Australia and around the world. As managers of retirement savings and pooled investments we are concerned with the long-term impacts of climate change on the global and Australian economies and future investment returns.

IGCC is part of the Global Investor Coalition on Climate Change (GIC), a collaboration of regional investor associations representing more than 200 investment institutions managing over \$20 trillion globally. Transparent, long-term, predictable climate policy is in the interests of all of the investment institutions represented by GIC organisations.

Summary

Reducing Australia's emissions is a long-term project. It requires a policy framework that is stable and that is capable of being scaled up to deliver more ambitious reductions over time. Australia's economy is among the most emissions intensive in the world and emissions reductions from current levels will need to be significant. Australia should adopt policies that cut emissions at the lowest possible cost.

IGCC supports robust, investment-grade policies to reduce emissions. We have long supported putting a price on emissions as the most effective and efficient way to provide a long-term, transparent and certain regulatory framework to address carbon risks in investment portfolios. Any alternative policy approach should be at least as transparent and economically efficient as an explicit price on emissions.

Without investment grade climate policy, market participants will not be confident that Governments are committed to achieving a low carbon economy. This would see the cost of private capital for achieving emissions reductions increase¹ and the cost of economic transition increase,² meaning the future competitiveness of Australia's economy could be reduced.

¹ Investment-Grade Climate Change Policy – Financing the transition to the low-carbon economy, IGCC, INCR, IIGCC, UNEPFI, 2011, p 9. www.igcc.org.au/Resources/Documents/2011%20Investment%20Grade%20Policy%20Report.pdf

² The Challenge of Institutional Investment in Renewable Energy, Climate Policy Initiative, 2013, p. 4
<http://climatepolicyinitiative.org/publication/the-challenge-of-institutional-investment-in-renewable-energy/>

For investors, judgments about the contribution of the Direct Action policy to Australia's low carbon transition would be influenced by the extent to which it addresses key policy design principles. Investors have long stated that the following principles are key to sound policy design:

- The ability to cap emissions and contribute to an emissions reduction objective;
- broad coverage of sources of emissions in the economy;
- transitional arrangements for trade exposed sectors;
- the ability to access international permits to achieve lowest cost abatement;
- the capacity to respond to deeper reduction targets as necessary without undue policy disruption or economic cost.

IGCC is examining whether the Direct Action framework addresses these policy elements. From early examination of the Direct Action Green Paper, the Government appears to focus on short-term design considerations under the Emissions Reduction Fund. As it is generally accepted that government subsidies for emissions reductions are not economically efficient for the long term, the Emissions Reduction Fund does not appear to provide a policy framework that can meet long-term policy objectives. The Green Paper appears to leave unresolved the aspects of policy design that matter to investors, in so far as they would create a cost impact for companies, materially influence the relative costs of energy technologies and industrial processes, or provide some certainty over the financial prospects for low carbon capital allocations. Without resolution of these elements, investors are unlikely to have the confidence to invest for the long term.

Finally, IGCC considers the Climate Change Authority (CCA) to have been an effective and important element of the climate policy framework in Australia. Independent analysis and advice on emissions reduction ambition in what is likely to be a period of rapid policy change globally would support appropriately ambitious policy in Australia. Should the CCA be abolished, without a clear statement of positive intent on low carbon economic transition from the Government, the confidence of the investment community in the direction and pace of Australia's low carbon transition would be weakened, leading to the cost impacts to the Australian economy described above.

Key policy design principles

The following policy principles must be addressed as part of a transparent, long-term emissions reduction policy framework. IGCC is evaluating the extent to which there is scope to address these elements within the Government's proposed approach.

Cap emissions

A scheme cap based on a pre-determined emissions outcome facilitates a known contribution to Australia's emission reductions. Net emissions reductions have traditionally been required for developed economies under international climate change conventions. A scheme cap is required for any price based policy to be effective, including baseline and credit style schemes.

Broad coverage of emissions

Broad coverage of the sources of emissions in the economy spreads the burden of emission reduction efforts while increasing the opportunities for low cost domestic abatement. For universal investors, it also means that most sectors are required to address and reduce emissions risks earlier rather than later.

Address trade competitiveness exposure

The transitional assistance framework incorporates important industrial activity baselines and a regime to address cost differentials with trading partners. As emission reduction policies vary around the world, any scheme that requires emissions reductions would require the capacity to shield domestic industry from transitional cost disadvantages with trade competitors.

Provide international access

As a developed, emissions intensive economy, it is in Australia's economic interest to be able to maximise the use of existing industrial assets and trade out of our emissions intensive position over time. Access to verified international permits supports our emission reduction objectives, reduces abatement costs and supports low carbon technologies internationally.

Allow for deeper reductions

Australia and all nations will have to reduce their emissions by over 80% by 2050 to limit warming to 2 degrees or less. The trajectory of reductions may vary, but deep reductions will be required regardless. A policy framework that can respond to deeper targets, at relatively low cost is a fundamental requirement of any long-term policy framework.

A policy framework that does not address these design principles would be unlikely to provide confidence to the market about the speed and direction and Australia's low carbon transition. IGCC is examining the extent to which these elements can be addressed by Direct Action.

Planning for deeper emissions reductions targets (Climate Change Authority)

The Climate Change Authority's draft Caps and Targets Review report indicates the substantial emission reductions that Australia will have to achieve in coming decades. Cuts of 15% to 50% below 2000 levels in the period 2020 to 2030 are significant and will require a policy framework that supports deeper targets efficiently. A 5% reduction by 2020 is a relatively modest, interim step on a long-term emissions reductions path for Australia.

Regardless of the policy tools that Australian governments choose to implement, the CCA's analysis assists investors to interpret the likely future emissions reductions trajectory for Australia and the scale of policy response that will be required. This is highly valued by the investment community. Without a clear statement of intent on long-term emissions reductions by the Australian Government, abolition of the CCA would weaken confidence in the market about Australia's long term, low carbon transition. Again this would contribute to a higher cost of capital and less efficient low carbon transition for the Australian economy.

Conclusion

IGCC thanks the committee for the opportunity to provide this submission and looks forward to making a supplementary submission in due course.

Yours faithfully,

Nathan Fabian
Chief Executive
Investor Group on Climate Change