

6 September 2018

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Dear Committee

The conservation and protection of the Great Barrier Reef (the Reef) now and into the future is under existential threat from climate change.

The substantial amount of funding provided by the Australian Government to the Great Barrier Reef Foundation (GBRF) should be used to address the major threats to the Reef, including climate change. The GBRF has an opportunity to develop an investment policy that guides the use of its undisbursed funding, to ensure it is not directly or incidentally supporting industries that clearly contribute to the causes of climate change.

The Australia Institute and Future Super have identified a number of ways the GBRF can develop a credible investment policy that aligns with its mission and delivers a competitive, if not superior return on investment. Our observations focus on three areas in the Terms of Reference:

a. the delivery of the Reef 2050 Plan, including through the Great Barrier Reef 2050 Partnership Program and through other avenues;

The GBRF believes climate change is the biggest threat to the health of the Reef, however this is not reflected in the Grant Agreement nor in the Reef 2050 Plan. If their stated purpose is to 'reduce threats and restore condition' then climate change should be addressed, including through the GBRF investment policy.

d. the process of granting funding to the Great Barrier Reef Foundation for the Great Barrier Reef 2050 Partnership Program, the terms of agreement for funding, and the ongoing administration of funding;

Under the terms of agreement and ongoing administration, the GBRF must develop a investment policy. The Grant Agreement provides only limited advice and recommends the investment policy adhere to sound commercial practise.

The GBRF has an opportunity to build a policy tailored to its purpose – saving the Reef. This includes avoiding investments that are directly connected to contributing to climate change, poor water quality, coastal development and over-fishing.

The GBRF should also consider its banking partners in light of its investment policy. The GBRF banks currently benefit from the \$443.3 million dollars on their books, which facilitates their wider business. The GBRF's banks include the four largest lenders to the

fossil fuel industry in Australia that collectively increased their fossil fuel related business by 50% last year. The Australia Institute recommends GBRF revisit its banking partners, in line with its mission.

f. the establishment, governance and membership of the Great Barrier Reef Foundation, including the management of conflicts of interest and commercial interests;

The \$443.3 million in grant funding is currently sitting in term deposits with six banks and five of those banks have connections to the GBRF's Chairman Panel and two of them with members of the GBRF Board.

The GBRF should revisit its choice of banking partners recognising the conflict of interest involved in its decision making and advisory bodies. The GBRF will also need to manage conflicts of interest when adopting an investment policy, if it is found to exclude companies that have connections to the GBRF Chairman Panel and Board members.

Note, the GBRF does not have to trade off an ethical investment policy with a strong return on investment. As the submission points out, an ethical fossil-free investment policy can deliver a competitive, if not superior return on investment compared to a non-discretionary one.

The Australia Institute and Future Super welcome the opportunity to provide any further information or evidence to assist the Inquiry with its work.

Sincerely

Richie Merzian
Climate & Energy Director
The Australia Institute

Adam Verwey
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Institute**
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> **Climate & Energy.**





Banking against the Reef

Climate change and funding for the Great Barrier Reef

How the Great Barrier Reef Foundation is banking its \$444 million government grant in fossil fuel investments and why it desperately needs a divestment policy.

Discussion paper, jointly delivered with Future Super

Richie Merzian

August 2018

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The Australia Institute and Future Super maintain the information provided in the discussion paper is general in nature only and does not constitute personal financial advice.

Summary

The Great Barrier Reef Foundation (the Foundation) does not have a policy to guide the investment of its undisbursed funding. As part of the \$443.3 million Grant Agreement with the Australian Government, the Foundation must design an “investment policy” – however the Grant Agreement is silent on whether the policy should exclude investing in fossil fuel industries that directly contribute to climate change.

The Foundation has already received all six years of grant funding, which is currently sitting in term deposits with six banks (five of which have connections to the Foundation’s Chairman’s Panel). These banks benefit from the half a billion dollars on their books, which facilitates their wider business. The Foundation’s banks include the Big Four (Commonwealth, Westpac, ANZ and NAB) that are responsible for the majority of lending to the fossil fuel industry in Australia. In terms of scale, the Big Four last year lent to fossil fuel projects that will emit the equivalent of almost ten times Australia’s total 2017 emissions.

If the Foundation is to gain credibility in its role protecting the Reef, it needs to align its investments with the health of the Reef. Firstly, the Foundation should divest from the Big Four partners and select banks committed to not funding industries that directly contribute to climate change – and over 50 local options exist. Secondly, the Foundation should build an investment policy that screens out any companies that directly contribute to threats to the Great Barrier Reef, including climate change.

This report explores the fossil fuel divestment movement and, on the other side of the coin, the fossil free investment movement. In addition to the benefit of aligning investments with an organisation’s purpose, the report finds the returns available on local and international fossil free investment indices to be competitive, if not superior, to standard investment portfolios.

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Introduction

On the 28th of June 2018, the Great Barrier Reef Foundation (the Foundation) was granted \$443.3 million from the Commonwealth Department of Environment and Energy (the Department). The amount covers a six year period, from FY19 to FY24, but was provided in one lump sum. According to the Minister for the Environment, this allows the Foundation to take advantage of economies of scale.¹ However, the Department had recognised in its Grant Agreement that the Foundation was a relatively small organisation and indicated there was “\$22.5 million for administration and scaling up of activities”.²

While the Foundation is in the process of scaling up, it has almost half a billion dollars it needs to manage. Currently the grant funding is sitting in term deposit accounts held by the Foundation. However, the Foundation does not have a policy to determine how to best invest the funds not being immediately used to deliver the grant activities.³ The Department has asked for an investment policy to be developed. There is no deadline, although it needs to be finalised with the Department before the Foundation can make investments.

The Foundation is currently working with a fund adviser to develop the policy and it has a strong incentive to finalise it.⁴ In addition to the \$22.5 million allocated by the Department for administration and scaling up of activities, the Foundation is allowed to keep a further \$21.8 million from the interest earned on the grant funds. The Foundation will therefore be looking to shift the funding out of term deposits and into an investment portfolio with higher returns.

¹ Minister Frydenberg (12 August 2018), *ABC Insiders interview* <http://www.abc.net.au/insiders/josh-frydenberg-joins-insiders/10111164>

² Commonwealth Department of Environment and Energy (28 June 2018), *Schedule 2 – item 2.1.1 Grant Agreement with the Great Barrier Reef Foundation* <http://www.environment.gov.au/system/files/resources/4322207b-af9c-488f-b6bd-89dbf4af8302/files/reef-trust-gbr-foundation-grant-agreement-overview.pdf>

³ *Id* at item 7.3.3

⁴ Marsden, Anna (30 July 2018), *Public Hearing - Senate Inquiry into the 2018-19 Budget measure, the Great Barrier Reef 2050 Partnership Program* https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/GBRPartnershipProgram/Public_Hearings

Who wants to be the Banker?

The Executive Director of the Foundation, Ms Anna Marsden confirmed to the *Senate Inquiry into the 2018-19 Budget measure, the Great Barrier Reef 2050 Partnership Program* that the Foundation has accounts with six banks:⁵

- Commonwealth Bank
- National Australia Bank (NAB)
- Australia and New Zealand Bank (ANZ)
- Westpac
- Bank of Queensland
- Suncorp

Four of the banks – Commonwealth Bank, NAB, Bank of Queensland and Suncorp – also have representatives on the Foundation’s Chairman’s Panel. Another, ANZ, was on the Panel until earlier this year. A senior executive can purchase a spot on the Chairman’s panel at \$20,000 per head.

Ms Marsden has told the Senate the \$443.3 million is currently sitting in term deposits in these six banks, although the distribution of these funds is not public information. The Foundation’s banks benefit from the half a billion dollars on their books, which facilitates their wider business. It is therefore important to look at what business the banks engage in and how these activities relate to the threats to the Great Barrier Reef (the Reef), including climate change.

Dirty Banking

The Big Four banks are the largest lenders to the fossil fuel industry in Australia. Despite publically supporting the Paris Agreement and the Equator Principles (international guidelines on environmental and social risk management), the Big Four increased their fossil fuel related business by 50% last year. According to the analysts at Market Forces, lending by the Big Four to new fossil fuel projects jumped from \$1.5 billion in 2016 to \$2.3 billion in 2017. ANZ topped the list by loaning \$905 million in 2017, a 93% increase on the previous year, to new projects ranging from gas fields in

⁵ Marsden, Anna (3 August 2018), *Answers to questions taken on notice – Senate Inquiry into the 2018-19 Budget measure, the Great Barrier Reef 2050 Partnership Program*
https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/GBRPartnershipProgram/Additional_Documents

Indonesia's North Sumatra to the Ichthys LNG project off the coast of Darwin.⁶ A full table of the Foundation's banks and their lending to the fossil fuel industry is in Table 1.

Table 1: The Foundation's Banks and lending to the fossil fuel industry

Bank	Funding to fossil fuels since 2008	Public position to stop lending to the fossil fuel industry?
ANZ	\$31,235,000,000	No – ANZ remains the number one funder of fossil fuels
NAB	\$17,614,000,000	Limited – NAB recently declared it will no longer finance new thermal coal mining projects
Commonwealth	\$26,553,000,000	No – only a long term policy to factor in climate change
Westpac	\$13,162,000,000	Limited – Westpac placed some limits on thermal coal funding
Bank of Queensland	\$31,000,000	Limited – no lending to large mining projects but it does lend to small and medium sized businesses in the mining sector
Suncorp	\$1,049,000,000	Yes – since 2009 Suncorp state they no longer have any exposure to fossil fuel companies and only provide lending to personal, SME and agribusiness clients

Source: Market Forces (2018), *Fossil fuels – where does your bank stand?*

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Undermining Australia's climate efforts

The Big Four are responsible for the majority of lending to the fossil fuel industry in Australia. In terms of scale, the Big Four last year lent to fossil fuel projects that will emit the equivalent of almost ten times Australia's total 2017 emissions. Put another way, the emissions from these bankrolled projects are about five times larger than all the emission reductions Australia would make from 2021 to 2030 to meet its Paris Agreement target.⁷

Australia has, by any standard, a low emission reduction target of 26-28% below 2005 levels of emissions by 2030. Australia's target should be twice as large if it is to align with the Paris Agreement goal of limiting the global average temperature to well

⁶ Market Forces (1 June 2018), *Banks 2 degree Scorecard 2018*

<https://www.marketforces.org.au/campaigns/banks-new/twodegrees/>

⁷ Bertlous, Jack (1 June 2018), *Australian banks double down on global fossil fuel expansion*,

<https://reneweconomy.com.au/australian-banks-double-down-on-global-fossil-fuel-expansion-77512/>

below 2 degrees Celsius (above pre-industrial levels).⁸ Thanks to the leadership of small island developing states, the Paris Agreement also includes an ambition to pursue efforts to keep warming below 1.5 degrees Celsius.

According to former Chief Scientist Ian Chubb and a panel of independent experts, even 1.5 degrees Celsius might not be enough to save the Reef. The expert panel reported last year that mass coral bleaching in reefs is primarily caused by prolonged exposure to thermal stress – the warming of the planet (particularly the oceans) caused by the continuing release of heat-trapping greenhouse gases. To protect the Reef’s biodiversity global average temperature rise would need to be limited to just 1.2 degrees Celsius.⁹ Currently, we are experiencing an average temperature increase of about 1 degree Celsius.¹⁰

The expert panel called for Australia to set targets appropriate to its “fair share” of emission reductions. The panel also called for an urgent revision of the Reef 2050 Plan to account for “inexorable global warming”.¹¹ Climate change is not listed as one of the six “priority areas” in the Reef 2050 Plan.¹²

⁸ Merzian, Richard & Campbell, Rod (12 June 2018), *Advance Australia’s Fair Share*
<http://www.tai.org.au/content/advance-australias-fair-share>

⁹ Chubb, Ian & oths (5 May 2017), *Independent Expert Panel Advice on responding to mass coral bleaching of the Great Barrier Reef* <https://www.smh.com.au/cqstatic/gxnhwk/gbrexpertpanel.pdf>

¹⁰ Guardian (February 2018), *Met Office warns of global temperature rise exceeding 1.5C limit*
<https://www.theguardian.com/science/2018/jan/31/met-office-warns-of-global-temperature-rise-exceeding-15c-limit>

¹¹ Chubb, Ian & oths (5 May 2017), *Independent Expert Panel Advice on responding to mass coral bleaching of the Great Barrier Reef*

¹² Australian Government & Queensland Government (2016), *Reef 2050 Plan Investment Framework*
<http://www.environment.gov.au/system/files/resources/ea14e16d-15c1-4599-ac4a-53b9f1375f59/files/reef-2050-investment-framework.pdf>, p 12-13

Fishing for an investment policy

The Foundation's annual reports and reviews do not mention any existing investment policy. The Department requires the Foundation to develop an investment policy that:

- is lawful;
- is consistent with sound commercial practise;
- is conservative and not speculative;
- is aligned with the investment policy of the Australian Government's Future Fund;
- is composed of graded financial products with a long-term rating of BBB or higher by reputable rating agencies; and
- does not include derivatives.¹³

The Grant Agreement stipulates sound commercial practise include investments that are "sensitive and appropriate to the purposes of the Activity and the Objectives of the Agreement and the Reef 2050 Plan".¹⁴ Neither the Grant Agreement nor the Reef 2050 Plan raise climate change as a major threat to the Reef. However, if the overarching purpose of both is to save the Reef, then it must take all steps to address the Reef's greatest threat, which the Foundation recognises as climate change.¹⁵

The Foundation does have obligation to ensure it aligns its investment policy with the Future Fund, Australia's sovereign wealth fund. The Future Fund has an Environmental, Social and Governance (ESG) policy that focuses on factors that might materially impact the performance of its investment portfolio and/or its reputation. While the Future Fund broadly recognises that some ESG policies could include climate change, its own policy does not. Instead, it has an ESG screen that excludes companies connected to military weapons-related conventions and the manufacturing of tobacco products.¹⁶

The Foundation now has an opportunity to build its own investment policy tailored to its purpose – saving the Reef.

¹³ Commonwealth Department of Environment and Energy (28 June 2018), *Grant Agreement with the Great Barrier Reef Foundation*, item 7.3.5

¹⁴ *Ibid*, item 7.3.5(c)

¹⁵ Great Barrier Reef Foundation (2018), *Our Position on Climate Change*
<https://www.barrierreef.org/the-foundation/our-position-on-climate-change>

¹⁶ Future Fund (2017), *Management of environmental, social and governance issues*
<https://www.futurefund.gov.au/investment/how-we-invest/esg>

Threats beyond climate change

The investment policy should address all major threats to the Reef. Between them the Foundation, Grant Agreement and Reef 2050 Plan (drawing on the Great Barrier Reef Outlook Report 2014) have identified a number of threats including, inter alia:

- climate change;
- poor water quality (including impacts like outbreaks of crown-of-thorn starfish);
- coastal development; and
- fishing.

The Foundation's investments shouldn't increase the threats to the Reef and its investment policy should look to exclude companies directly connected to activities listed in Table 2.

Table 2: Major threats to the Reef

Threats	Exclusion
Climate change	Companies which have fossil fuel reserves, fossil fuel infrastructure, or involved in the mining, extraction, or burning of fossil fuels.
Poor water quality	Companies whose activities contribute to increased sediment, nutrients and contaminants entering coastal waters of the Reef.
Coastal development	Companies whose development activities along the coast and islands adjacent to the Reef region have a negative impact on the Reef.
Fishing	Companies whose activities lead to over-fishing.

The Foundation could also exclude investment in companies which have had direct negative impact on recognised World Heritage and High Conservation areas. This might be more difficult to determine but would certainly be worth investigating to show solidarity with other World Heritage and High Conservation sites.

Divest and reap the rewards

The Foundation should take the following steps to build a credible and Reef-aligned investment policy:

1. Divest from the Big Four banks;
2. Find banks that have committed to or have become “fossil free” (there are numerous local options);¹⁷
3. Create a “negative list” of the types of companies to screen in line with Table 2; and
4. Identify a portfolio that meets the minimum requirement (avoids the negative list in Step 3).

The Paris Agreement in 2015 signalled a global turning point for international finance and its relationship to climate change. Numerous major banks and international financial institutions joined the global divestment movement – and agreed to go fossil free. There are over 50 banks and credit unions in Australia that have pledged to go or remain fossil free.¹⁸ Internationally, there are over 700 major institutional investors that have divested including sovereign wealth funds in oil and gas rich states such as Norway, United Arab Emirates, Kuwait, Saudi Arabia and Qatar.¹⁹

As previously mentioned, Australia’s sovereign wealth fund, the Future Fund, has no such restrictions. If the Future Fund was fossil free, then item 7.3.5(e) of the Grant Agreement would compel the Foundation to adopt a similar investment fossil free investment policy. Hopefully the Foundation can lead the way and set a precedent for the Future Fund to follow.

The divestment movement is not limited to large institutional investors. It includes:

- companies (such as Allianz Insurance which has divested and pledged to stop insuring coal companies);²⁰
- cities (such as the City of Freemantle and 31 other local councils);²¹

¹⁷ Market Forces (2018), *Fossil fuels – where does your bank stand?*
<https://www.marketforces.org.au/info/compare-bank-table/>

¹⁸ *Ibid*

¹⁹ Institute for Energy Economics and Financial Analysis (6 July 2018), *Six major sovereign wealth funds look for greener future* <http://ieefa.org/six-major-sovereign-wealth-funds-look-for-greener-future/>

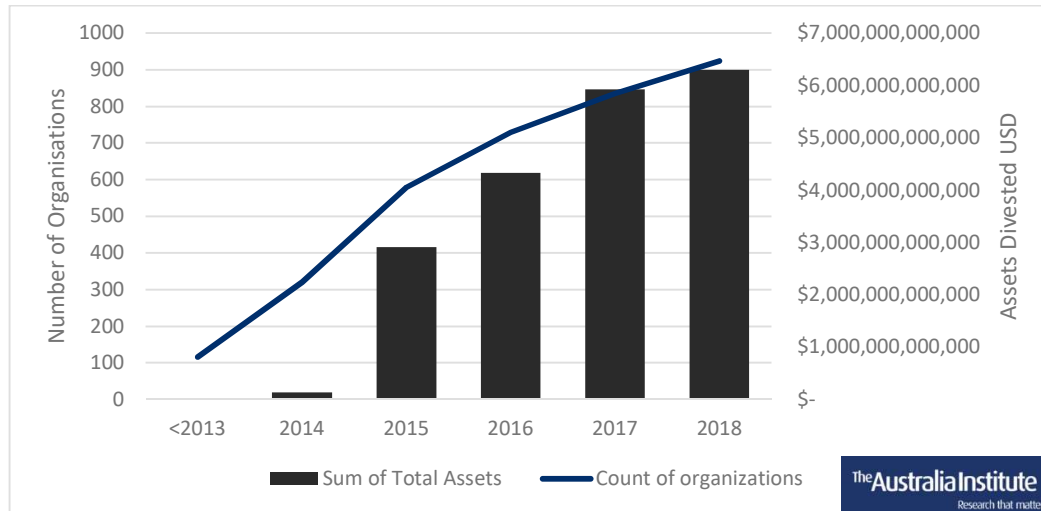
²⁰ Financial Times (4 May 2018), *Allianz to stop selling insurance to coal companies*
<https://www.ft.com/content/a23a6c3c-4eec-11e8-9471-a083af05aea7>

²¹ Fossil Free Australia (May 2017), *Fossil Free Councils* <https://gofossilfree.org.au/fossil-free-councils/>

- universities (such as the Queensland University of Technology);²² and
- faith groups (such as the Anglican Diocese of Melbourne).²³

Collectively, they form part of the growing DivestInvest movement of organisations that has shifted US\$6.3 trillion in assets under management out of fossil fuel related companies and activities. The movement continues to grow – as seen in Figure 1.²⁴

Figure 1: Global Divestment Growth



Source: DivestInvest Network (2018)

Returns on fossil free investments

The last few years have seen a growth in green investment aided by the creation of ethical, fossil-free investment portfolios. The Thomson Reuters/Future Super Sustainability Leaders Fossil Free Index was the first index in Australia which incorporated a strict negative screen on direct and indirect fossil fuels investments, in addition to traditional Environmental, Social and Governance (ESG) scoring.

²² Queensland University of Technology (4 June 2018) *Statement on Responsible Investment*
<https://www.qut.edu.au/about/governance-and-policy/statement-on-responsible-investment>

²³ Ashby, Roland (18 October 2014), *Anglican Diocese of Melbourne News and Views: Divestment of Fossil Fuels* <http://www.melbourneanglican.org.au/NewsAndViews/Pages/Divestment-from-fossil-fuels,-WorkCover-for-clergy,-mission-shaped-restructuring-and-support-for-the-cathedral-banner-%E2%80%98Let%E2%80%99.aspx>

²⁴ DivestInvest Network (July 2018), *Commitments to DivestInvest*
<https://www.divestinvest.org/commitments/>

The Future Super Sustainability Leaders Fossil Free Index provides both institutional and retail investors in Australia access to an index of the 50 leading medium to large sustainable companies on the Australian Securities Exchange (ASX).²⁵

Ethical and ESG fund managers in Australia have traditionally focused on small and medium sized companies, however from 2009 to 2015 the number of larger ASX stocks that passed the ethical screens has doubled. This reflects the changing nature of the ASX300. Over the last five years, many energy and resources companies have fallen out of the top 300 and been replaced by companies in industries such as healthcare, communications and information technology.

Figure 2 charts the returns to 31 July 2018 on a standard portfolio of the top 300 companies on the ASX (the ASX300 Thomson Reuters Index) against the Thomson Reuters/Future Super Australia Fossil Free Index, which has just removed all fossil fuel exposed stocks.

The returns over a five year investment, set out in Table 3, for the standard ASX300 is 9.15% and for the ASX Fossil Free variation it is almost two points higher at 11.14%. The ASX Fossil Free Index outperforms the standard index on most timeframes.

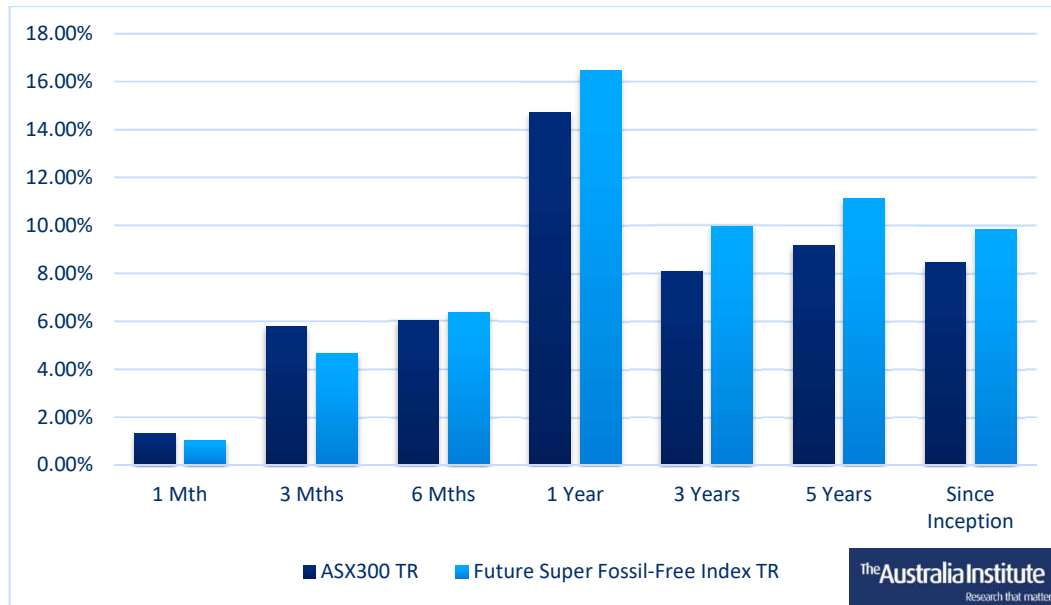
Table 3: Comparing Indices

Local	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	Since Inception
ASX300	1.31%	5.78%	6.05%	14.70%	8.09%	9.15%	8.46%
ASX300 Fossil Free Index	1.03%	4.67%	6.38%	16.48%	9.95%	11.14%	9.84%
International							
S&P Global 1200 Index	3.26%	3.47%	-	12.21%	9.97%	10.12%	-
S&P Global 1200 Fossil Fuel Free Index	3.47%	3.48%	-	11.49%	9.80%	10.84%	-

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Source: Thomson Reuters Eikon, Standard & Poors (2018)

²⁵ Future Super (September 2015), *Fossil Free ESG Investing: Recent Australian Performance*

Figure 2: Local comparison – Standard vs Fossil Free Index

Internationally, it is becoming easier to identify which companies are fossil free. Thanks to the work of the Task Force on Climate-related Financial Disclosures, commissioned by G20 Finance Ministers and Central Bank Governors, there is now a consistent, though voluntary, process for climate-related financial disclosures.²⁶ Using the Task Force work and its own ESG metrics, Standard & Poor created a Fossil Fuel Free variation of its Global 1200 Index.

The S&P Global 1200 Fossil Fuel Free version excludes companies that own fossil fuel reserves (economically and technically recoverable sources of crude oil, natural gas and thermal coal).²⁷ When you compare returns to 31 July 2018 for the S&P Global 1200 to the Fossil Fuel Free Index in Figure 3, again the fossil free index is on par if not outperforming its counterpart. As set out in Table 3, over a five year investment period, the fossil free index returns 10.84% against the standard S&P 1200 index that delivers 10.12%.

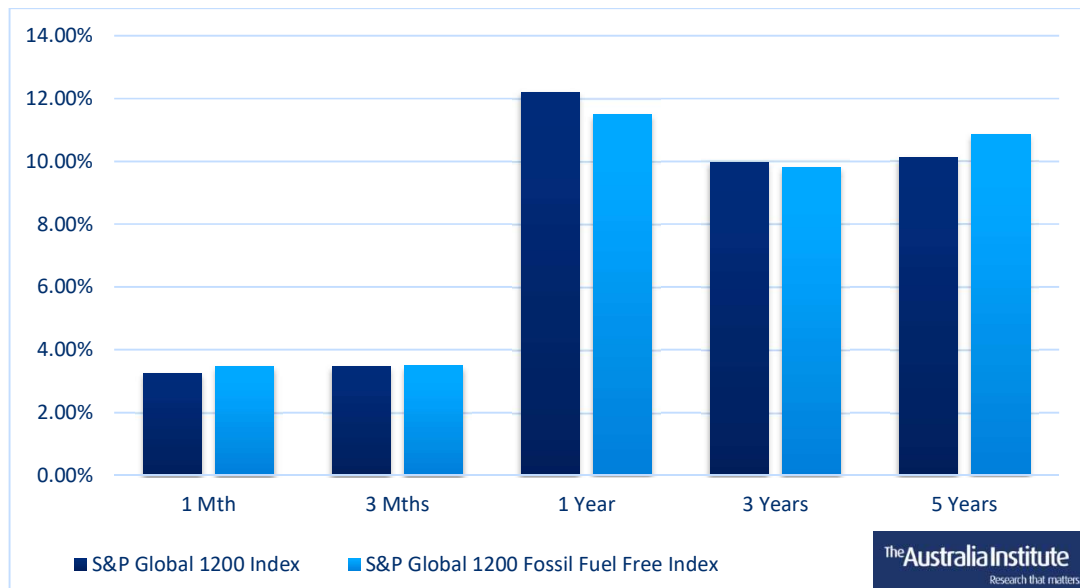
²⁶ Task Force on Climate-Related Financial Disclosures (June 2017), *Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures*

<https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf>

²⁷ S&P Dow Jones Indices (August 2018), *S&P Global 1200 Fossil Fuel Free Index*

<https://au.spindices.com/indices/equity/sp-global-1200-fossil-fuel-free-index-usd>

Figure 3: International comparison – Standard vs Fossil Free Index



Conclusion

If the Great Barrier Reef Foundation is to gain credibility in its role protecting the Great Barrier Reef it needs to align its investments with the health of the Reef. The Foundation has an opportunity to select its banking partners and its investment portfolio based on an ethical fossil free investment policy that screens out companies and projects that threaten the Reef.

The Fossil Free indices provide a good indicator of the positive and competitive, if not superior, returns available with the right investment policy. The indices outlined in the report would need to be augmented to include the full negative screen in Table 2, but they prove that you can have your climate change cake and eat it too.

All the resources exist to build the right investment policy – the hard part will be approving it. The Foundation's Board is chaired by Dr John Schubert AO, the former Chairman of the Commonwealth Bank, and the Board is filled with current and former banking and mining executives. The Executive Director, Ms Marsden, recognises the potential conflict of interest this could present in approving an investment policy.²⁸ Hopefully the presence of Foundation Board members such as Stephen Fitzgerald, the Chair and Founding Partner of Affirmative Investment Management (the “world's first dedicated green and impact bond fund management company”) will help.²⁹

The policy must also be approved by the Department, which has not shown leadership regarding ethical climate-smart investment policies.

If the Foundation truly believes there is no greater risk than climate change, then it should bank on the Reef, not against it.

²⁸ Marsden, Anna (30 July 2018), *Public Hearing - Senate Inquiry into the 2018-19 Budget measure, the Great Barrier Reef 2050 Partnership Program*
https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/GBRPartnershipProgram/Public_Hearings

²⁹ Great Barrier Reef Foundation (2018), *Foundation Governance - Stephen Fitzgerald*
<https://www.barrierreef.org/the-foundation/our-governance/stephen-fitzgerald>