Investor Group on Climate Change

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Committee Secretary
The House Standing Committee on Agriculture and Water Reforms
PO Box 6021
Parliament House
Canberra ACT 2600

Inquiry into the Superannuation fund investment in agriculture

The Investor Group on Climate Change (IGCC) represents over 70 Australian and New Zealand institutional investors with more than $2 trillion of funds under management, along with members of the investment community focused on the impacts of climate and energy issues.

IGCC members are invested across the Australian economy and are part owners of most of Australia's large companies. As managers of retirement savings and pooled investments we are concerned with the evident and increasing impacts of climate change on the global and national economies and the flow through impacts for investment returns.

IGCC recognises the crucial role that institutional investors have in supporting the Australian agricultural sector, working with producers to innovate, increase productivity and remain competitive in a global market place. Investors are also increasingly identifying opportunities for investment in low carbon projects which promote sustainable and environmental beneficial outcomes.

In October 2017, IGCC partnered with the Asian Investor Group on Climate Change (AIGCC) to release the *Connecting Commodities, Investors, Climate and the Land: A Toolkit for Institutional Investors* report. [1]

The toolkit developed by IGCC and AIGCC helps to improve understanding amongst institutional investors, including superannuation funds, of the risks and opportunities that are emerging in the land and agricultural sectors due to climate change. Through improved understanding and by developing

[1] IGCC and AIGCC, *Connecting Commodities, Investors Climate and the Land: A Toolkit for Institutional Investors,* October 2018
https://igcc.org.au/wp-content/uploads/2016/04/IGCC-sustainable-land-use.pdf

practical tools and responses, investment into the agricultural sector can be scaled up to support a wider transition to a low carbon, climate resilient economy.

Climate Change and the Australian Land Sector

Australia's agricultural sector is a crucial part of the Australian economy and generates in excess of $60 billion in economic value annually. It is also an economic sector that is both a contributor to Australia's greenhouse gas emissions and one that is vulnerable to the impacts of climate change.

Australia's agricultural sector represents more than 13 per cent of annual greenhouse gas emissions,[2] most of which is attributable to livestock production. Australia also ranks among the world's top-ten deforesting countries, with clearing for cattle pastures in Queensland a major contributor to overall land clearing.

Recent trends in national emissions show agriculture amongst a range of sectors contributing to increased national greenhouse gas emissions. With Australia committed to a 26 per cent emissions reduction target by 2030 under the Paris Agreement, increases in greenhouse gas emissions from the agricultural sector will make achieving these targets more difficult unless emissions can be mitigated.

Investment in sustainable land-use practises in the agricultural sector, as well as increasing the resilience of the sector to the impacts of climate change are both an opportunity to facilitate improvements to the competitiveness and productivity within the sector and necessary to limit the future risks to the sector as the impacts of climate change worsen.

Additionally, the proactive adoption of sustainable land use management and agricultural practises can deliver stronger returns for investors and farmers alike.

The market for investments in sustainable agriculture and land-use practises is growing and attracting an increasing number of mainstream investors such as super funds. Investment opportunities that tie sustainable yields with low-carbon, climate resilient, activities are emerging as an increasingly attractive option for institutional investors. There are a number of opportunities for government policy to further support the growth of the institutional investment into low carbon, sustainable land use sector outcomes in the sector.

Climate change risks

Climate change poses a range of very real risks to the agricultural sector, and the strategies being put in place by land managers within the agricultural sector and inform how investors respond. The

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[2] Department of the Environment and Energy, *Quarterly Update of Australia's National Greenhouse Gas Inventory: December*, May 2018

physical risks of climate change are a particular threat to the agricultural sector, with forecast increases in extreme weather events, and long-term changes to climate patterns as result of global warming.

The assessment of climate change related risks and the development of strategies to mitigate these risks are an active concern for investors across their portfolios. There is growing demand from investors for the completion of detailed assessments of the climate change related risks to the companies and sectors they are invested in.

Building on over a decade of examining the alignment of financial and environmental risks, in June 2017, the Memorandum of Opinion "Superannuation Fund Trustee Duties and Climate Change Risk" was published, authored by Noel Hutley QC and James Mack[3]. This looked explicitly at the provisions of the Superannuation Industry Supervision Act 1993 (SIS Act) relating to fiduciary duties and climate change.

The SIS Act requires that a Trustee Director must act in the best interests of "beneficiaries" and must exercise due care, skill and diligence in relation to all matters affecting a registrable superannuation entity.

The Opinion found that "Climate change risks can and should be considered by trustee directors to the extent that those risks may intersect with the financial interests of a beneficiary of a superannuation fund." It also found that in relation to Prudential Standard SPS 530 Investment Governance 2013 (SPS 530), "the financial effect of climate change risk factors may need to be identified, so too the sources of return with which such factors are associated".

There is therefore both a legal imperative, along with community expectations, for the need to assess and disclose the financial risks and opportunities arising from climate change and what company directors are doing to manage them – including by reducing their direct contributions to climate change and facilitating the transition to a low carbon economy.

As long-term investors, institutional investors are acutely aware of their fiduciary duties and obligations under the regulatory framework for institutional investors in Australia. In recent years, it has become increasingly clear that this obligation extends to the oversight and management of environmental, social and governance factors influencing financial performance, including climate change.

In September 2017, IGCC published the report *Road to Return: Institutional Investors and low carbon solutions*,[4] which surveyed investor views and attitudes towards in sustainable investments. Many

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[3] Noel Hutley and James Mack (commissioned by Market Forces), 'Superannuation Fund Trustee Duties and Climate Change Risk' (Memorandum of Opinion, Environmental Justice Australia, 2017) 5 [10].
[4] IGCC, *Road to Return: Institutional Investors and low carbon solutions, September 2017* https://igcc.org.au/wp-content/uploads/2017/09/IGCC-road-to-return-final-final.pdf

investors are actively investing in low carbon solutions within asset classes (including agriculture, forestry and timber) and looking to expand their sustainable investment portfolios.

The report also highlights that there is growing appetite from investors for opportunities to reduce their level of exposure to the risks of climate change and to capture the opportunities that are emerging in low carbon, sustainable, agriculture and land use practises.

Institutional investors are actively seeking means to incorporate climate change considerations in to the design of their investment portfolio, recognising that long-term positive returns will only be achieved through proactive consideration of the risks and opportunities presented by climate change and emerging technologies.

There are, however, some barriers that investors face when seeking green investments, including in low-carbon and climate resilient projects. These include policy and regulatory uncertainty, the difficulty and securing deals with the right scale and risk/return parameters.

Opportunities for investors in the agricultural sector

Investors can play a powerful and proactive role in driving the sustainable transformation of the agricultural sector by identifying and managing climate-related risks and supporting new and emerging investment opportunities.

There is every reason to believe that the opportunity for sustainable finance in the agricultural sector will continue to grow, including through investments from superannuation funds. Starting from a relatively low base, the investment market in forest conservation, sustainable forestry, and sustainable agriculture is growing rapidly. Doubling in the last decade, the market is attracting more and more mainstream investors.

The Low Carbon Investment Registry, launched in 2014 by the Global Investor Coalition on Climate Change, details examples of real-world low-carbon investments being made globally by institutional investors, including in the agricultural and forestry sectors.[5] An analysis of the results submitted to the registry found that agriculture, forestry and land-use management was the second largest recipient of green investment by value, with significant growth in investment flows targeting the sector.

There is significant potential for investments in sustainable agriculture and land-use practises to be supported through collaboration between public and private investors, and the aggregation of projects to reduce overall risk. The provision of public finance can work to reduce perceived risks, and

[5] Low Carbon Investment Registry - http://globalinvestorcoalition.org/form-registry/

subsequently leverage significant private finance into areas such as avoided deforestation, educed emissions from livestock, and methane capture.

Between 2004 and 2015, an estimated $8.2 billion of private capital was investment in conservation and sustainable land-use projects globally, including US$6.5 billion of investment in sustainable food and fibre production. The estimated total market for conservation and deforestation-free supply chain investments range between US$160 and US$400 billion by 2020[6], highlighting the potential scale of market value to be achieved through sustainable land-use management practises.

In the *Connecting Commodities, Investors Climate and the Land* report, IGCC highlighted a set of strategies and recommendations for investors to work cooperatively with companies, and those participating in the land-sector, to realise the scale of potential investments.

The report identified a set of three core findings that relate to the nature of the environment for sustainable investment. Key to these findings is the need for Governments to actively work to design and implement policies that both encourage action on climate change and can achieve long-term policy stability. These findings can be summarised as:

1. **There is a need for policy certainty and political consensus**
   This is essential to underpin the development of long-term risk assessments in the agricultural sector and to provide certainty to investors.
2. **A price on carbon is fundamentally important**
   A meaningful market signal will support the scaling up of investment in the agricultural sector, supporting a transition to sustainable land-use management and production. This is key to realising the opportunities are available
3. **Investment opportunities exist, including for super funds**
   Superannuation funds, the agricultural sector and governments should work collaboratively to support the scaling up of institutional investment in the sector. This includes the creation of suitable investment products, balancing investment risk and returns to provide greater finance for sustainable agriculture and forestry.

Ultimately, there is a strong role for governments to help nurture the right conditions, and implementing effective policies, that provide institutional investors, including superannuation funds, the confidence

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[6] Tropical Forest Alliance 2020, 2017, Ibid.; F Thompson and A Charlton, *Better growth with forests—economic analysis*. Background paper for TFA 2020 General Assembly, 10–11 March 2016 (Jakarta, Indonesia) (Jakarta: Tropical Forest Alliance, 2016); F Huwyler, J Käppeli & J Tobin. *Conservation Finance From Niche to Mainstream: The Building of an Institutional Asset Class* (Credit Suisse Group AG and McKinsey Center for Business and Environment, 2016).

to invest in innovative agriculture projects. Key to this is the establishment of credible and lasting policy responses to the threats of climate change.

The IGCC thanks the committee for the opportunity to provide a submission to the Inquiry into superannuation fund investment in agriculture and would be happy to discuss the issues raised in this submission.

Kind regards

Emma Herd
Chief Executive Officer
Investor Group on Climate Change