



14 May 2024

Climate Change Authority

Submitted via Consultation Hub

Dear Sir/Madam,

2024 Issues Paper Targets, Pathways and Progress

About ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members are Australian and international asset owners and institutional investors with over AU\$1.9 trillion in funds under management.

Through research, engagement, advocacy and voting recommendations, ACSI supports members in managing ESG investment risk and exercising active ownership to strengthen investment outcomes. Active ownership, including the management of climate related risk, allows institutional investors to enhance the long-term value of retirement savings entrusted to them to manage.

This submission draws on ACSI's detailed engagement with listed companies in relation to their management of climate-related risks and opportunities, as well as detailed research into market practices. Our expertise is primarily in respect of Australian listed equities, with a focus on the ASX300, and our comments reflect that experience. ACSI supports the Paris Agreement goal of limiting warming to 1.5°C. Policy makers will need to develop credible pathways to ensure an orderly and just transition to a net zero emissions economy. Our strong view is that a planned transition will result in better economic outcomes over the long-term and create more opportunities for new investment in the Australian economy.

Summary of ACSI's position

ACSI welcomes the release of the Climate Change Authority's paper, 2024 Issues paper: Targets, Pathways and Progress ('Consultation Paper'). We strongly support the Consultation Paper's aim of ambitious and achievable targets that are advantageous to Australia. Climate change presents material economy-wide financial risks that investors cannot easily mitigate, even in a diversified portfolio, given their investments reflect the economy as a whole. An orderly transition to net zero for the Australian economy, in line with the Paris Agreement goal of limiting warming to 1.5°C, would go some way towards mitigating the material risks of climate change for investors and the financial system as a whole, although adaptation measures will still be an essential part of the policy response.

Achieving Paris-aligned 2035 targets will require a whole of economy approach. It will need a suite of interconnected and complementary policies that address decarbonisation, a just transition, the participation of First Nations peoples and the interrelated issues of nature and biodiversity. Policy makers and regulatory authorities should co-ordinate to support policies and market designs that together support a pathway to net zero. The scale of investment required to support an orderly, Paris-aligned transition will need both private and public funding. Additional policy levers, should be implemented to stimulate demand, appropriately structure markets and remove barriers to investment in low carbon solutions.

Our views on specific issues raised in the consultation paper are set out in more detail below.

2035 emissions reduction targets

Q.1 How should the authority take account of climate science and Australia's international obligations in considering possible emissions reductions targets for 2035?

Q. 2 How should the authority weight the goals of ambition and achievability in considering possible emissions reduction targets for 2035?

ACSI supports the Consultation Paper's approach to setting emissions reduction targets for 2035. ACSI welcomed the updated Australian Nationally Determined Contribution 2030 target of a 43% emissions reduction on 2005 levels, as a floor, not a ceiling, for policy ambition. ACSI encourages the Government to set an ambitious, science-based, Paris-aligned 2035 target that aims to limit warming to 1.5°C. Setting a Paris-aligned 1.5°C target would support over half of the companies in the ASX200 who have disclosed a net zero commitment,¹ as well as provide a strong medium-term policy signal that would act to incentivise investment in decarbonisation and support an orderly transition to net zero. It will also support Australia aligning with international ambition and consequently remaining an attractive destination for international capital. An ambitious 2035 target should be consistent with sector plans that are designed to support an orderly transition and underpinned by a suite of co-ordinated and complementary policies that both incentivise investment and mandate decarbonisation. Extensive industry collaboration, such as the work that informed the Australian Industry Energy Transitions Initiative's Pathways to industrial decarbonisation report², will be an important support to identify practicable sector plans, including abatement opportunities and mature decarbonisation technologies.

Accelerating decarbonisation in Australia

Q. 5 How can governments use mandates, rules and standards to accelerate Australia's decarbonisation? Is more planning by governments needed? If so, how should this be coordinated and how can this be done while making the transition inclusive, adaptive and innovative?

A suite of interconnecting policies will be required to drive the whole-of-economy transition to net zero. Significant progress has been made in establishing some of these policies, including the introduction of the Safeguard Mechanism, the mandatory climate-related financial reporting Bill, and consultations on the development of a Sustainable Finance Strategy, the Australian Carbon Credit Units (ACCU) Scheme, the National Adaptation Plan, and sector plans. As these policies are further developed and implemented it will be important to pursue decarbonisation in a holistic, rather than isolated, manner. Policy and regulatory frameworks that are responding to these multiple issues should be harmonised, with careful consideration on how they interact and support net zero. This will require recognition that issues such as the participation of First Nations peoples, nature, biodiversity, and just transitions are interconnected with climate-related policies. This should include co-ordination between regulators and policy makers to support aligned policy and regulatory requirements, as well as Government communication that explains to the market how these individual policy levers are designed to work together at all levels (local, state, national) of Government to accelerate decarbonisation.

Consequently, a co-ordinated suite of policies, including mandates, rules and standards, will be required to support and accelerate Australia's decarbonisation. Key principles underpinning the design of these policies should be:

1. **Economy-wide.** Climate change risks are financially material risks deeply embedded across the economy. Accelerating decarbonisation will require policies that address reducing emissions across the whole of the economy. Productivity Commission research notes that adopting ad hoc sectoral policies, rather than economy wide settings, will result in lower productivity growth and living standards.³
2. **Adopt policy structures that encourage low carbon solutions.** There are a number of policy levers to encourage decarbonisation, for example a market-wide carbon price as seen in other jurisdictions.

¹ ACSI, August 2023, [Promises, Pathways & Performance. Climate Change Disclosure in the ASX200](#).

² Australian Industry Energy Transitions Initiative, February 2023, [Pathways to industrial decarbonisation: Positioning Australian industry to prosper in a net zero global economy](#).

³ Productivity Commission, February 2023, [5 year Productivity Inquiry: Managing the Climate Transition](#). Inquiry Report, Vol. 6.

The Safeguard Mechanism for Australia's highest emitting facilities has already been implemented. As part of a co-ordinated and complementary suite of policies to accelerate decarbonisation, it is important to discontinue funding, such as fossil fuel subsidies, that will elongate business models that will not survive in a low carbon world. The introduction of an appropriately designed Carbon Board Adjustment Mechanism (CBAM) will also be a useful policy lever to encourage low carbon markets. A CBAM was discussed in the first consultation of the Carbon Leakage Review, and we anticipate further refinement of a possible CBAM design in later consultations.

3. **Support the disclosure of transparent information.** The introduction of climate-related financial disclosures is an important step in this process. Other levers that will need to be introduced to support the comprehensibility and comparability of reporting include ASRS Standard disclosures guidance and the development of the sustainable finance taxonomy.
4. **Support ambitious and credible firm-level transition plans.** We welcome the work on sector pathways and sector plans. After the finalisation of the sector plans and the 2035 target, the next step towards supporting decarbonisation will be developing guidance on what constitutes an ambitious and credible transition plan, given the 2035 target and the relevant sector plan. Industry collaboration will be important to inform the production of practicable transition pathways.

Investment in decarbonisation

Q. 6 How can governments stimulate private finance needed for the net zero transition – are there innovative instruments that could be deployed or new business models that governments could support? Is there a bigger role for governments to play in coordinating the investment needed to transition the economy?

The transition to net zero will require an unprecedented level of investment. For example, the Australian Industry Energy Transitions Initiative's report found that for the heavy industry sector alone, limiting warming to 1.5°C requires A\$625 billion investment by 2050, around A\$20.8 billion per year.⁴ The scale of investment required for net zero is beyond the capability of the private or public sector alone. There is a clear role for national policies that support investable opportunities in the low carbon transition.⁵

Substantial progress has been made in developing climate policy that supports investment, including the introduction of climate-related financial reporting, the Capacity Investment Scheme, the development of sector plans, as well as this consultation on a 2035 target and sector pathways. However, gaps remain. For example, a first mover problem has been identified in the renewables sector, where investors can't make investments without guaranteed demand at higher prices, government/regulation to make a market is absent, and so the majority of the market appears to be waiting for others to invest.⁶

There will be a number of policy design issues to consider, in addition to the principles for accelerating decarbonisation outlined above, when encouraging investment in the transition, including:

- **Durability.** Long-term climate policy is required to give confidence to long-term investors on the risk-return of their investment.
- **Market design.** Policy makers should structure markets to support investment in opportunities for decarbonisation, including at early-stage Research & Development and pilot phase development. For example, the Centre for Policy Development⁷ identifies green onshore processing of Australia's iron ore and alumina exports as a major opportunity to reduce emissions. The current work being undertaken on sector plans will assist the identification of opportunities. In order to support investor considerations of risks and returns, the plans should contain sufficient information on: investment requirements (including timeframes and regional allocation); funding channels and capacity; underlying assumptions; and supporting policy and institutional settings.
- **Appropriately price carbon.** A policy that prices carbon accurately signals the cost of emissions and incentivises investment in low carbon solutions. At present, the Australian Safeguard Mechanism establishes a mechanism to ratchet down, or price, carbon emissions for covered facilities. An appropriately designed CBAM will be another mechanism that could price carbon across the economy for Australian exports, further encouraging investment in low carbon solutions. Any pricing signal should be carefully designed to ensure that it supports an orderly transition.

⁴ Australian Industry Energy Transitions Initiative, February 2023, [Pathways to industrial decarbonisation: Positioning Australian industry to prosper in a net zero global economy](#).

⁵ IGCC, September 2022, [Making the Transition Happen. Investment Policy for a Net Zero Emissions Economy](#).

⁶ CPD, October 2023, [Green Gold A strategy to kickstart Australia's renewable industry future](#)

⁷ CPD, October 2023, [Green Gold A strategy to kickstart Australia's renewable industry future](#)

Carbon markets

Q. 7 How can governments better support markets, including carbon markets, to deliver emissions reduction outcomes?

A carbon market design should be structured so that emissions reduction is prioritised and offsets (domestic and international) are understood to be a last resort. As noted in the ACSI [response](#) to the ACCU Review Discussion Paper, offsets will not deliver emissions reduction and their use should be carefully considered in policies designed to support Australia's transition to net zero. We recommend that the principle of prioritising emissions reduction with offsets used as a last resort for hard to abate sectors should be incorporated into the Australian regulatory environment overseeing the production and use of offsets.

Further, any carbon market design should also consider:

- **Policy environment.** The role of offsets and a carbon market should be considered within the broader policy environment, including the Safeguard Mechanism. It is important to support coordination between the different policy levers to ensure that their operation and objectives align for the overarching goal of decarbonisation.
- **Quality.** The need to prioritise the production of better quality offsets. Assessment of quality is an established and accepted aspect of other initiatives: for example, the Oxford Offsetting Principles encourage the transition away from offsets derived from emissions reductions to those based on carbon removals.⁸ ACSI's [response](#) to the ACCU Review Discussion Paper recommended that the concept of 'quality' is integrated in the ACCU Scheme principle of integrity.
- **Transparency.** Information on the type of offsets used should be readily available. This will assist investors' assessment of offsets as they are increasingly used by companies to meet their emissions reduction targets, support transition plans and meet regulatory obligations (e.g. compliance with Safeguard Mechanism baseline).

Supporting a Just Transition

Q. 10 How can governments, businesses and people, including First Nations people, help ensure the benefits and burdens of the net zero transition are equitable shared?

Q. 12 How can Australian governments support the wellbeing of workers, communities and regions as the nation decarbonises, including in relation to cost of living, workforce and industry transition and access to low emissions technologies and services?

Transitioning to a low carbon economy will be linked to profound social and economic change. ACSI research has found that if the transition is not properly managed, there are material risks to the Australian economy, for example through higher unemployment and regional dislocation, and to investors for example via potential reputational costs and stranded assets. Governments are best placed to assess the disproportionate impact the transition could have on vulnerable people and communities, including First Nations communities.⁹ Accordingly, ACSI welcomed the Net Zero Economy Authority Bill¹⁰ that includes as one of its objectives supporting the wellbeing of workers, communities and regions as the nation decarbonises. Beyond the national response, more localised approaches will also be required. It will be important that the CCA works with the Net Zero Economy Authority and government to support a coordinated approach to a just transition.

First Nations participation

Q. 11 How can governments better ensure First Nations people are empowered to play a leading role in the development and implementation of climate change policies and actions, including as they relate to the ongoing curation of the Indigenous estate?

ACSI has commented extensively on how to support the participation of First Nations communities in the

⁸ University of Oxford, September 2020, [The Oxford Principles for Net Zero Aligned Carbon Offsetting](#).

⁹ ACSI, December 2022, [A just transition to a clean energy economy](#).

¹⁰ ACSI, April 2024, [Submission](#) to Net Zero Economy Bill 2024 and the Net Zero Economy Authority (Transitional Provisions) Bill 2024.

transition in our submissions to the [First Nations Clean Energy Strategy](#) and [ACCU Discussion Paper](#) consultations. The points made in these submissions can equally be applied more broadly to the low carbon transition, including:

- **Resourcing required.** In order to support the empowerment of First Nations people to play a leading role in the transition, there will need to be significant capacity and resourcing of First Nations organisations. The important work that First Nations organisations undertake to protect their lands, communities and cultural heritage (e.g. negotiating agreements, establishing and monitoring cultural heritage management plans etc) requires significant funds, human resources and expertise.
- **Remove barriers.** The barriers to First Nations people to participate in the governance and ownership of transition projects should also be addressed to support participation and First Nations communities benefiting equitably and consistently from projects located on Country. One major barrier to participation is access to capital. This could be addressed by the Government incentivising investment into transition projects that are First Nations-led or that prioritise mutually beneficial partnerships with First Nations people. This could be through blended finance or other financial incentives.
- **System and project level participation.** It is also important to encourage First Nations communities' participation not only for individual projects but also at a system level. Policies supporting First Nations communities, such as the First Nations Clean Energy Strategy, as well as the related decisions of policy makers and other organisations (e.g. Australian Energy Market Commission, the Clean Energy Finance Corporation, etc) should be informed by the expertise of First Nations people.
- **Co-ordinate policy.** There is a high degree of overlap between a just transition and First Nations equity. Various policies and policy makers involved in these areas, such as the First Nations Clean Energy Strategy, reforms to cultural heritage laws and the Environment Protection and Biodiversity Conservation Act, and the work of the Net Zero Economy Authority should be aligned and co-ordinated.

I trust our comments are of assistance. Please contact me or Kate Griffiths, Executive Manager Policy and Research (kgriffiths@acsi.org.au), should you require any further information.

Yours faithfully



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