

30 June 2023

Climate Change Authority

Submitted via website

Dear Sir/Madam

## SETTING, TRACKING AND ACHIEVING AUSTRALIA'S CLIMATE TARGETS

On behalf of the Australian Council of Superannuation Investors (ACSI), thank you for the opportunity to make a submission to the consultation on setting, tracking and achieving Australia's climate targets.

### About ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members include Australian and international asset owners and institutional investors with more than \$1 trillion in funds under management.

Through our research, engagement, advocacy and voting recommendations, ACSI supports members in exercising active ownership, which enhances the long-term value of the retirement savings entrusted to them to manage. ACSI members can achieve value for their beneficiaries through genuine and permanent improvements to the ESG practices of the companies in which they invest.

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. As part of the transition to a low-carbon economy, 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 consultation paper, *Setting, tracking and achieving Australia's emissions reduction targets* ('consultation paper'). We note the consultation paper is wide-ranging in focus and we have mainly focused our responses on the topics of the 2035 NDC target, sectoral pathways and carbon credits. We see these as among the most important policy levers that the government is able to deploy to support real decarbonisation. In summary:

- **ACSI welcomes the three frameworks designed to inform the strategic direction of the Climate Change Authority's advice.** We encourage embedding the consideration of the interrelationship between

biodiversity and climate change in the Progress Framework.

- **ACSI strongly supports the establishment of a 2035 target aligned with the Paris Agreement goal of limiting warming to 1.5°C.** Any target should be science-based and aligned with an orderly transition.
- **Setting sector pathways is an essential support for guiding an orderly, just transition, and a means to identify policy gaps.** Clearer sector pathways will also support company transition plans, investment decisions and assist in measuring progress to net zero over time. ACSI has identified some principles to guide the development of sectoral pathways for the Australian context, including utilising existing work and consulting with technical experts, investors and industry.
- **Investors are concerned about carbon credit integrity.** While the use of carbon credits is unavoidable for some sectors as the economy transitions to net zero, carbon credits need to have integrity to support a real reduction in emissions. We encourage the introduction of mandatory disclosures around the nature of offsets to enable investors and other stakeholders to ascertain the credibility of offsets used in transition plans and activities.
- **ACSI supports a consultation on an Australian Carbon Border Adjustment Mechanism.** Discouraging the offshoring of emissions should be a governing principle of climate policy. A CBAM will be one lever to discourage the offshoring of emissions.

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

## Frameworks (issue 2)

ACSI welcomes the three frameworks outlined in the consultation paper to inform the strategic direction of the Climate Change Authority's advice. We have some minor comments on the individual frameworks:

- **Strategic Framework.** The framework outlines the actions and enablers of the net zero transition. Our view is that policy certainty will be a key support of early investment in decarbonisation. Setting a 2035 emissions reduction target that is aligned to the Paris Agreement ambition, and developing sector pathways to 2050, will be key components of policy certainty. In addition, as part of this Framework the Government should provide greater clarity on future industrial development and priorities in Australia as the global economy transitions to net zero.
- **Progress Framework.**
  - **First Nations.** We welcome the inclusion of First Nations peoples as a priority group in assessing progress towards a just transition and resilient nation. This recognises that First Nations peoples face heightened risk from the impacts of climate change, and also have a fundamental role in protecting and managing Australia's natural resources. First Nations peoples should both have their rights protected and should equitably share in the benefits from the transition to net zero. The transition to net zero will require engagement with First Nations communities which should be done in a way that adheres to the principle of Free, Prior and Informed Consent. ACSI's policy on [Company Engagement with First Nations People](#) sets out guidance on good

practice in respecting the rights and interests of First Nations people.<sup>1</sup> ACSI encourages the measurement of progress against these areas in the Framework.

- **Biodiversity.** There is a fundamental interconnection between climate change and biodiversity, both in terms of risks to biodiversity but also with nature-related solutions to climate change.<sup>2</sup> We welcome the inclusion of natural capital in the Progress Framework and would encourage the Climate Change Authority to ensure consideration of nature is deeply embedded across the Framework.
- **Just Transitions.** We welcome the inclusion of an assessment of progress towards a just transition and resilient nation. Important monitoring areas include assessing the impact of the transition on workers and communities, as well as evaluating the progress of the implementation of a federal just transition framework.<sup>3</sup> It will also be important for the Climate Change Authority to co-ordinate with the Net Zero Authority to support the integration of just transition policies in the Framework.

### Targets (issue 3.5)

Australia's 2035 target should be aligned with limiting warming to 1.5°C.

ACSI welcomed the updated Australian NDC 2030 target of a 43% emissions reduction on 2005 levels, as a floor, not a ceiling, for policy ambition.<sup>4</sup> ACSI encourages the Government to set a science-based 2035 target that aims to limit warming to 1.5°C. Climate change presents material economy-wide financial risks that investors cannot easily mitigate, even in a diversified portfolio. 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. A Paris-aligned 2035 target would provide a strong medium-term policy signal to investors that incentivises greater investment in decarbonisation and supports an orderly transition to net zero. The updated NDCs put forward by Australia at each five-year interval should also be guided by science, otherwise they risk being viewed as sub-standard in the international community and international financial markets.

It is important that any 2035 target not lag international ambition. If Australia is perceived as a climate laggard, it may be a less attractive destination for international capital and be less internationally competitive overall. For example, the expected introduction of carbon border adjustment mechanisms internationally may result in Australia becoming a less favourable supplier due to the higher carbon costs of our products.<sup>5</sup> A 2035 target aligned to limiting warming to 1.5°C would align with commitments made by other developed economies internationally as well as the targets set by State Governments within Australia. For example, the UK has committed to a 78% emissions reduction on 1990 levels by 2035. This is consistent with pursuing efforts to limit warming to 1.5°C.<sup>6</sup> Within Australia, Victoria has announced a Paris Agreement aligned 2035 target that

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<sup>1</sup> [Company Engagement with First Nations People | ACSI](#)

<sup>2</sup> [ACSI Biodiversity Research Report](#)

<sup>3</sup> [ACSI A Just Transition to a Clean Energy Economy](#)

<sup>4</sup> [Key cross-sector groups call for passage of Climate Bill | ACSI](#)

<sup>5</sup> [Australian Industry Energy Transitions Initiative – Supporting Australian Industry in working towards net-zero carbon supply chains](#)

<sup>6</sup> [UK enshrines new target in law to slash emissions by 78% by 2035 - GOV.UK \(www.gov.uk\)](#)

represents a 75%-80% reduction on 2005 emissions levels.<sup>7</sup> Similarly, New South Wales has committed to reducing emissions by 70% by 2035.<sup>8</sup> Setting a Paris-aligned 1.5°C target will also support the more than 50% of our members and the 95 companies in the ASX200 who have disclosed a net zero commitment.<sup>9</sup>

In addition, we recommend that policy makers develop credible, science-based sector pathways aligned with limiting warming to 1.5°C to support the development of a 2035 target. The development of sector pathways is discussed in more detail below. Setting a Paris Agreement aligned 2035 target, underpinned by sector pathways to 2050, would also provide policy signals that will encourage investment in decarbonisation.<sup>10</sup> This is an opportunity for Australia to extract more value both up and downstream, as well as grow export industries in critical minerals, green metals, batteries, renewable hydrogen and ammonia. Developing these opportunities at scale will require a national strategy to stimulate growth in renewables-powered exports.

### **Sectoral pathways (issue 3.2)**

Climate change presents both risks and opportunities for investors. Early investment in a just and orderly transition to a net zero economy would provide the best economic outcomes as well as supporting Australia to build a globally competitive decarbonised economy. A disorderly transition would likely result in significant financial losses, with negative outcomes including stranded assets, stranded capital, workforces and communities, and greater political and investment instability.<sup>11</sup>

For Australia, and investors in the Australian economy, to reap the benefits of the transition, a national strategy for an orderly and just transition is required. Sectoral pathways would provide critical information inputs required to support a national strategy. Sectoral pathways provide modelling for each sector that demonstrate how climate commitments and emissions reduction targets can be reached. They provide information on how, and in what timeframe, specific sectors may reach net zero emissions under different conditions.

Sectoral pathways would:

- **Guide capital flows.** 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.<sup>12</sup> Sectoral pathways can guide capital flows into the investments that support a fast and orderly transition to net zero. However, to unlock investment, the roadmap needs sufficient detail on investment requirements, funding channels and capacity, underlying assumptions, and supporting policy and institutional settings. Sectoral pathways should address finance/investment needs in sufficient detail, such as timeframes and regional splits, to support investor requirements. Inclusion of investors from the outset in consultation on sector pathways will increase the likelihood pathways contain sufficient consideration of the investor perspective.

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<sup>7</sup> [Climate action: Victoria's emissions reduction target for 2035 | Engage Victoria](#)

<sup>8</sup> [NSW sets new emissions target to become 'engine room' of low carbon global economy - ABC News](#)

<sup>9</sup> [ACSI Climate Change Disclosure in ASX 200.](#)

<sup>10</sup> [IGCC Making the Transition Happen](#)

<sup>11</sup> [ACSI A Just Transition to a Clean Energy Economy](#)

<sup>12</sup> [Australian Industry Energy Transitions Initiative – Supporting Australian Industry in working towards net-zero carbon supply chains.](#)

- **Underpin corporate transition plans.** Company-level transition plans would help investors to more effectively assess the risks and opportunities of climate change to the company's medium and long term corporate strategy. Sector pathways would both guide a company's transition plans, by offering possible pathways at a sector level, and assist investors in assessing the credibility of their investee's transition plans.
- **Identify areas for policy action.** Sectoral pathways would provide an indication of where policy action is required to enable an orderly transition to net zero. They would also underpin existing policy designed to support decarbonisation. For example, sector pathways need to be developed before the 2026-27 review of the Safeguard Mechanism to understand whether the baselines set for facilities truly reflect an appropriate share of the emissions reduction task. They may also identify policy priorities such as tax or other incentives to support sectors with a high need for new technologies and/or high capital expenditure and R&D costs.

ACSI considers the development of sector pathways to be a priority for the Climate Change Authority and for Government as they would provide a detailed roadmap to underpin policy and guide company decarbonisation action. We consider that the following principles should underpin the development of sector pathways:

- **Delivered by mid-2024.**<sup>13</sup> As noted above, Australian climate policy, and company plans, will likely rely on these sectoral pathways as one input to guide an orderly transition. Development of sector pathways is essential to support to early investment in an orderly transition to net zero. Consequently, robust, science-based sectoral pathways should be publicly released as soon as practicable.
- **Where practicable, leverage existing work from independent experts.** There are a range of models, globally and within Australia, already used to create sector pathways for different scenarios. The Climate Change Authority should incorporate relevant work that is currently underway or has been completed by independent experts and identify the gaps to be filled to develop pathways that reflect Australian-specific risks and opportunities. Key examples of work specific to Australia already completed include:
  - Australian Industry Energy Transitions Initiative's 2023 report, [Pathways to industrial Decarbonisation](#) that outlines different pathways to decarbonization for heavy industry in Australia<sup>14</sup>. This work brings together independent technical experts and industries to identify net zero pathways for heavy industry supply chains, leveraging the AusTIMES (Australian implementation of the TIMES model) under three scenarios: incremental (>2°C), industry-led (2°C), and co-ordinated action (<1.5°C),
  - Climate Analytics' 2020 report, [Climate Action Trackers Scaling Up Climate Action Series Australia](#), using three scenarios: national, best-in-class, and 1.5°C Paris Agreement Compatible.

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<sup>13</sup> [Safeguard Mechanism Reforms: Joint Finance Industry Statement | ACSI](#)

<sup>14</sup> [Australian Industry Energy Transitions Initiative – Supporting Australian Industry in working towards net-zero carbon supply chains.](#)

- o Climateworks' 2020 report, [Decarbonisation Futures: Solutions, actions and benchmarks for a net zero Australia](#). The report models three Australian scenarios using AusTIMES: 'All-in' (1.5°C, policies and technology), 'Deploy' (2°C, policy focused) and 'Innovate' (2°C, technology focused), across the electricity, buildings, transport, industry and agriculture and land sectors in Australia.

In addition to those set out above, the Science Based Targets initiative (SBTi) <sup>15</sup> has been progressively building out sector pathways that are recognised globally. SBTi has already completed pathways for power generation, cement, forest, land and agriculture, information and communication technology, maritime and apparel and footwear. Pathways for oil and gas, transport, steel, chemicals, building and aviation are currently in development, while aluminium is in the scoping phase.

- **Consult with experts, investors and industry.** As part of the development process, the Climate Change Authority should undertake a period of consultation with independent experts, investors and industry on the sector pathways. The process followed by AEMO in developing future energy scenarios may serve as an example. AEMO consulted with policy makers, consumer representatives and industry participants and consulted to latest technical research to develop five Integrated System Plan (ISP) scenarios.<sup>16</sup>

### **Carbon credit integrity (issue 3.7)**

Some use of credible offsets will be required for hard-to-abate sectors as part of the transition to net zero. As such, transparent disclosures from companies about the nature of the offsets is essential.

The commitment by the Government to implement all the recommendations of the Chubb Review, and the recent release of the Implementation Plan is welcomed as it responds to many concerns around carbon credit integrity. We note the consultation paper discusses a range of means to ensure abatement integrity including discounting issuance of ACCUs and the creation of a supply-side reserve. Mandating increased disclosure by entities around the nature of the offsets used would also assist in ensuring abatement integrity and therefore the Government should ensure that the mandatory disclosure regime requires appropriate disclosure.

As noted in [ACSI's response to the Chubb Review](#), there is limited public information about ACCUs and their use.<sup>17</sup> This lack of transparency was acknowledged by the Chubb Review as contributing to concerns about the credibility of ACCUs. More fulsome disclosure is required to reassure investors that the offsets used are credible and contribute to a real, rather than paper, decarbonisation. We note that the Implementation Plan incorporates consultation on requiring additional information to be disclosed around the nature of the ACCU projects themselves and disclosure of unit holdings (Recommendation 4). We encourage this consultation to consider the range of information required to determine the credibility of an offset. A range of sources, such as the Oxford Offsetting Principles<sup>18</sup> and the Integrity Council for the Voluntary Carbon Market's Core Carbon Principles<sup>19</sup>, outlines the key information required to assess the integrity of offsets. The final ISSB Climate-related

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<sup>15</sup> [Science based targets](#)

<sup>16</sup> [AEMO 2021 Inputs, Assumptions and Scenarios Report](#)

<sup>17</sup> [Australian carbon credit units \(ACCU\) framework | ACSI](#)

<sup>18</sup> [The Oxford Offsetting Principles | Smith School of Enterprise and the Environment](#)

<sup>19</sup> [The Core Carbon Principles - ICVCM](#)

Disclosure Standard ('the Standard')<sup>20</sup> also provides a helpful framework for the types of disclosure around offsets, including:

- the third party scheme used to verify the offsets,
- the type of carbon offset, including whether the offset will be nature-based or based on technological carbon removals and whether the amount intended to be achieved is through carbon removal or emission avoidance, and
- any other significant factors necessary for users to understand the credibility and integrity of offsets intended to be used by the entity (for example, assumptions regarding the permanence of the carbon offset).

### **Contributions beyond Australia's borders (issue 3)**

Financial markets are global. Australian investors invest around the world, and vice versa international capital flows into Australia. For Australian asset owners that have portfolio-level decarbonisation ambitions, it would be counterproductive to shift emissions from one part to another of their portfolios. The discouragement of offshoring of emissions should be a governing principle of climate change policy.

The introduction of a Carbon Border Adjustment Mechanism (CBAM) is one lever to discourage offshoring of emissions. We support the plan to hold a consultation on the development of an Australian CBAM in 2023.

I trust our comments are of assistance. Please contact me or Brigid Richmond, Analyst, Policy and Research (brichmond@acsi.org.au), should you require any further information.

Yours faithfully



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Chief Executive Officer  
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<sup>20</sup> [IFRS - Climate-related Disclosures](#)