7 April 2009

Committee Secretary
Senate Select Committee on Climate Policy
PO Box 6100
Parliament House
Canberra ACT 2600
AUSTRALIA

By email: climate.sen@aph.gov.au

Dear Secretary

The Australian Council of Superannuation Investors (ACSI) would like to thank you for the opportunity to present a submission to the Select Committee Inquiry on Climate Policy.

ACSI represents the interests of 42 not for profit superannuation funds. ACSI provides its members with advice and information on the impact of corporate governance, environmental and social issues on the long term performance of companies. On behalf of its members, ACSI discusses these issues with Australian listed companies. ACSI members collectively manage over $250 billion of Australians retirement savings.

Any climate change policy designed to achieve global reductions in greenhouse gas emissions will require a very large deployment of capital. The contribution of public funding, including public debt funding, will not be sufficient. It is therefore certain that the necessary investment will depend to a significant extent on investment by superannuation and pension funds.

The proposed introduction of an emissions trading scheme in Australia has inevitably given rise to special pleading by businesses who seek protection from an emissions trading scheme's actual or perceived effects, notwithstanding the concessions made within the proposed scheme to deal with, for example, emissions intensive trade-exposed industries. Our concern is that long-term investors in listed and unlisted markets have not been sufficiently heard in the climate change policy debate.

We would welcome an opportunity to speak directly with the Committee.

Investors' interest in climate change and climate change policy

As significant investors across all parts of the Australian economy and indeed the global economy, our members take a keen interest in issues that will affect long-term retirement savings. The risks from climate change affect all sectors of the economy and their costs cannot be avoided for diversified long-term portfolios.

As institutional investors, our members have a fiduciary obligation to address long-term risks for their beneficiaries. As long term investors, any risk that is not managed effectively creates uncertainty that is detrimental to investment markets.

Our members are significant owners of Australian companies. We recognise that businesses are major contributors to carbon pollution, although the degree may vary depending on the nature of a particular business. However, we also recognise that Australian businesses have operated and made strategic decisions within an existing regulatory environment, and therefore transitional arrangements will be required to enable them to adapt to this new environment. We also accept that households will need assistance to adapt to a low-carbon economy.

This submission comments on the terms of reference of the Inquiry generally, and specifically on those parts which we feel are in the interests of long term investors.

Climate change risks for Australia

ACSI accepts the broad scientific consensus that the global climate is changing, and is likely to continue to change in the future, which will result in higher temperatures, more drought, rising sea levels and more extreme weather. We agree that these changes are very likely due to increased levels of anthropogenic carbon pollution in the earth's atmosphere. We recognise research that identifies climate change as posing social, environmental and economic risks that could create severe social and economic disruption, particularly within the Australian context.

We believe this situation warrants urgent action to limit the amount of carbon that is released into the atmosphere. We believe that decisive, early action to combat climate change is less costly than the economic consequences of delayed or ineffective action. Delayed or diminished action increases the risk that further, more severe intervention will later be required, at greater cost to the economy, to investors and to our member funds' beneficiaries. In this regard, we acknowledge and accept the Government's election commitment to a target of 60% reduction by 2050.

We observe that the central purpose of an Australian emissions trading scheme, and the international scheme or schemes to which it will hopefully be allied, is to achieve the level of global abatement necessary to avoid the disastrous consequences outlined in the Government's Green Paper on a Carbon Pollution Reduction Scheme (Green Paper) and White Paper on a Carbon Pollution Reduction Scheme (White Paper). In circumstances where deeper cuts become manifestly necessary, we would support Australia revising the above commitment.

The current global financial crisis does not mean that Australia should delay taking decisive action to reduce Australia's carbon emissions. New technologies and industries for a low carbon future represent a valuable opportunity to create Australian jobs and to contribute to the economic wellbeing of our region.

The choice of emissions trading as the central policy to reduce Australia's carbon pollution.

We accept that a "three pillars" approach to addressing climate change (that is, reducing greenhouse gas emissions, adapting to climate change that we cannot avoid, and helping to shape a global solution) is necessary for Australia.

We accept that a cap and trade emissions trading scheme is an economically responsible mechanism for driving desired behaviour towards reducing greenhouse gas emissions, and that it is the accepted international standard. A cap and trade emissions trading scheme allows the market to set a price on carbon, thereby driving investment towards the most cost-effective ways of reducing carbon emissions, and such a scheme is capable of being linked to similar schemes internationally.

However, we believe that an emissions trading scheme alone will not be sufficient to drive the required structural and behavioural changes throughout the economy and society.

As long term investors, we recognise the need to balance the urgency of emissions abatement with the need to get the design of an emissions trading scheme right, and to achieve community buy-in. We support commencing an Australian emissions trading scheme at the earliest practical opportunity, as we believe this will allow business to adjust more easily over time. We strongly recommend that the commencement of a trading scheme is not delayed.

The members represented by ACSI hold investments across the Australian economy and therefore we do not have specific sectoral interests, but we do have an interest in both the maintenance and growth in value across all investments.

ACSI has a preference for an Australian emissions trading scheme that has maximal coverage of industry sectors. For our members, comprehensive coverage of sectors and of greenhouse gases is desirable in order to maximise abatement opportunities and efficiencies, to minimise the costs of a scheme to all scheme participants and to avoid unintended distortions. However, we do recognise that there are practical constraints on universal coverage.

ACSI supports the inclusion of agriculture in an Australian emissions trading scheme within the medium-term time frame. We believe that excluding emissions from agriculture on a permanent basis would place an unfair burden on other parts of the economy, and would blunt Australia's development of emissions abatement technologies in agriculture.

Although a carbon emissions trading scheme will involve costs for some companies, a scheme that fails in its objective of significantly reducing carbon emissions will expose the portfolios of long term investors to greater costs in the medium and longer term. These include climate adaptation costs, opportunity costs, and the probability of further, and more intrusive regulatory action (with attendant economic uncertainty, disruption and transition costs).

Shielding companies from a carbon emissions trading scheme does not support their longer term value, as it limits their development of effective carbon mitigation and climate adaptation strategies that are suited to the realities of a domestic and international carbon-constrained economy. The more sectors that are excluded from an emissions trading scheme, the higher the cost faced by the covered sectors and, ultimately, consumers.

We support the design of an Australian emissions trading scheme that allows it to link to international markets. We recognise that short-term restrictions on international trading may be necessary in the early years of such a scheme, but support measures to have full international trading as soon as practicable.

Appropriately structured early linking to developing countries in the Asia Pacific region could provide sustainable development opportunities that could improve the livelihoods of some of Australia's neighbours.

The relative contributions to overall emission reduction targets from complementary measures such as renewable energy feed-in laws, energy efficiency and the protection or development of terrestrial carbon stores such as native forests and soils.

As mentioned above, we believe that an emissions trading scheme alone will not be sufficient to drive the required structural and behavioural changes throughout the economy and society.

Mandatory renewable energy scheme

ACSI supports the Government's election commitment to increase the Mandatory Renewable Energy Target to 20%. Contrary to any criticism that this policy is inconsistent with an emissions trading scheme, we believe the mandated increase in non-fossil energy is warranted so as to allow time for an emissions trading scheme to send a price signal resulting in the deployment of new technology.

Reform of the electricity sector

ACSI strongly supports reform of the retail electricity market to ensure carbon costs are passed through, and consumers receive a clear price signal in relation to carbon intensive electricity generation.

Forests

ACSI believes forests have a crucial role to play in emissions abatement, both within Australia and internationally. Long term investments can drive development of forests both for harvest and sequestration. We also note that sustainable forest management is an industry that reduces emissions. Further, we believe Australia is well-placed to develop the kinds of legal and financial instruments through which investment might be applied toward the protection of sustainable management of tropical rainforests and other forests as carbon sinks. Once developed, this model of financial instruments could then be replicated elsewhere including in developing countries. It is also our understanding that such models are under development with particular emphasis on developing countries and meeting sustainable development objectives as well as carbon management objectives.

Energy efficiency assistance for households and businesses

ACSI strongly supports using revenue from an emissions trading scheme to assist households and businesses in achieving emissions abatement and adapting to the impacts of an emissions trading scheme.

Whether the Government's Carbon Pollution Reduction Scheme is environmentally effective, in particular with regard to the adequacy or otherwise of the Government's 2020 and 2050 greenhouse gas emission reduction targets in avoiding dangerous climate change.

An appropriate mechanism for determining what a fair and equitable contribution to the global emission reduction effort would be.

No national carbon emissions reduction scheme will be effective in isolation. Global co-operation and action is required to solve a global problem.

Although we recognise that international policies are extremely difficult to achieve, prudent investors recognise that the most socially equitable contribution to the global emissions reduction effort would be on a per capita basis. Therefore, countries with higher emissions per capita should be required to make a proportionately higher contribution to emissions reduction efforts.

Whether the design of the proposed scheme will send appropriate investment signals for green collar jobs, research and development, and the manufacturing and service industries, taking into account permit allocation, leakage, compensation mechanisms and additionality issues.

Emissions intensive trade-exposed industries

Our submission to the Green Paper recognised that emissions-intensive trade-exposed (EITE) industries will require assistance to prevent carbon leakage and to support and maintain the significant employment and investment in many EITE industries. However, our submission also noted that the primary filter for assistance should be trade exposure, and that emissions intensity per se should not create a need for assistance.

Our submission advocated that any assistance that is given to EITE industries must be given in a way that provides incentives to these industries to reduce their emissions and pursue energy efficiency measures over time and noted that there are many other reasons to preserve those industries operating in Australia, including their contribution to wealth creation, industry development, skill formation, job creation, research and development and Australia's defence and security.

The White Paper states that the Government will allocate around 25% available permits to assist EITE industries (or 35% if agriculture becomes part of an emissions trading scheme). The White Paper also states that EITE industries will be expected to contribute to the national improvement in carbon productivity at the rate of 1.3% per year, which is less than the economy-wide improvement that will be required to achieve the Government's target for Australia's overall emissions reductions. This means that the proportion of permits provided to EITE industries is expected to rise over time, and could increase to around 45 per cent of permits by 2020. We are concerned that this will mean that the rest of the economy will carry an increasing amount of the burden for carbon reduction.

Coal-fired electricity generators

ACSI's submission to the Green Paper recognised that some compensation to coal-fired electricity generators is warranted on fairness grounds and to avoid the unfair imputation that Australia's investment market is subject to sovereign risk. Our submission advocated that any compensation to the coal-fired electricity generation sector should be:

- of a capital nature only, and should not affect the price or revenue of generators. In particular, there should be no free allocation of permits;
- offered on a "once and for all" basis, with the quantum calculated prior to the commencement of the scheme; and
- calculated by reference to medium term caps, and also the degree to which the facility is "strongly affected".

Emissions targets and scheme caps

ACSI supports setting an indicative national emissions trajectory for a minimum of five years, which is extended every year by one year. Investment certainty is better facilitated by as long a trajectory as possible.

We also support the use of gateways of at least 10 years ahead to promote investor certainty. On balance, we prefer continuous gateways over periodic gateways.

Conclusion

Climate Change is one of the risk factors that our members consider in the selection of investments. We therefore support early and effective action by the Australian Government in tackling climate change on an economy-wide basis. As institutional investors in listed and unlisted companies and in assets across all sectors of the Australian economy, with a focus on long as well as short-term returns, it is important that the long-term costs to the economy of taking action to tackle climate change are minimised.

The members of ACSI are significant owners of Australian companies and whilst we recognise that businesses are major contributors to carbon pollution, we also recognise that Australian businesses have operated and made strategic decisions within an existing regulatory environment. Therefore transitional arrangements are required to enable them to adapt to this new regulatory environment. We also accept that households will need assistance to adapt to a low-carbon economy.

The outcome of action or inaction on climate change will be borne out in the returns that are generated for members of the superannuation funds we represent. We are firmly of the view that the costs of early and effective action will be less than the costs of delayed or insufficient action. We recognise that comprehensive coverage of industry sectors and of greenhouse gases are desirable in order to maximise abatement opportunities and efficiencies, while also minimising the costs of the scheme.

The design of an Australian emissions trading scheme should facilitate certainty, market efficiency and integrity, and minimise the economy wide costs of reducing emissions. Given the central role of emissions data to an emissions trading scheme, a strong monitoring, reporting and assurance regime will ensure that emissions reported under the scheme are accurate and transparent. Reporting at the entity level is essential for investors.

Australia is well regarded in the region for the strength of its regulatory institutions and overall high level of market integrity. The proposed introduction of an effective Australian emissions trading scheme would place Australia in an excellent position to develop into a regional hub for carbon trading activities and we welcome the Government’s commitment to linking an Australian emissions trading scheme with international markets and schemes, with a preference for open trade.

Appropriate governance and transparency must be an essential tenet of the operation of an Australian emissions trading scheme. We fully support the stated commitment from the Government that “every cent raised from the selling of permits will be used to help households and businesses as they make the move to a clean energy future.” To satisfy this commitment, an appropriate disclosure regime must be put in place.

The Australian investment community is very much aware of the impact of carbon on investments and the economy and it is the view of both organisations that we must move forward on this issue to ensure that carbon risk is managed effectively.

Yours faithfully,

Michael O’Sullivan
President, Australian Council of Superannuation Investors