CLIMATE ENERGY FINANCE

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INTERGENERATIONAL REPORT: OPPORTUNITY REMAINS TO MOBILISE SUPER FOR NET-ZERO TRANSFORMATION

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Treasury has released its latest modelling into where Australia's economy and Federal budget will be 40 years from now. 2062 sees a bigger, older population suffering from climate change, with the economy larger but less productive overall.

The Intergenerational Report, released by Treasurer Jim Chalmers last week, is a basis for the Government to consider measures that can address the major trends that will impact the economy: an aging population, technological and digital disruption, climate change and the net zero transformation, rising demand for care and support services, geopolitical risk and fragmentation.

Whilst identifying the significant impact of climate change and the decarbonisation of the economy, the report missed the opportunity to fully quantify the economic impact these forces will have across the economy and on the Federal Budget.

The Treasurer rightly highlighted the real strength of Australia's position to generate world scale green energy more cheaply than most countries and to benefit from value-adding embodied decarbonisation to enhance the export value of the world's largest reserves of critical minerals and metals.

There was other good news for the Budget, too.

The superannuation balances of Australians, already worth over $3.54 trillion, will continue to rise and play a significant role in reducing reliance on government healthcare and the Age Pension. This contributes to smaller cash deficits than Treasury forecast in previous reports.

Treasurer Jim Chalmers has the opportunity to ensure superannuation plays an even greater role in setting Australia's economy up for the next 40 years. This includes not just by relieving pressure on government-funded services, but by releasing the anchor tethering funds to equities and infrastructure of the past – including high-carbon equities and assets – and enabling greater investment into the where Government agrees the economy, equities and infrastructure need to go, such as the net-zero transformation – the defining challenge and opportunity of the coming decades.

A recent review by Treasury found that the Your Future, Your Super (YFYS) Performance Test, introduced by then-Treasurer Josh Frydenberg in 2021, "can unintentionally affect investment decisions of all funds to reduce the risk of failure and closure by encouraging short-termism and benchmark hugging as well as discouraging certain investments".

Stakeholders to the Treasury review pointed out that the YFYS Performance Test was having unintended consequences and impacting the investment decisions of all funds. Those unintended consequences included:

- encouraging short-term decision making
- discouraging investments that are not well represented by historical benchmarks
- reducing choice, diversification, active management, and innovation
- increasing systemic risk, including the creation of bubbles.

Financial Services Minister Stephen Jones has singled out the heightened existential risk to values-based products, which are typically leading low carbon and renewable infra investments. Minister Jones stated in April that "values-based products were a key example where the investment strategy may deviate from the benchmarks, increasing the risk of failure and constraining the trustee's ability to meet its members' objectives".

Director of Diplomats for Climate Action NowJanaline Oh and CEF's Tim Buckley highlighted this issue in their five reforms to boost Australia's climate finance in a rapidly decarbonising world, noting that "these benchmarks currently favour incumbent firms, and recently they became heavily skewed to fossil fuel companies as a result of temporary windfall gains due to Russia's war on Ukraine".

As Oh and Buckley write, "Changing the benchmark to include low-carbon indices would help to unlock the $3.5 trillion in Australian superannuation assets for climate-responsible investments, and ensure that funds are not penalised for prioritising their members' long term interests in having a liveable planet over short term cyclical financial windfalls from highly polluting industries."

In its response to Superannuation Performance Test Regulations, the Clean Energy Investor Group found that the (YFYS) "Performance Test continues not to be beneficial for investors in renewable energy, with performance benchmarks incorporating renewable energy assets with unlike assets." CEIG points out that "not optimising incentives for investment in renewables assets could have structural impacts for the wider national economy".

The Intergenerational Report demonstrates the strategic advantage Australia has thanks to our robust superannuation industry. By adjusting the benchmarks away from historical profiles towards forward-facing ones, the Treasurer can ensure super is aligned to where our economy is going, enabling stronger financial performance and mobilising this massive pool of capital to catalyse Australia's world-leading opportunity for leadership in the global energy transition, rather than being tied to high-carbon equities and assets of a previous age.