6 September 2023

Re: Net Zero Transition Planning Workshop 3 - Financial Institutions

We thank you for the opportunity to consult with the NSW Treasury, the NSW Office of Energy and Climate Change and the Sustainable Finance Unit of the Commonwealth Treasury and provide input into your decision on whether a nationally consistent approach to transition planning is needed, what guidance would assist businesses and how efforts can best be coordinated.

A national approach is needed to plan the economy's transition to net zero

Our collective measure of success will be how well we allocate scarce resources – atmospheric, land, water, human and financial – to support the net zero transition. [Treasury]() has the power and the mandate to respond rapidly to changing events and directions, and act with a whole-of-economy perspective to safeguard economic and fiscal outcomes. [Climate related financial risks]() are characterised by radical uncertainty and we therefore need government to actively steer market actors in the transition. A nationally consistent approach to planning the transition must be accompanied by shifting financial incentives to facilitate a managed transition, for example by ceasing fossil fuel subsidies and using [best practice measures set out by the World Bank]() to address the green investment gap and crowd in private capital by incentivising early investments and ensuring the right price signals, particularly on carbon emissions. Importantly, to seize the magnitude of investment, employment and export opportunities, [Australia needs another $100bn of patient public capital and incentives]() – such as advanced manufacturing tax credits supporting domestic supply chains – to derisk the decarbonisation strategy and crowd-in $200-300bn of private capital.

Guidance that would assist businesses

Financial institutions allocate capital with a view to minimising risk and maximising returns. Contributing to Australia's net zero transition, however, requires them to also consider the impact of their lending and investment decisions on national decarbonisation imperatives. Creating the right price signal would be key. Our recommendations include, but are not limited to, the following:

1. Financial institutions need guidance on which activities, sectors or industries drive, catalyse and contribute to the transition, versus those that impede the transition, and those whose impact on the transition is neutral or negligible. This should be clearly distinguished from any guidance about what activities may be consistent with a net zero economy, but do not contribute to or catalyse the transition. Consistent with a whole-of-economy approach, guidance should extend beyond entity-level emissions, to consider whether products or services reduce or entrench their customers' and/or suppliers' dependence on high energy use or fossil fuels (Scope 3, including exported emissions). Accompanying this, is the need for identifying activities, sectors or industries that face impediments to accessing capital, especially early-stage. Transitioning a sector may not be the same as transitioning existing entities within a sector – finance to existing large companies seeking to transition should not come at the expense of younger, nimbler green enterprises.

2. Transition plans must align to 1.5 degree scientific decarbonisation pathways, especially from a climate change mitigation perspective, and 1.5 degrees must remain the long term aspirational goal

with increased investment in carbon removal if we overshoot. An entity should adopt and report against a credible science-based target. Pathways and targets should align with Australia's Nationally Determined Contributions (NDCs, that must also ratchet up to be science-aligned). Notwithstanding Australia's insufficient 43% domestic emissions reduction target, offshore Scope 3 emissions should not be exempt from consideration. We need to plan for a much more ambitious 2035 target of >75% reduction. Entity targets should be backed by credible research and data, and be audited and verified by independent specialists who sign off on the input data and verify the integrity of the pathway logic. Sectoral pathways should disclose clear phasing of the proposed technological solutions (at 2-3 year time horizons) and their respective roll out, including cost feasibility, capex allocations and required capacity and competency building. There must be regulatory guidance that prevents pathway and scenario cherry picking, which is a form of greenwash that causes significant transition delay. For example Woodside Energy acknowledges a transition pathway where LNG production demand falls by 80% by 2040, yet its operations and CAPEX are entirely inconsistent with this pathway, with production expanding this decade.

For fossil fuel producers, there should be two plausible pathways: 1) planned winddown with no upstream capex in new discovery and near term super dividends to investors from cash flow generation of older assets or 2) reinvested capex into zero emissions activities, renewables and firming + VC into climate solutions in early stage – including the potential to become a pure play CCS service provider offering services for hard to abate sectors in the transition. Both of these pathways require planned winddown of fossil fuel production in line with sector pathways from the Climate Change Authority, and both require environmental remediation and fair treatment of workers and communities. There should be no third pathway where companies invest in CCS and continue to expand fossil fuel production.

3. A nationally consistent approach can only happen if linked into our regulatory frameworks. It would be inconsistent with Australia's approach to financial regulation for guidance on transition plans for finance sector entities to be issued outside of Australia's financial regulatory frameworks. A pathway to integrate transition plans into Australia's financial regulatory frameworks is to develop a prudential practice guidance (PPG). Prudential Guidelines provide direction to APRA-regulated entities, setting out practices and steps that entities can follow in order to comply with APRA's prudential standards. To ensure harmonisation across banking, superannuation and insurance prudential guidance on transition plans could be incorporated into a revised CPG 229 Climate Change Financial Risks. The PPG should provide clarity that net zero targets that are not science based and aligned to a 1.5 degree pathway are not consistent with prudential expectations. ASIC should also issue regulatory guidance for corporates under their regulatory guides or information notes, as was done with ASIC's greenwashing guidance.

We welcome the opportunity to discuss and participate in further consultation.

Sincerely,

Nishtha Aggarwal and Tim Buckley, Climate Energy Finance
e: nishtha@climateenergyfinance.org & tim@climateenergyfinance.org
p: +61 412 321 946 w: www.climateenergyfinance.org