

15 December 2011

Ms Jillian Broadbent AO
c/o The Secretariat
Clean Energy Finance Corporation

Sent by email to cefc@treasury.gov.au

Dear Jillian,

RI Academy submission: Clean Energy Finance Corporation

BACKGROUND

The Responsible Investment Association Australasia (RIAA) welcomes the Australian Government's consultation on the Clean Energy Finance Corporation (CEFC). As the peak industry body for responsible investment in Australasia, RIAA applauds the policy initiative and reforms that underpin the establishment of the CEFC and Clean Energy Future Package more broadly.

We agree with the importance placed on the need to overcome capital market barriers that hinder the financing, commercialization and deployment of renewable energy, energy efficiency and low emissions technology.

Whilst we believe there are a number of commercial and policy issues that need to be addressed in this context, we have limited our comments in this submission to critical education, training and skill imperatives that must accompany the implementation of the CEFC (and Clean Energy Future Package more broadly) if private sector investment is to be mobilized as intended to facilitate growth in clean energy technologies and sustainable enterprise more generally.

In particular, we view the quality and speed of education and training initiatives deployed as being integral to the success of not only the CEFC and other elements of the Clean Energy Future Package, but also Australia's ability to:

- Generate regional and global competitive advantage in the "low carbon" growth industries
- Drive new export markets and jobs growth across industry sectors (particularly with respect to the development of low emissions technologies, "high end" manufacture of these technologies and the export of this knowledge and IP)

- Build on current industry strengths (for example in education and financial services) by integrating key sustainability capabilities to drive further innovation, industry development, jobs and export market development

KEY RECOMMENDATIONS

- That the establishment and development of the CEFC be accompanied by education and training programs (for investment, financial services, capital markets and professional services industries) addressing:
 - Local market and international needs to transform current approaches to energy production and consumption
 - Climate change and broader sustainability imperatives underpinning the need for immediate action (see below for further detail)
 - Changing cost relativities within the energy mix, demand and supply issues, etc.
 - Local market and international initiatives, particularly regarding technology and infrastructure development
 - Impacts of the above for investment decision making, company and shareholder performance, risk management, valuation and the efficient allocation of capital.
- That the abovementioned programs be supplemented by additional consumer based “literacy” programs that help engender community wide understanding of the need for transformative approaches to energy production, use, supply and demand management.

These recommendations are explained in further detail below.

RATIONALE

The Government has now set in place some key initiatives to help leverage private sector investment to fund Australia's low carbon re-industrialisation and clean energy future (and thereby promote economy wide innovation, job creation, export and industry opportunities).

However, in addition to market price signals and investment provided for via the Clean Energy Future Package, Australia must ensure key investment, financial services, capital market and

professional services industries are adequately trained, if the flow of private sector investment to sustainable enterprise (exhibiting commitment to energy efficiency, renewable energy and/ or low emissions technologies) is to be realised.

Put simply, private sector investment dollars will not effectively flow from institutional or other investors to sustainable enterprise (and not in the timeframes required to meet the scientific imperative to act on climate change) unless current skill and knowledge gaps regarding clean energy (and associated ESG risks and opportunities) are addressed.

In the absence of this occurring, innovation, industry, jobs growth and export opportunities will also be significantly impeded.

In this regard, current carbon pricing measures introduced via the Clean Energy Future Package, (whilst both welcome and important), will not produce a sufficiently strong price signal in the short to medium term to help catalyse the requisite investment in energy efficiency, renewable energy or low emissions technology.

This position is exacerbated by the current political impasse regarding “real” action on climate change more broadly. Indeed, notwithstanding the progress recently achieved at Durban, the failure to secure binding international agreements thus far has meant no reduction in global emissions (indeed emissions have almost doubled since Kyoto’s inception) and has also contributed to an absence of bi-partisan political support (including in Australia) for more effective action. In addition to broader training and education needs, this position also creates unique challenges for investment and capital markets, which need to be overcome.

Given the International Energy Agency's recent dire climate change predictions (2011 World Energy Outlook), we consider the need for broad-based ESG training (and ensuing skills, cultural and organisational change) even more important to help unlock private sector funds that can be directed towards climate change mitigation (and adaptation) activities in the shortest possible timeframes.

In essence, (and irrespective of 2050 targets), the opportunity to sufficiently grow critical low-carbon industries is closing. In this regard, if two-degree warming is to be avoided, rapid clean energy industry growth is needed within the next five years if long-term measures have any chance of success. The time required to build and deploy clean energy industries (at sufficient scale) represents a significant limitation to achieving the two-degree target.

In this context, it has been estimated that \$10 trillion will be required in the coming decade to fund the transition to a low-carbon economy, at a pace rapid enough to address run-away climate change. Whilst available capital at institutional, HNW and retail level is more than adequate to fund this requirement, effective mobilization necessitates a range of policy measures – including rapid training of key stakeholders in investment, financial services, capital and professional services markets. Whilst we applaud the Government’s efforts to date, in many respects training remains the “elephant in the room” that needs to be addressed if private sector investment as envisaged is to materialise.

This training is required for two key reasons:

- Firstly, to overcome knowledge and capacity issues, such that investment decision making processes adequately consider and value energy efficiency measures, renewable energy and low emissions technologies (with consequent spin-off benefits for jobs, industry and export market development).

Appropriate training of investment, financial services, capital market and professional services industries will help embed “cultural change”, industry acceptance and desire to explore clean energy investment opportunities. It will also assist markets to overcome “weak” (albeit important) price signals provided by current carbon pricing measures.

That is to say, carbon pricing plus the CEFC, plus grants and other programs will not on their own achieve desired results and not within the timeframes required - a major missing link is targeted education and training, without which the flow of private sector investment will be significantly impeded.

- Secondly, in addition to ensuring private sector investment is appropriately mobilized, it is imperative that Australian investors are not subject to additional and unnecessary market dislocation (and potential wealth diminution) arising from a lack of preparedness and understanding of changing economic, industry and political drivers concerning low carbon re-industrialisation and the future energy mix.

Given the importance of superannuation to all Australians and the scale of our retirement and broader savings pool, it is critical that key investment, financial services, capital market and professional services industries are appropriately trained in relation to these and related ESG issues. Given the extent and importance of the issues involved, this is essential to ensure that any ensuing market volatility can be appropriately managed to maximize future prosperity.

This skill and training gap has been well articulated previously:

MINISTER FOR ENVIRONMENT, HERITAGE AND THE ARTS, PETER GARRETT AM MP, SPEECH TO RIAA'S STAKEHOLDER CONSULTATION FORUM TO ESTABLISH THE RESPONSIBLE INVESTMENT ACADEMY
AUGUST 2008

"...we need to build the capacity of Australia's investment industry to incorporate environmental, social and governance issues into investment analysis and decisions. Like so many other industries in Australia today, responsible investment is constrained by a skills shortage.

If investors are not equipped to account for the impact of climate change on investments, they ultimately contribute to sending the wrong price signal to the market. If lower risk companies are not recognised through higher share prices this also has the potential to impact on the allocation of capital in the economy.

It is critical then to build the knowledge of finance industry professionals to factor in environmental, social and governance issues in their decision making and so influence the allocation of economic resources to companies that manage climate change risks. This should increase the pace of adaptation to a carbon constrained economy and, let's face it, a carbon affected planet.

The Academy's primary objective is to address this skills gap so that we can establish clear, realistic price signals for pollution, energy, waste, water, contamination and the loss of biodiversity. And by doing that, of course we achieve behavioural change, we see the emergence of new management techniques, new analysis and forecasting practice, greater sophistication in pricing risk, and an additional focus on new and emerging technologies, with all of these helping us on the journey of mitigating and adapting to climate change."

MINISTER FOR SUPERANNUATION AND CORPORATE LAW SENATOR THE HON. NICK SHERRY, SPEECH TO CEDA
OCTOBER 2008

"The very nature of superannuation investment is long-term. As more or less permanent holders of stock in Australia's largest listed companies, superannuation funds, perhaps more than any other group of investors, are placed to take advantage of long term opportunities, and are most exposed to long term risks.

There is realisation within the industry that a range of environmental, social and governance (ESG) issues pose a core investment risk with the potential to impact heavily on the viability of investments. An understanding of the impacts that ESG factors can have on investment performance is critical for sustainable, long-term economic growth.”

**THE HON. CHRIS PEARCE MP, PARLIAMENTARY SECRETARY TO THE TREASURER,
ADDRESS TO THE NEW SOUTH WALES SUPREME COURT AND LAW SOCIETY CONFERENCE
21 AUGUST 2006**

“... Moving forward, the challenge for Government is to identify and remove obstacles to the economic influences that would otherwise encourage company directors to adopt sustainable business practices.”

**SENATOR THE HON. NICK SHERRY, MINISTER FOR SUPERANNUATION AND CORPORATE LAW,
CLOSING KEYNOTE ADDRESS TO AUSTRALIAN CENTRE FOR CORPORATE SOCIAL
RESPONSIBILITY, 3RD ANNUAL CONFERENCE
FEBRUARY 2009**

“...Business and the financial markets do not, and cannot exist in a void, isolated from the communities and the environment in which they operate. While terms like “corporate social responsibility” and “responsible investment” may sound altruistic, they all boil down to sustainable business practices. The kind of business practices Australia needs right now.”

**SENATOR THE HON. NICK SHERRY, MINISTER FOR SUPERANNUATION AND CORPORATE LAW,
SPEAKS TO ETHICAL INVESTOR: RI IN UNPRECEDENTED TIMES
MAY 2009**

“The integration of ESG issues into the investment analysis and decision-making process represents a fundamental change to the investment and business environment. I believe this will prove to be profound as the industry understands the materiality of these issues and its capability to incorporate these considerations continues to develop.

The abovementioned programs for investment, financial services, capital market and professional services industries should be accompanied by user / consumer based literacy campaigns, that also highlight the objectives and purpose of the CEFC, reducing cost relativities associated with renewable energy, false economies associated with current energy markets, international trends and initiatives.

In totality, these campaigns are required to stimulate both “top down” support from private sector investment markets (e.g. superannuation investors, corporates, etc.) and “bottom up” pressure (from retail and consumer markets) to help mobilize all available pools of capital across the investment value chain (i.e. institutional, HNW, mass affluent, retail, superannuation and non-superannuation, international, etc.).

Such measures are also necessary to help embed “cultural change” across economic and industry activity and to reinforce the natural popular tendency to support the development of renewable energy (i.e. a recent Essential Research poll found that 89% of people agreed with the proposition that “Investing in renewable energy is good for people and the environment” with only 6 per cent in disagreement, and 5 per cent undecided).

THE RESPONSIBLE INVESTMENT ACADEMY AND THE CEFC

The RI Academy (an initiative of RIAA and the Federal Government established in 2009) is a world first, on-line training facility, dedicated to helping investment, financial services, capital markets and professional services industries understand and address ESG risks and opportunities.

It has been designed to meet global demand for ESG training (including with regards to energy efficiency, renewable energy and low emission technologies) and is currently being rolled out to institutional investors and others key stakeholders in global markets.

A non-exhaustive sample of local market institutional investors that the Academy is currently engaged with include:

ACT Government	Statewide Super
AustralianSuper	Emergency Services and State Super
Catholic Super	Local Government Super
CBUS	Local Super
Christian Super	LUCRF Super
First State Super	Media Super
GSJBW Superannuation Fund	NGS Super
Health Super	UniSuper
HESTA	Uniting Financial Services
HostPlus	Victorian Funds Management Corporation

As noted, such activities are being supplemented by extensive contact with other key stakeholders across local and global investment, financial services, capital markets and professional services industries.

The RI Academy is a unique and market-leading training tool that could greatly assist the CEFC to overcome the abovementioned training, skills and “cultural” barriers that have the ability to significantly frustrate the flow of private sector investment to sustainable enterprise.

In this regard, key stakeholders within the “ESG integration ecosystem” to whom the RI Academy is being directly marketed include:

- Asset owners and large institutional investors (including superannuation / pension funds, insurance companies, private equity funds, foundations and charitable investors etc.)
- Asset managers (operating in wholesale and retail markets)
- Asset consultants
- Banks and other diversified financial institutions (including investment banks, retail banks, etc.)
- Non-bank financial institutions, including building societies and credit unions
- Wealth managers (including tied and independent financial planning groups, private banks, private client operators, stockbrokers, family offices, accountants, etc.)

- Self-managed superannuation funds (SMSF)
- Companies (across industries and sectors) needing to understand how ESG and sustainability issues will affect company performance, shareholder value, and the future deployment of investment capital
- Professional services firms
- Government and regulators
- Industry bodies, universities and other academic institutions, NGOs, policy groups

Within these various industry groups, the RI Academy has been designed to appeal to a broad cross-section of workforce functions – all of which play an important, interrelated and mutually reinforcing role in practically embedding ESG integration across markets.

These various workforce functions are linked to five critical activities:

- Investment decision making and the delivery of financial products and advice (across wholesale and retail markets)
- Company business strategy and operating model execution
- Reporting, disclosure, risk management and compliance
- Delivery of professional advisory services
- Policy making and regulation

In this regard, a non-exhaustive sample of global professionals for whom the RI Academy holds relevance include:

- Analysts (buy and sell-side)
- Portfolio managers
- Asset consultants

- Risk personnel
- Legal and compliance personnel
- Research personnel
- Financial advisors (covering retail, mass-affluent and HNW markets)
- Marketing and distribution personnel
- Investor relations and PR personnel
- Finance and credit personnel
- Corporate responsibility, sustainability and responsible investment teams
- Strategy and operations personnel
- Senior executive teams and middle management (including with group responsibility for the abovementioned functions)
- Professional services personnel (including, accountants, auditors, consultants, lawyers, actuaries, engineers etc.)
- Boards of Directors and Trustees

These markets constitute millions of professionals across local and global markets.

TESTIMONIALS

Some testimonials as to the RI Academy's capabilities are outlined below:

"As a leading service provider to investment, capital and professional services markets, we are investing significantly in new products and services that help professionals better address ESG risks and opportunities - this is an important element of our ongoing business model.

Our ability to execute on this strategy requires (in part) a market that is better educated as to what ESG issues are, how they are impacting value and why they will continue to be so important going forward.

We believe the RI Academy addresses these needs and has an extremely important role to play in continuing to train global markets. We look forward to our continued collaboration".

Amanda Dobbie
Chief Executive Officer
Bloomberg, Australia and Asia

"As a mainstream investor, Colonial First State Global Asset Management views the consideration of ESG issues as fundamental to robust risk assessment and the quality of our investment decision making. Our commitment to responsible investment is increasingly a differentiator for our business, and a growing licence to operate for the investment industry.

We have trained a wide range of occupations within our organisation using the RI Academy, and will continue to do so. We see this as critical to embedding ESG integration within our business model and across our teams.

The RI Academy is the gold standard and unique in the marketplace. We expect it to gain in prominence in line with policy, market and industry developments."

Nick Edgerton
Manager ESG Research and Engagement
Colonial First State Global Asset Management

"As the largest life insurer in New Zealand, Sovereign recognises the importance of ESG issues to our industry and in particular their impact on pricing and risk. The RI Academy is an extremely well put together course, and it is helping us better understand how we can integrate these issues into our investment frameworks.

I've also found it helpful in understanding manager selection processes, and in further explaining the links between ESG issues and financial outcomes. It's a great initiative – a highly informative and helpful course."

Hilary Zheng
Strategy Manager
Sovereign

"We believe that you are the leading e-learning provider for responsible investment.

It is a tribute to RIAA that you have applied yourself to taking mere content and turning it into credible, structured training. We realise that this is far from a trivial matter and that much so-called training is merely presenting content."

Glen Saunders
Treasurer
United Nations-backed Principles for Responsible Investment

NEXT STEPS

Low-carbon re-industrialization and the transition to energy efficiency, renewable energy and low emissions technologies presents private sector investment with what is likely to be the economic opportunity of the century.

Achieving the scale and pace of development needed (particularly to meet climate change imperatives within required timeframes) requires an active enabling role to be played by Government policy, in a number of areas. As outlined, one of these (and in our view the most critical) is key stakeholder training and skills development to help catalyse the desired flow of private sector investment to sustainable enterprise.

Training of the nature outlined will also help drive innovation, jobs, as well as industry and export growth opportunities in Asia and broader global markets. Private sector investment and capital market participants that are highly skilled and ESG-aware are more likely to be able to understand, promote and fund clean energy investment, leading to industry and economy wide benefits for all Australians.

We would welcome the opportunity to discuss this submission with you in further detail and if of interest consider how the RI Academy might be employed to assist the CEFC. Should you have any questions in relation to the above, please do not hesitate to contact us.

Kind regards,

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