1 December 2023

sustainablefinanceconsultation@treasury.gov.au

Sustainable Finance Unit - Climate and Energy Division
Treasury
Langton Cres
Parkes ACT 2600

Dear Madam/ Sir

FEEDBACK AND RESPONSE TO SUSTAINABLE FINANCE STRATEGY

Goodman Group welcomes the opportunity to provide comments on the Sustainable Finance Strategy consultation paper. Please find attached our feedback and response.

We look forward to further engagement on this important issue and would welcome any direct feedback from you.

If you have any queries or wish to discuss this submission, please reach out to myself at nick.vrondas@goodman.com

Yours sincerely

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Goodman Group (GMG) is the largest listed property entity in Australia and the largest landlord of its kind in the nation. Holding a global portfolio that operates in several countries and managing funds for some of the largest sovereign and pension funds in the world. Goodman Group is committed to sustainability and has outlined the pillars making up its 2030 Sustainability Strategy, sustainable properties and places, people, culture and community and corporate governance. Through these pillars, GMG contribute to nine of the seventeen UN (United Nations) Sustainable Development Goals.

GMG believe that the development of an Australian Sustainable Finance Strategy is a key step and should apply to all market participants (not just “large reporting entities”). This will allow comparison and mitigate the risk of the creation of a “black market” for externalities.

We would also encourage a policy position where industry specific specialists and market participants be allowed to determine the exact methods and metrics for reporting. This can be a taxonomy which is broadly aligned with global peers, but still allows each sector or company to use their methodology which best suits their needs, thereby accommodating the nuances of each sector as opposed to a singular, centrally determined measure. For example, prescribing specific energy intensity methods across different asset types or asset uses, to try and create comparable and meaningful data sets is currently not a viable proposition.

Industry experts in each sector are still developing their tools for measurement and so a flexible approach to reporting will be required. However, reporting and availability of data is inadequate.

For example, industrial property landlords like Goodman Group (as opposed to Office and Retail owners), have limited access to data as leases are on a “net” basis, where the tenant is responsible for procuring and paying for their power. This means that the tenant is the direct customer of the power provider.

As an Industrial landlord, we have little access to that data and no legislative support exists to enforce tenant disclosure. We cannot, as landlord, “reach into” higher emissions disclosure (e.g., Scope 3) or set accurate targets for mitigation as these are broadly outside the landlord's control. Even with access to emissions data alone, the conclusions need to be accompanied with a relativity to productivity of output of the building (e.g. volume of goods moved) to make the information more relevant. Further to this, a comparison of the alternative methods of warehousing and distributing goods will need to be measured to give a complete picture of the true impacts.

When considering the Sustainable Finance Strategy, GMG believe leading industry specialists and market participants should determine the exact methods and metrics for reporting. Here, the “market mechanism” may be the most efficient route for sound sustainable financial disclosures and the consequential labelling of products as there are now several recognised bodies and certifications available. Entities should be allowed to determine what the most appropriate measures are as long as they are recognised and accepted by end users. To avoid creating a “black market” for externalities, this policy should apply to all market participants, not be restricted to listed and large companies.

Goodman believes a globally aligned taxonomy is crucial for the success of Australia. Attracting capital is critical for property markets, along with many other entities, that operate globally, so an Australian taxonomy that is globally aligned is an important factor to help facilitate capital formation. The principles for property should,

- Be aligned with entrenched industry determined reporting tools like the NGER definitions & boundaries and TCFD but at the same time, these should not be mandated as the technologies and methods are evolving quickly.
- Acknowledge that industry is best placed to determine which tools and methods are best, if they are generally accepted. This should be the role of the regulators (i.e. not to determine which tools but that the tools used are generally accepted by the market and there is due process).
- Provide sufficient latitude to enable entities to distinguish between a broad range of sub asset classes within the real estate sector.
- Acknowledge that emissions from asset occupiers/operators are not landlord emissions.
- Not adopt SBTi (Science Based Target Initiative) scope 3 taxonomy as default.

Ideally an Australian taxonomy should broadly confirm alignment with the EU (European Union) taxonomy to increase cross border sustainable capital flows and assist with creating a global standard. The Australian taxonomy, should also be broad enough to allow each sector or company to use their methodology which best suits their needs, thereby accommodating the nuances of each sector as opposed to a singular, centrally determined measure.

The Sustainable Finance Strategy policy should exercise caution when determining reporting metrics to avoid the risk of misinterpretation of data due to oversimplification. For example, within the real estate sector, there are potentially significant differences in methodology between the sub classes of assets. Our objective (and that of our peers) is to reduce emissions and increase resilience. Our reporting should allow the market to monitor progress in the intervening period in accordance with the pathways each entity has determined. Participants should be allowed to determine what is material and to communicate that using one of the recognised industry specific methods that best represents their own circumstances.

To further illustrate, we note that industrial buildings may have a range of users with different throughput and power consumptions (depending on the degree of automation the occupier employs within the premises), these can result in vastly different emissions profiles for what are otherwise identical buildings. A better measure will be the power consumed per cubic meter or kg of goods moved through the warehouse. Furthermore, the location of two identical properties can create significant scope 3 emissions and biodiversity impacts depending on locality. These considerations should be taken account of, but the data is currently not available. While the NABERS for Warehouses and Cold Stores rating tool now exists to benchmark environmental performance including the consideration of an annual turnover ratio, this is a tenant led tool due data ownership, and to date has had minimal uptake. A significant challenge to measuring these scope 3 emissions is access to the data to create appropriate measures.

Despite sharing similar long-term objectives, the transitional measures that drive ratings and investor behaviour are short term, companies should in the first instance disclose what they consider appropriate rather than having a proscribed set of mandatory criteria. The property industry is best placed to create disclosure based on current practice and market feedback. Until such time as methods are developed and the skills/processes are in place, the regulator need only be able to substantiate that reasonable attempts have been made.

Access to accurate and granular data is critical. To create meaningful reporting on scope 3 emissions tenants should be compelled to provide their scope 1 and 2 emissions data to landlords on a property-by-property basis with a plan on how they can reduce them. Similarly, they should also be required to disclose the most important productivity measures (for example – the throughput of goods). This must be universal otherwise the “black market” for emissions will emerge. It is at this time that accurate and relevant scope 3 emissions information should be mandatorily reported. From that, strategies can be assessed and financing opportunities that are linked to these can be created without causing unwanted market distortions and the misallocation of capital.