

Circular Economy Ministerial Advisory Group

Submission on the Sustainable Finance Strategy

Thank you for the opportunity to comment on the Sustainable Finance Strategy (strategy) consultation paper. I provide this submission in my role as Chair of the national Circular Economy Ministerial Advisory Group. The enclosed submission represents the views of the Advisory Group as an independent advisory body.

Our advice is distilled into the three recommendations on page 2, with more detailed reasoning and responses to individual questions provided in the body of this submission. Our advice reflects recent discussions with the Hon Dr Jim Chalmers MP, the Hon Chris Bowen MP, and the Hon Tanya Plibersek MP, as well as key members of the financial and corporate community, about the critical and cost-effective role of the circular economy in reaching net zero by 2050.

Our recommendations also support the Government's broader productivity objectives. The circular economy represents a real opportunity for sustainable economic growth and productivity for Australia. KPMG has estimated that improving the way we use materials in the food, transport and built sectors alone could add \$210 billion to Australia's GDP by 2048.¹ In addition, a European Commission study estimated that each percentage point increase in resource efficiency in the EU could create between 100,000 and 200,000 additional jobs.²

The Advisory Group recognises and supports the focus on climate mitigation in the current version of the strategy. We propose to strengthen this focus by linking climate mitigation with sustainable consumption and production (circularity) through the strategy. Without the circular economy, increasing consumption will outpace Australia's ability to transition to a renewable grid, creating a continued dependency on fossil fuels. This is now recognised by the Government, with all sectoral decarbonisation plans including a focus on the circular economy.

But Australia also needs to direct capital towards circular economy activities, and firms need to be thinking about its climate risk mitigation potential. This can be achieved by incorporating circular economy activities into the taxonomy, green bonds framework, and disclosures. Without these additions, financing is unlikely to flow towards the sustainable consumption and production activities that will be essential for a successful net zero transition.

I trust that our advice will be helpful and thank you for taking the time to consider our submission. Please reach out if there are any aspects you would like to discuss.

Yours sincerely



JOHN THWAITES

Chair, Circular Economy Ministerial Advisory Group

¹ [Potential economic pay-off of a circular economy - KPMG Australia](#)

² [Resource Productivity and the Circular Economy: The opportunities for the UK economy](#), 2018.

Summary of our recommendations

Recommendations

1. The Australian Government should expand the scope of its **sustainable finance taxonomy** and **Green Bonds framework** to include the circular economy, in line with international best practice. At a minimum, the taxonomy should include **‘do no significant harm’** requirements for the circular economy.

Why: Including the circular economy in Australia’s sustainable finance taxonomy will safeguard against greenwashing, by defining genuinely circular activities, and raise the profile of these activities as relevant pathways for business to mitigate climate change through resource efficiency. This alignment between net zero and circular economy is recognised in leading international sustainable finance and climate-focussed taxonomies. Including ‘do no significant harm’ clauses mitigate the risks of prioritising net zero activities that are material or waste intensive (i.e. counterproductive to a circular transition).

2. As an immediate and interim step the government should **encourage voluntary sustainability reporting** aligned with the materials/resource-focussed aspects of ISSB S1, alongside mandatory climate-related reporting. The Australian Government should then **mandate disclosure of these sustainability-related risks** and opportunities.

Why: Adopting disclosures aligned with S1 will ensure firms are considering material-related risks and opportunities, including obsolescence of linear business models. Addressing materials and resource efficiency, including sustainable consumption and production of materials, is an essential aspect of the net zero transition but this is not widely appreciated by Australian firms. These disclosures will help firms to consider Scope 3 emissions and enable investors to appreciate the full carbon account of organisations. Their adoption would also simplify communication with investors by creating a standardised reporting expectation, avoiding the need to respond to bespoke reporting requests.

3. Explore with **ASIC and AICD opportunities to raise the profile of circular economy activities in directors’ duties**. This could include asking the Australian Accounting Standards Board and ASIC to create guidance for how businesses can use the circular economy to comply with new climate-related disclosure requirements.

Why: Circular economy approaches can help address material and foreseeable risks for businesses from climate change, pollution and waste. There is not currently good guidance on the relevance for business and the role of managing these risks in Director’ Duties.

Background

Circular Economy in Australia

In October 2022, all Australian environment ministers committed to working with the private sector and industry to design out waste and pollution, keep materials in use and foster markets to achieve a circular economy, by 2030.

The World Economic Forum has identified the unsustainable production and consumption of goods as a root cause of both climate change and biodiversity loss. A circular economy is an economic model promoting sustainable and efficient use of resources to address these issues. It shifts away from the linear ‘take, make, use and dispose’ consumption model to a circular approach where the value of resources is retained for as long as possible.

The circular economy is not an end in itself, but rather an economic means of prioritising the value of resources to ensure they are sustainably managed. In practice the circular economy involves strategies like:

- Designing out waste and pollution
- Reuse, repair, recovery and recycling of materials and products
- Sharing, leasing, maintenance
- Refurbishing buildings
- Lightweighting products and materials (dematerialisation)
- Improving durability and repairability
- Greater innovation in materials, products, and business models
- Waste avoidance

Circular Economy Ministerial Advisory Group

To support Australia’s transition to a circular economy, the Circular Economy Ministerial Advisory Group was formally established by the Hon Tanya Plibersek MP in February 2023. The group is composed of 15 circular economy experts, including Australia’s Chief Scientist, the former CEO of CSIRO, and CEOs of Engineers Australia and Chemistry Australia to name a few.

We provide advice to the Australian Government, through the Minister for the Environment and Water, on:

- opportunities associated with Australia’s circular economy transition (nationally, and within specific sectors)
- regulatory, commercial and other barriers to a more circular economy
- best practice initiatives that show promise for adoption and/or expansion in Australia
- circular economy research, development and innovation needs
- effective measurement and communication about progress towards Australia’s circular economy.

Our advice has included a recent, specific focus on Australia’s economic and finance policy settings (see below).

How the Circular Economy Supports Productivity and Net Zero

The 2021 Global Circularity Gap report has modelled that 70% of emissions are associated with the way we make and use products, materials and food. A circular economy helps avoid a portion of these emissions, by keeping existing materials in use and cutting unnecessary consumption

Without the circular economy, increasing consumption will continue to outpace Australia's ability to meet energy demands through renewables. This is why all the Australian Government's net zero sector plans currently under development include circular economy activities for mitigation – and is why the circular economy should feature more prominently in the sustainable finance strategy.

The circular economy is also a cost-effective approach to reaching net zero. Like energy efficiency, better efficiency with our resources helps reduce energy demand. This is why investors like the Clean Energy Finance Corporation are interested in the circular economy. Their analysis has shown that circular economy practices, like using waste products as concrete supplement, are amongst the most cost efficient and effective abatement options in their built environment projects.

Economics and investment in circularity

At our meeting on 9 October 2023, the Advisory Group considered the economics of circularity in Australia and identified barriers preventing investment in circularity from the finance sector. The investment community, including leading superannuation and investment firms, provided advice that they needed:

- consistent definitions to be able to identify and support circular investments.
- better information on circularity as a value proposition for reaching net zero.
- integration of circularity across ESG reporting, reflecting its status as a cross cutting issue.
- a framework for guiding investment and measuring transition progress in the circular economy.

Advice we received also highlighted that under current practice, businesses must develop bespoke reports to meet different investor requirements. Standardised reporting expectations on circularity, as laid out in a national framework, would ensure consistent communication and reduce the reporting burden on industry. It also effectively addresses the risk of greenwashing.

We also heard from the investment community about the importance of incorporating circular economy activities into frameworks to deliver net zero. The Taskforce on Climate-Related Financial Disclosures climate-related risk framework for example, includes resource efficiency as an essential climate change mitigation opportunity. As climate reporting obligations evolve to incorporate emissions embedded in the supply chain, circular economy strategies are increasingly likely to prove essential for companies looking to manage climate, reputational and associated risks. This should be recognised in the Governments Sustainable Finance Strategy.

Responses to consultation questions

The following reflects our advice on specific questions asked in the consultation paper, where the Advisory Group has defined views.

Our responses are ordered to provide international and local context before diving into the specific areas where we propose the circular economy should be included.

Priorities 11 & 12: Promoting international alignment and Position Australia as a global sustainability leader

What are the key priorities for Australia when considering international alignment in sustainable finance?

The circular economy is already recognised internationally in different sustainable finance initiatives – both as a component of the climate-focussed strategies, and as a stand-alone priority. Aligning our own sustainable finance strategy with leading practice is a logical priority.

The EU Sustainable Finance Taxonomy (EU Taxonomy) has included circular economy practices since the beginning of 2023, recognising the links to net-zero and climate objectives. In addition, South Africa and the UK have declared that circularity will be a core objective of their own taxonomies under development.

In a survey by the Global Impact Investor Network (GIIN), more than 40% of investors mentioned sustainable production and consumption as a key theme for their investments. In addition, as of 2020, more than 190 banks representing US\$50 trillion in assets have signed the six Principles for Responsible Banking, the first three of which stimulate the growth of circular economy finance.

The Climate Bond Initiative (CBI) shows that global green bond and green loan issuance reached over US\$250 billion in 2019, up 51% compared to US\$170.6 billion in 2018. The circular economy is addressed in green bonds through the topics of energy efficiency, the management of wastes and the efficient use of natural resources. The link is typically highlighted in the metrics used to underpin the use of proceeds and the reporting to investors on the management of proceeds such as avoided waste, secondary materials used, and materials recycled.

For Australia, integrating circular activities in the Sustainable Finance taxonomy and Green Bonds framework, as well as mandating risk disclosures on sustainability-related matters are the most relevant priorities in aligning internationally.

Circular economy activities also provide early abatement opportunities because they are not dependent on a renewable grid. For example, refurbishing buildings or recycling materials are practices that can be implemented immediately. Including circular economy in the strategy now therefore will enable Government to harness early abatement opportunities, and future-proof the strategy.

What are other key near-term opportunities for Australia to position itself as a global leader in sustainable finance and global climate mitigation and adaptation?

What are some longer-term international sustainability goals for Australia where sustainable finance can play a role?

All Australian environment ministers have committed to transition Australia to a circular economy. Transitioning to a circular economy will enable Australia to fulfil its responsibilities under Sustainable Development Goal 12 (Responsible Consumption and Production) and contribute to various other SDGs.

The circular economy represents both a near and long-term goal for the Australian economy. Australia is currently behind other jurisdictions like Japan and the EU who have been developing their circular economies for some time. Stakeholders have advised that we are in an ideal position to assess what is working overseas and leapfrog ahead by adopting the most effective measures. We strongly believe that with the right incentives and supports in place Australia could very quickly become a global leader in the circular economy. Crucial to achieving this is the ability for our financial frameworks to support investment in these activities.

In the long term, a circular economy underpins our ability to transition to net zero and restoration of biodiversity loss. Investing in activities that lower our material footprint will in turn lower our burden on our environment. The earlier we invest, the better the outcome. For example, constructing infrastructure is materials and emissions intensive. If we invest in smarter designs and smarter materials and factor in resource efficiency upfront, then we lock in the benefits across their lifespan.

Priority 10: Catalysing sustainable finance flows and markets

What role can the CEFC play to support scaling up of sustainable investment in Australia, as part of a more comprehensive and ambitious sustainable finance agenda?

What are the key barriers and opportunities for the CEFC to support financing and market development in areas with significant climate co-benefits, including nature and biodiversity?

The CEFC already recognises the role of the circular economy in achieving net zero. The recently released CEFC Annual Report detailed that during the 2022/23 reporting period, the corporation made four direct resource efficiency and circular economy commitments totalling \$226.3 million, with a total project value of \$558.2 million.

In discussions with the CEFC we heard directly that they see circular economy activities as core opportunities for helping Australia reach net zero. However, they reported there were not as many investment opportunities as they would like. It is this type of advice from investors that has led us to recommend the inclusion of circularity into key features of the Sustainable Finance Strategy.

Priorities 2 & 9: Develop a Sustainable Finance Taxonomy and Issuing Australian sovereign green bonds

What are the most important policy priorities and use cases for an Australian sustainable finance taxonomy? What are the key insights from international experience to date?

What are priorities for expanding taxonomy coverage after the initial focus on climate mitigation objectives in key sectors?

We are pleased to see circularity is already referenced in the strategy as a potential objective in an expanded taxonomy. We support this proposal and have provided a recommendation to the Australian Government reflecting this.

As referenced earlier, we also encourage the Government to recognise that circular economy is not separate from climate mitigation, but instead will be essential to Australia's net zero transition. This means a focus on circular economy in the current strategy is appropriate and not at odds with the climate-mitigation objective. For many industries, activities such as improving resource efficiency, are the key actions they can undertake while the grid decarbonises. Omitting these activities from the taxonomy disincentivises their use and hampers Australia's efforts to reach net zero. Until a circular economy objective can be developed, we urge that the scope of the climate objective in the current version of the taxonomy include circular activities that provide significant contribution to reducing emissions.

At our 9 October 2023 meeting, we noted the importance of including circular economy in the taxonomy to support business engagement with overseas jurisdictions. Australian businesses will need to comply with the EU circular economy reporting requirements as well as criteria being developed in other jurisdictions. Industries with exposure in affected markets will already be thinking about how to report against these criteria. We will need standards and criteria that are interoperable with those being developed overseas but also fit for purpose in Australia. The earlier we develop these, the better we are positioned to respond to international developments and cement ourselves as a sustainability leader.

We would like to stress the importance of including, from the outset, circular economy in the 'do no significant harm' provisions of the taxonomy. The transition to net zero has the potential to be materials and waste intensive if circularity is not considered upfront. The 'do no significant harm' criteria also helps integrate circularity into the climate objective ensuring that all economic activities respect minimum circular economy safeguards.

What other measures can the Government take to support the continued development of green capital markets in Australia?

Including the circular economy in the green bonds framework aligns us with international best practice as described above and is another measure to ensure circular activities with high climate mitigation potential have access to financing. The Advisory Group has included this advice in its formal recommendations to Government.

Priority 3: Support credible net zero transition planning

What are key gaps in Australian capability and practice, including relative to ‘gold standard’ approaches to transition planning developed through the TPT and other frameworks?

To what extent will ISSB-aligned corporate disclosure requirements improve the transparency and credibility of corporate transition planning? What additional transition disclosure requirements or guidance would be most useful in the medium-term?

Are there related priorities and opportunities for supporting enhanced target setting and transition planning for nature and other sustainability issues?

What key sustainability data gaps or uncertainties faced by financial institutions in Australia should be prioritised by the CFR?

Mandating disclosure standards for circularity can support consistent quality in reporting and elevate the profile of circular economy issues with firms. We have advice from stakeholders that businesses are supportive of mandatory disclosures as it streamlines and simplifies reporting requests from banks and insurers. Banks and insurers have also advised that standardised reporting would assist in filling in data gaps and uncertainties related to investing in circular economy activities.

Adopting S1-type standards from the International Financial Reporting Standards would provide suitable coverage of material risks and opportunities for Australia and align with authoritative global standards.

Recognising that adopting this type of standard may require a long lead time, we have recommended that as an interim step, the Government support voluntary reporting in line with S1 – particularly those circular economy elements of S1 that support climate mitigation. This would help prepare the sector and support businesses managing disparate reporting requirements. As such we would welcome Inclusion of support for voluntary reporting in the strategy.

Priorities 6: Identifying and responding to potential systemic financial risks

Are there specific areas where the Government or regulators could further contribute to market-wide understanding of systemic sustainability related risks, including climate-related financial risks?

Several climate risk disclosure frameworks already recognise the role of the circular economy as a climate risk mitigation strategy. For example, the Taskforce on Climate-Related Financial Disclosures (TCFD) has created one of the most comprehensive climate-related risk frameworks, which includes resource efficiency as an essential climate change mitigation opportunity. Captured within their definition of resource efficiency is improved efficiency across production and distribution processes, buildings, machinery, materials, and transport. The TCFD notes that these actions can also improve energy efficiency and typically result in direct cost savings to organisations’ operations over the medium to long term.

As climate reporting obligations evolve to incorporate emissions embedded in the supply chain, circular economy strategies are increasingly likely to prove essential for companies looking to

manage climate, reputational and associated risks. For example, as the electricity grid decarbonises, embedded emissions in buildings will constitute an increasing proportion of emissions from the sector and circular economy strategies in the supply chain will be critical to reaching net zero.

It is not clear to what extent the inclusion of resource efficiency in TCFD's framework translates into businesses incorporating it in their risk frameworks, or whether it will feature in the Australian business community practice with the adoption of mandatory climate-related financial disclosure standards.

We have recommended that the Government take action to contribute to market-wide understanding of how circular economy activity can be leveraged to mitigate climate risk as well as lift the profile of circular economy in directors' duties more generally. We would support seeing this activity incorporated into the strategy.

Priority 8: Ensuring fit for purpose regulatory frameworks

Do you agree that existing regulatory and governance frameworks and practices have adapted well to support better integration of sustainability-related issues in financial decision making? Are there barriers or challenges that require further consideration? This may include:

- **Corporate governance obligations, including directors' duties**
- **Prudential frameworks and oversight, including in relation to banks and insurers**
- **Regulation of the superannuation system and managed investment schemes**

What steps could the Government or regulators take to support effective investor stewardship?

Company directors' duties are pivotal in ensuring that circular, climate-first and sustainable activities are considered in the long-term decision-making and mandate of companies.

The Advisory Group has heard from legal experts that existing directors' duties in many jurisdictions, including Australia, are conceptually capable of being applied to corporate governance failures in the identification, assessment, oversight and disclosure of both climate and linear risks. This duty likely extends to taking reasonable steps to see positive action taken to identify and manage linear risks (i.e. being non circular) and design and implement strategies to manage those risks.

Circular economy focussed litigation generally seeks to hold businesses accountable for their waste-related impacts and to compel changes in corporate practices. Litigation generally falls into two main categories; (1) waste-related lawsuits which tend to focus on companies big-picture policies and actions, and (2) product attribute lawsuits, which focus on particular products and their features such as recyclability and greenwashing.

Directors/boards should be looking at litigation trends to understand emerging risks. The more foreseeable the risk, the higher the priority for directors to consider, quantify and address (including through taxonomies), setting strategies and resource allocation that reduces risk.

Our recommendations, particularly related to the role of ASIC and AICD, help seize the opportunity to raise awareness about the circular economy in corporate Australia.