

Monday, 18 December 2023

Dear Sustainable Finance Unit,

The Clean Energy Council (CEC) welcomes the Treasury's work to create this consultation paper on its Sustainable Finance Strategy. Commitments to sustainable and blended finance will continue to grow in importance as the economic transition to net zero progresses.

CEC is the peak body for the clean energy industry in Australia. It represents over 1,000 of the leading businesses operating in renewable energy, energy storage, and renewable hydrogen. The CEC is committed to accelerating the decarbonisation of Australia's energy system as rapidly as possible while maintaining a secure and reliable supply of electricity for customers.

We welcome the opportunity to comment on the Sustainable Finance Strategy at this stage of consultation, and to continue to engage with Treasury as it further develops and implements the Strategy. CEC members include developers of projects of all sizes, operators of transmission and distribution networks, plus income, equity, and debt investors of all sizes.

CEC recently released its [Power Playbook](#), a comprehensive report identifying several key barriers to investment in large-scale generation with recommendations on how to surmount them.¹ The Playbook provides deeper detail and analysis on uncertainty and risks that investors face, and can provide additional guidance as the Treasurer continues to develop the Sustainable Finance Strategy.

OVERALL RESPONSE

Overall the CEC welcomes and supports the proposed strategy. The three overarching objectives align with supporting private markets – enterprises and capital flows – to provide business opportunities and capital for meeting Australia's sustainability goals and transforming Australia into a clean energy superpower.

¹ [Clean-Energy-Council-Power-Playbook.pdf \(cleanenergycouncil.org.au\)](#)

CEC specifically supports the key principles of:

- Taking a high-ambition approach;
- Beginning with climate goals and progressing, at an efficient pace, to achieve the other important goals;
- Supporting Australia's emissions reduction plan and transition pathway; and
- Aligning arrangements with global markets and supporting bidirectional capital flows.

Likewise, CEC lauds the stated intention to set clear policy targets, develop robust sustainable finance regulatory frameworks, and expand catalytic Commonwealth investment. Doing so will provide financial markets with the clarity, confidence, and capabilities that will marshal private capital essential for the net zero transition.

GENERAL INPUT

CEC encourages the Treasurer to consider two important items not expressly covered in the Consultation Paper along with an item mentioned but

1. THE IMPORTANCE OF TRANSMISSION: MODERNISING AND EXPANDING AUSTRALIA'S ELECTRIC POWER GRIDS

As identified in in CEC's August 2023 [Clean Energy Outlook Confidence Index](#),² modernising and expanding Australia's electric power grids remains a significant barrier holding back investment in large-scale renewable generation. Several investors even identified as one of their two chief concerns. Many investors continue to wait as they seek more certainty regarding when the transmission systems will become robust enough allow new plants to connect, and thus how soon plants will begin to generate revenue, and whether and how much the grid operator will need to curtail plants – thus affecting forward-looking revenue streams.

Simultaneously, improving the grids requires more investment and faces uncertainty, too. Network service providers (NSPs) and AEMO continue to look to the Federal Government, largely via the Rewiring the Nation program, for increased certainty around finance flows to support necessary upgrades to transmission systems, and a concomitant need in distribution systems.

Given the importance of rapidly modernising Australia's power grids, CEC considers that the Treasurer should ensure that the Sustainable Finance Strategy expressly aligns with and supports policies and programs at the Commonwealth and state levels to accelerate actionable projects key to driving more capital toward new generation projects. Key to this will be working and consulting with the CEC and other key stakeholders – such as the NSPs members, developers, and the investment community.

² See p. 21 of Power Playbook.

This action will help support the Strategies first overarching object of “mobilising the private sector investment needed to support net zero, Australia becoming a renewable energy superpower and other sustainability goals.”

2. EXPRESSLY INCLUDE THE INSURANCE INDUSTRY AND INSURANCE CONCERNS IN THE STRATEGY

The CEC notes that the insurance industry globally has played a leading role in working to reduce uncertainties regarding the impacts of climate change on businesses and financial systems and will continue to play a crucial role in mitigating risks – including emerging risks yet to be identified. Simultaneously, insurers in Australia already face challenges providing cover to support clean energy industry members manage risks. Already market dynamics suggest this may be leading to increasing market concentration in some corners of the industry.

The CEC also notes that the Consultation Paper makes no mention of how the Strategy will consider risk and insurance, or whether and how stakeholders from the insurance industry will be included. Given its importance, we encourage the Treasurer to consider expressly engaging the industry in future consultations and ongoing design and implementation of the Strategy.

RESPONSES TO SPECIFIC CONSULTATION QUESTIONS

What are the most important policy priorities and use cases for an Australian sustainable finance taxonomy?

To be most effective, the taxonomy should be designed to ensure additionality. Three components can support ensuring additionality. First, strong technical thresholds that clearly and accurately delineate what qualifies as sustainable finance. Second, metrics that guide firms to assess and report on progress and impact of aligning their financial products and investment portfolios. Third, the taxonomy should link linking performance to eligibility for participation in key programs such as issuing green bonds or receiving funding through them.

To develop metrics, Treasury should consider working with financial institutions and the clean energy industry. Public reporting of firms’ and funds’ performance against these metrics, for example through reporting of progress and performance or perhaps a public ‘scorecard,’ could encourage creating products and portfolios that create additionality.

What are appropriate long-term governance arrangements to ensure that the taxonomy is effectively embedded in Australia’s financial and regulatory architecture?

Creating a plan to mandate use of the taxonomy starting on a specific date will help create market signals for investors. Currently markets lack long-term signals because of the absence of a policy to correct the market failure of not pricing the cost of environmental damages.

What should be the key considerations for the design of a sustainable investment product labelling regime? What are the priorities for addressing greenwashing?

Product labelling should include clear indication of whether and how much additionality the product creates or is likely to create. This will serve as a valuable foundation for addressing greenwashing.

Is there a case for regulating ESG ratings as financial services?

Yes. In particular, effective regulation would help to ensure consistency and interoperability across ESG ratings. Without this, ESG ratings are very likely to remain disparate enough as to confuse investors and frustrate their efforts to understand the different products, likely leading to inefficient investment outcomes.

Additionally, appropriate regulation will help protect against the deleterious effects of conflicts of interest that likely may arise across some firms that develop the ratings and advise investors.

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?

In Priority 6 in the Consultation Paper, Identifying and responding to potential systemic financial risks the mentions that the Treasurer proposes APRA lead this effort and for the CFR to continue and further its work identifying risks, managing them, and practices for financial regulators, such as the identified use of scenario analysis.

The CEC supports this proposed approach and strongly encourages ensuring the scope include insurance for the clean energy industry. CEC understands that already some insurers are hitting risk limits some areas, and thus large-scale asset owners and households alike may be unable to obtain adequate coverage. As the impacts of climate change will increase risks to utility-scale and consumer-scale assets alike – for example, hail damage to solar panels, or flood damage – risk analysis should consider renewable energy at all scales, *and* the renewable energy industry.

This would be best done in consultation with industry. Because the clean energy industry sits at the centre of mitigation efforts, it is important that sites, assets, firms, and households be insurable in a way that supports project feasibility so projects and continue to gain financing, regulatory approvals, and ultimate be built and operate.

CEC is glad to know that Treasury's climate modelling capabilities have been restored to support identifying climate risks and opportunities, and encourages the coordinated, whole-of-government approach mentioned for identifying systemic financial and macroeconomic risks.

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

Many climate change scenario analyses have suggested and explored the risk of increased social impacts such as the risk of increasing forced migration, competition for resources, and international conflict. Such social risks can, and probably would, have material impact on financial systems, financial institutions, and investors. Accordingly, CFR may wish to consider these, utilising any existing work that may be available and partnering other Government offices, such as Defence.

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?

The CEC appreciates the Government's proposed approach on considering regulatory and governance frameworks and practices and consulting with industry on how to bolster them. The CEC is committed to supporting the Government in its efforts to build on progress to date and looks forward to continuing to provide advice and contribute to valuable solutions, including on corporate governance, directors' duties, prudential frameworks, and regulation of the superannuation system and managed investment schemes.

What are the key expectations of the market around issuance of, and reporting against, sovereign green bonds? What lessons can be learned from comparable schemes in other jurisdictions?

As indicated above, they must clearly and credibly result in additionality. Market investors increasingly will want to know – through certification, for example – that the Government's products, too, will result in new projects that create additional mitigation. For green bonds, then, it should be clear when issuances will go toward new projects and when toward refinancing existing projects, and when that may still allow capital flows toward new projects.

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?

In addition to the role of technical advisor to support development of an Australian Sustainable Finance Taxonomy and the Commonwealth's sovereign green bond framework, the CEFC could also help identify and convene other experts to support with technical advice – that is, act as head of a technical advisory group. This could include experts from banks with experience issuing private sustainable finance products.

Extending this, CEFC could potentially provide consideration and advice on whether and how programs from other jurisdictions, for example those that seek to “crowd in” private finance by reducing or defusing credit risk for debt financing, may be adapted for the Australian context.

The CEFC might also explore ways to unlock investment in emerging clean energy infrastructure projects that have difficulty accessing conventional lending such as green hydrogen production. This would provide positive signals to investors that would help projects to scale-up production to reduce emissions for hard-to-abate sectors by developing of a green hydrogen industry that could be financially self-sustaining.

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

Continuing whole-of-Government efforts to support interoperability and harmonisation of sustainable finance policies and best practice. Contributing to international standards, agreements, and harmonisation across the multiple fora (e.g., OECD, IMF, FSB, and others) can support Australian businesses and capital inflows for Australia's net zero transition. Border adjustments seem likely to emerge as an important area for agreement.

Conclusion

The CEC appreciates this opportunity to provide advice to the Treasurer on the Sustainable Finance Strategy. We look forward to continuing to support your further development and implementation of the Strategy. A well-designed and implemented strategy can catalyse the deployment of clean energy in Australia and support the nation's transformation into a Clean Energy Superpower.

Further queries can be directed to Paul Beaton and Rhiannon Evans at the CEC on pbeaton@cleanenergycouncil.org.au and revans@cleanenergycouncil.org.au.

Kind regards,

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