Sustainable Finance Strategy Consultation

TSA Submission to the Australian Treasury

28 November 2023

TyreStewardship AUSTRALIA

Australian Government Accredited Product Stewardship Scheme

Contents

Introduction

About Tyre Stewardship Australia

Tyre Stewardship Australia (TSA) was established in 2014 to implement the national **voluntary** Tyre Product Stewardship Scheme (TPSS) – an ACCC-authorised industry framework to reduce the environmental, health and safety impacts of the 56 million Equivalent Passenger Units (EPUs) which reach their end-of-life in Australia each year.

TSA's vision is of a circular economy for end-of-life tyres that contribute to a sustainable society. It works all along the tyre supply chain to minimise waste and increase value for government, industry, businesses, and consumers.

Relevance of this strategy to TSA

TSA supports **regulatory approaches** to ensure that Australian businesses and investment products deliver strong triple-bottom line sustainability outcomes for the community. Regulatory approaches:

- Ensure that regulated entities are incentivised to deliver beneficial outcomes to the community that would not be delivered by market forces alone
- Provide a level-playing field where all market participants must comply in an equitable manner to mitigate 'free riding'
- Should be implemented to minimise perverse incentives and unintended consequences, such as 'green washing' and 'green hushing'
- Build confidence in the community on the integrity of regulated entities' true sustainability performance.

The issues of free riding, improper sustainability practices and inadequate disclosure are key concerns for TSA in the markets in which it operates, particularly where regulation is lacking.

TSA supports **regulatory approaches** to ensure that Australian businesses and investment products deliver strong triple-bottom line sustainability outcomes for the community, as well as mitigate **free riding**, **improper sustainability practices** and **inadequate disclosure**.

The relevance of the strategy to Tyre Stewardship Australia (TSA) organisation is multifaceted. Firstly, TSA relies on financial contributions from external sources. While funding contributions may not be treated as an 'investment' as envisioned by the strategy, some member companies within TSA are likely to fall under mandatory climate-related financial disclosure requirements, as highlighted in the June 2023 consultation paper and outlined in the AASB exposure draft legislation.

TSA is particularly interested in the implementation of climate disclosure reforms by the government, recognising their centrality to the strategy. These reforms are viewed as crucial building blocks supporting robust climate-related information flows. The Sustainable Finance Taxonomy will also be highly relevant to potential investors in tyre recycling businesses.

Importantly, TSA recommends that the Australian government's proposed Financial System Regulation, envisaged in the Strategy, is implemented in a coordinated and complementary way to **Product Stewardship Regulation**.[1] This is likely to maximize the effectiveness of the Sustainable Finance Strategy and boost confidence among Australian investors, businesses, and consumers in the integrity of the product stewardship and circular economy sectors.

[1] Section 1 describes product stewardship regulation, which TSA believes to be an effective policy solution to ensure that producers take responsibility for the whole-of-life environmental and social impacts of the products they bring to market.

Summary of submission

TSA has identified specific pillars and priorities that hold key significance to our organisation:

- **Priority 1**, which TSA understands focuses on a framework for sustainability-related disclosures[2]
- **Priority 2**, centred on the Sustainable Finance Taxonomy
- **Priority 8**, on ensuring fit-for-purpose regulatory frameworks.

Our submission has the following three 1-page sections:

1. **Complementarity of Product Stewardship Regulation and the Sustainable Finance Strategy:** The potential for the proposed regulations under this strategy to work hand-in-hand with other forms of government regulation (e.g. Product Stewardship Regulation) to maximise the strategy's goals.
2. **Mitigating market and investment risks:** The market risks that arise in the absence of regulation and including sustainability outcomes beyond emissions.
3. **Sustainability outcomes beyond emissions**: To ensure broad coverage of other relevant sustainability outcomes, including circular economy outcomes.

[2] We also understand that Treasury released a related consultation paper on climate-related financial disclosures for corporates in June 2023. TSA is aware that the legislative implementation of these disclosures is still under consultation, with feedback due by March 2024. The consultation paper outlines a 'climate-first' approach, consistent with global practice.

1. Complementarity of Strategy to Product Stewardship Regulation

What is Regulated Product Stewardship

Regulated product stewardship refers to a regulatory approach to ensure that producers, importers, retailers, or consumers take shared responsibility for the whole-of-life impacts of a product. This includes impacts during design, production, use, and end-of-life management.

The *Recycling and Waste Reduction Act 2020* provides a legal framework for the accreditation of voluntary product stewardship schemes and the development of mandatory schemes where necessary. The Australian Government maintains a priority list of products where mandatory product stewardship regulation may be appropriate. Australian Environment Ministers recommended the addition of tyres to the Minister's Product Stewardship Priority List (Priority List) in 2022, signalling the intention to potentially introduce regulation for the sustainable end of-life management of tyres.

How this aligns with the Strategy

Green investment products and stewardship schemes share many challenges with respect to 'green washing/hushing'. To address these risks, regulatory approaches have the potential to instil confidence among investors, businesses, and the broader community. By doing so, these mechanisms not only enhance the quality of information available for investment decision-making but also act as safeguards against improper sustainability practices that lead to poor environmental and social outcomes. Also:

- Green bonds are a potential funding source for stewardship organisations
- TSA agrees with the consultation paper's approach that investor stewardship is likely to be an effective tool to promote long-term corporate performance that contributes to positive sustainability outcomes, and believes that this is strongly aligned with the goals of product stewardship as well
- Both Financial System and Product Stewardship Regulation is likely to provide portfolio and member companies, respectively, a competitive advantage in the Australian and international marketplaces.

TSA feedback and comments

TSA believes that the **co-implementation Financial System and Product Stewardship Regulation** will amplify the benefits of both. This could include for example, the adoption of appropriate climate and sustainability-related financial disclosures by Product Stewardship Schemes.

Many stewardship organisations, due to their size, are unlikely to fall within Group 1, Group 2 and/or Group 3 application of mandatory reporting. However, TSA envisages a strong case to regulate disclosure by Product Stewardship Schemes to ensure that the corresponding member companies report on the emissions decreased/increased through their participation in these schemes with integrity.

Section 4 provides our responses to specific consultation questions linked to the above.

2. Risks to investors in the recycling sector

Demand for recycling capacity

The surge in demand for investments in recycling capacity is being driven by several key factors. An important factor is communities' and investors' growing concerns around sustainability — also a central focus of the Sustainable Finance Strategy. This drive is being reinforced by a range of legislative and policy measures at various levels—local, state, and federal. These include measures such as landfill bans, export regulations, government investment and procurement policies.

The end result is a widespread interest and proliferation of investment opportunities in recycling technology.

Risks to investors

Investors face a range of risks in this context. Potential risks include:

- The absence of viable markets for recovered resources, which undermines the return on investment
- Unsubstantiated claims of technology feasibility within the industry
- Investors difficulty in in verifying the accuracy and legitimacy of information.

Key to mitigating these risks is strong standards of disclosure. Inadequate disclosure exposes investors to a loss of capital. This is true for both institutional investors, as well as individual retail or 'mum-and-dad' investors.

TSA feedback and comments

Investors in recycling technologies and projects will strongly benefit from the Sustainable Finance Taxonomy. TSA supports regulatory approaches to ensuring that disclosures are adequate. There is a risk that some important organisations and investments fall below the threshold for mandatory reporting. To mitigate these risks, there are likely to benefits in exploring the interplay and synergy between Financial System and Product Stewardship regulation.

Section 4 provides our responses to specific consultation questions linked to the above.

3. Sustainability outcomes beyond emissions

Climate focus in these reforms

The emphasis on climate-related aspects within these reforms aligns with international protocols, reflecting a commitment to global standards and collaborative efforts in addressing environmental challenges. Specifically, the reforms concentrate on both Scope 1 and Scope 2 considerations, emphasising direct and indirect greenhouse gas emissions.

Importance of circular economy beyond climate

The significance of the circular economy extends beyond its climate-related implications. Notably, the focus on Scope 1 and 2 emissions does not adequately capture the benefits of a circular economy, which are also relevant to Scope 3 emissions and broader sustainability outcomes.

The utilisation of recovered resources in Australian production mitigates the importation of goods made with virgin materials using emissions-intensive processes.

Potential for collaboration between regulators

Again, there are likely to be opportunities to explore how the implementation of the Sustainable Finance Strategy could align with the introduction of Regulated Product Stewardship for high priority products to address both climate and broader sustainability goals.

TSA feedback and comments

Collaboration between regulators will ensure that companies and investment products are incentivised to address both climate and broader sustainability outcomes, with each regulatory instrument addressing different but complementary goals.

Section 4 provides our responses to specific consultation questions linked to the above.

4. Specific responses to consultation questions

The table below provides answers to specific consultation questions in the consultation paper that are relevant to our submission.

TSA Submission Section	Consultation Question (Consultation Paper Page)	TSA response
Section 1	"What are the opportunities for Government, regulators and industry to support companies to develop the required skills, resources and capabilities to make climate disclosures under the proposed new obligations?": (p.12)	TSA support the adoption of disclosure by stewardship schemes. This provides recognition to companies that are members of robust and regulated schemes.
Section 1	"What are appropriate long-term governance arrangements to ensure that the taxonomy is effectively embedded in Australia's financial and regulatory architecture?" (p.17)	As above.
Section 1	"What steps could the Government or regulators take to support effective investor stewardship?" (p.31)	Provide recognition to companies that are members of robust and regulated schemes, and their investors.
Section 1	"What other measures can the Government take to support the continued development of green capital markets in Australia?" (p.31)	Support access to green bonds for regulated product stewardship schemes.
Section 2	"Are Australia's existing corporations and financial services laws sufficiently flexible greenwashing? What are the priorities for addressing greenwashing?" (p.24)	There are opportunities to strengthen laws to address risks outlined in our submission. Companies seeking investment should represent sustainability performance in Investment Memoranda.
Section 2	"Is there a case for regulating ESG ratings as financial services?" (p.24)	Yes, as outlined above.
Section 3	"What are priorities for expanding taxonomy coverage after the initial focus on climate mitigation objectives in key sectors?" (p.17)	Include circular economy outcomes.