Sustainable Finance Strategy

Treasury: Consultation Paper, November 2023

Smart Energy Council submission

Forward

The Smart Energy Council is grateful for the opportunity to provide a submission in response to the Australian Government on the Sustainable Finance Strategy Consultation Paper.

The Smart Energy Council is Australia's peak independent body for renewables including solar, batteries, and green hydrogen. The council has over 950 members and 65 years of experience in the sector having been established by the photovoltaic pioneers in the 1950s and 60s who designed and built some of the world's first solar panels and solar hot water systems.

The Council understands Australia's transition to a net-zero emissions economy will deliver massive business and economic benefits; it will deliver jobs, attract investment, innovate, and make our economy more productive and competitive, all while delivering a safer climate. Achieving a strong economy and a safe climate is not just possible, it is critical if we are to confront the challenges of the future.

We actively connect the smart energy industry across Australia, building momentum and unlocking the barriers that hold us back from embracing a smart energy future.

The SEC's 950+ members provide us with real-world, empirical insights via thematic working groups that assist the SEC with drafting, testing, and advocating for fit-for-purpose smart energy policy. The discussion and outputs of the SEC working groups provide the basis of the evidence provided in this submission

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With the world's best renewable energy resources, and innovative people and businesses, Australia has the opportunity to be a smart energy leader. As such the Smart Energy Council offers a range of initiatives for consideration.

The Smart Energy Council co-hosts the Climate Capital Forum and whose mission can be found here.

Smart Energy Council key points

A. The paper's priorities need ordering and scope broadened

In terms of importance, The Treasury may wish to consider reordering priorities such that it leads with priority 3. Financial disclosures (current priority 1) are well understood now, being driven by other markets where disclosure regimes are being tried and tested and will largely see private sector finding solutions for themselves in the provision of said disclosures. The same goes for the development of a taxonomy (current priority 2) which is well underway in Australia and New Zealand. The Smart Energy Council commends The Treasury to the Australian Sustainable Finance Roadmap. Support credible net zero transition planning (currently priority 3) can only be done through garnering the government leadership. Once done well, the conditions for investment become considerably improved.

B. Credible net zero transition planning is one of the most important priorities for the Government

More than anything, the nation needs credible net zero transition planning including sector strategies (beyond domestic energy) that help signal to private finance the direction and pace that government wishes to take developments. How firmly that direction is wired into policy is also key to the price put on investments in the Australian marketplace.

A sound, local example is the Clean Energy Finance Corporation which was established by the Gillard Government as a Commonwealth Corporation operating under a mandate from the relevant Minister, but the parameters of the investment are largely codified in legislation making any significant changes dependent on popular support of the parliament.

If sector strategies are the remit of the Climate Change Authority, then consideration must be given to immunising the authority to electoral cycles and changes in government.

The governance of sector strategies is a role that only government can play, and it is a critical one to help unlock the vast capital that is available in Australian private wealth funds.

C. Australia as a sustainability leader that can be a trusted, credible neighbour and smart energy trading partner

With respect to the scope of the consultation paper, the SEC finds it overly focused on financing domestic solutions rather than the opportunity presented from taking a broader regional, if not international perspective to financing the transition and creating constructive bi and multilateral relations with a diversity of nations in Australia's value chain. Priority 12 asks what could help position Australia as a global sustainability leader. The Smart Energy Council feels that this may be better framed as what could help position Australia as a credible and trustworthy neighbour and smart energy trade partner?

As an example, Australia has an immediate opportunity in helping finance smart energy solutions for and in our region. Turning up and financing commensurate with the opportunity, means playing our part in the region and enjoying the double dividend of soft diplomacy. SEC strongly encourages that The Treasury consult across and along government departments including with DFAT to find areas of confluence for Australian smart energy value chains, and regional cooperation around technology transfer.

The paper also could improve on strategies for greening up export finance.

D. Well-functioning financial markets thrive on reliable, relevant, and complete data

As suggested by the prioritisation of climate risk disclosures, sustainable finance taxonomy and finance product labelling, the provision of reliable, relevant, and complete data is instrumental to well-functioning markets (priority 7). Data of this nature enables market players to make informed, effective, and efficient decisions. Where finance is concerned, the language most frequently used includes earnings, growth, and risk.

It is welcome news that the Australian Government has resourced a National Climate Risk Assessment. The World Economic Forum's Global Risks Report 2023 identifies the failure to address climate and other related environmental risks as five of the top 10 global risks to the human species out to 2025 and six of the top 10 out to 2033. However, the financial services industry and others (e.g., local and state governments) require the Commonwealth to publish the Assessment, at every stage of its development. The stories this Assessment would tell would assist significantly with the pricing of risk into financial decisions and enable the private sector to deliver least cost finance to the smart energy sector where it needs to go most. Publication will also assist with the planned exit from certain public and private assets to manage the transition in an orderly fashion, for the benefit of communities and constituents. Failure to publish in a timely manner, would likely lead to mis-priced risk, poor allocation of capital and sub-optimal public policy outcomes.

E. Re-defining "good" for superannuation could unlock billions from our private stores of capital.

Consistent with ensuring fit for purpose regulatory frameworks (priority 8), the Smart Energy Council and the Climate Capital Forum strongly recommend that **the Your Future, Your Super performance test** to utilise benchmarks (for fixed income, indices and other relevant asset classes) that appropriately reflect the other fundamental reforms above, and require APRA's MySuper Heatmap to measure superannuation funds' performance against a Paris-aligned Transition-benchmark rather than standard default, high-emissions indices to encourage the pivot of MySuper default options to track a lower-carbon index, with trustees and members required to 'opt-in' if they choose to pursue high carbon-exposed investments, with all the carbon price and stranded asset risks involved.

The same provision for superannuation trustees requires a reverse onus of proof with respect to the approval of funds to relevant investment purpose.

This has led to trustees no longer being able to find directors indemnity insurance and the impact of this on the quality of directors and ultimately the governance of our very large and important superannuation sector comes into question.

The Treasury could assist by providing better protections for trustees and investors who genuinely want to align to transition and solve for tracking errors. The law needs to **provide trustees with "permission to act", rather than prosecuting for failing an obligation** which is potentially inconsistent with long term director's duties, especially where funds have a large pool of young people who won't be retiring until later this century when climate impacts will significantly impact on the productive capacity of portfolios.

F. The role of government is broader than sovereign green bonds

The Future fund is missing in the consultation paper and could take a lead on long term infrastructure investments. Issuing Australian Green bonds (priority 9) is just one area that the Commonwealth can play on finance.

More could be done to bridge the gap between research institutions such as CSIRO and universities with the market. ARENA operates primarily in grants and grant derivatives; the Clean Energy Finance Corporation has limited activity in early-stage investing. More could be done to capacitate the CEFC to help build a vibrant venture capital market in Australia maximising the chances that the technology that's developed here, likely stays here.

Consideration could be given to a Green Investment Bank more broadly, with the CEFC dealing principally in debt and some blended finance.

In the May budget, $300 million was allocated to fund upgrades to Australia's social housing stock. Some of this money has been taken up by the states to upgrade some of the least energy-efficient public and social housing. An increase in this investment with a co-contribution from the states over a longer period as well as an offer for non-government social housing to utilise and co-contribute to the scheme could unlock significant savings for a sector of the community who are the hardest hit by significant retail energy bills. Consideration should be given as to how blended financial instruments could be structured to invite private capital to participate and scale this essential social equity initiative.

G. Finance exists to serve people, so people need to be in the centre of this strategy and the financial system's aims

The consultation paper's objectives and pillars are reasonable but could be made clearer by directly and consistently naming the different stakeholders for whom the objectives and pillars pertain. This will also help with measuring performance against the final strategy.

Developing a labelling system for investment products marketed as sustainable (priority 4) is the next logical step after the development of a sustainable finance taxonomy. A labelling system would enable consumers to understand the extent to which financial products align with sustainability outcomes. This would help money to flow away from harmful and towards helpful assets and enterprise such as those found in the smart energy sector. The EU's classification provided by Articles 8 and 9 of the Sustainable Finance Disclosure Regime are to be commended.

Enhanced supervision (priority 5) would assist with delivering trust between institutions and consumers; but the role of government needs to be chosen wisely. Trust is built when there is understanding, transparency and accountability of decisions, programs and institutions. Consumer engagement and protections go broader than greenwashing, although these are important.

Social media plays a significant role in the promulgation of experiences between consumers. Their experiences with this sector must remain positive. Bad experiences trigger government investigations and whole industries are held up in red tape such as Royal Commissions after the fact. An enhanced complaints mechanism needs to be built into the system to ensure a timely response to grievances that are bespoke and systemic in nature. The Financial Services Ombudsmen and the ACCC play important roles in this function but there are deficiencies with this approach that occur when large numbers of people are affected by systemic failures.

Consumers also need the opportunity to hear about and engage with financial services products related to the energy transition. The SEC has several of these business in its membership. They principally provide finance for home energy upgrades, purchase of EVs, rooftop solar and home energy storage. Some provide underwriting products and services. Government has a responsibility in directly investing in communications that underpin this economic transformation and to assist other stakeholders to do the same.

With respect to the regulation of ESG rating organisations, the general rule is that the role of government is to set *standards* that ratchet up over time. Industry can create its own innovative solutions to deliver outcomes commensurable with the intent of the standards (or better). It is not ideal that government chooses to manage its own quality marks and ratings such as the CSIRO and NatHERS.

Additional comments and recommendations on the discussion paper

The Smart Energy Council and the Climate Capital Forum have long championed a range of reforms in this space. Many of the recommendations and policy options recommended by the Climate Capital Forum have been well-ventilated and can be found here: https://smartenergy.org.au/climate-capital-forum/

A summary of the major finance initiatives of the forum is included below for reference in this submission.

1. Take government action to protect our domestic industries by exploring an Australian Carbon Border Adjustment Mechanism (CBAM) in conjunction with our trade partners.
2. Set a new, longer-term, science-based emissions reduction target. We recommend an ambitious 75% reduction in emissions (on 2005 levels) by 2035 to ensure a clear and consistent market signal for all Australian businesses and industrial sectors.
3. Governments must ensure First Nations and regional communities are included centrally in efforts to develop climate solutions, particularly in their communities, and are consulted on new climate finance incentives, alternative ownership models and wealth sharing opportunities for Australia.
4. Establish dedicated and significant direct federal debt, equity, infrastructure, grant, export credit and venture capital funding in partnership with state governments to strategically speed up Australia's transition to smart energy in a similar, but Australian, version of the US Inflation Reduction Act, and prioritise majority Australian ownership of strategic new projects.

5. Develop a national plan to support rapid electrification of homes and communities that includes government as guarantor for low income households and operators of public and community housing transitioning to solar, electric vehicle charging, batteries and appliances. Extend the government's role in the provision of affordable loans, expanded access to finance and enhancing existing schemes such as NatHERS and NABERS to sustainably lift our green residential and commercial building standards in a nationally consistent way.
6. Develop a series of bilateral zero emissions trade agreements with our key trading partners including China, the European Union, India, Indonesia, Japan, South Korea and the US, and expand the recent Singapore and Japanese agreements.
7. Revise the Future Fund's investment mandate to prioritise strategic investments in zero emissions technologies across all relevant asset classes and establish a discrete public asset fund aimed at value-adding critical minerals onshore powered by renewables. The latter should be managed by the Future Fund and funded by progressive mineral and fossil fuel royalties specifically for this purpose.
8. Reform the Australian energy market to encourage and enable peer-to-peer, community, cooperative, distributed energy and flexible demand response, storage, and private-public partnerships for renewable energy, storage and utilities.
9. Establish Government-backed mechanisms for blended financing that allow higher-risk patient public capital to de-risk strategic opportunities and enable capital to be crowded in from investors, particularly leveraging Australia's strategic competitive advantage and globally influential A$3.3 trillion superannuation capital, the fourth largest such financial pool in the world.
10. Establish time-limited tax incentives to encourage catalytic Research, Development & Demonstration (RD&D) capital for climate solution innovation in the local context (as per the US, California); recognise and address Australia's challenge with a relatively smaller-end consumer market than other countries/regions.
11. Create the enabling regulatory environment to package and finance investments from companies engaged in climate solutions at the needed speed and scale so they are accessible

to and bankable by retail and institutional investors (e.g. via verified Climate Bonds and infrastructure funds).

12. Require the Your Future, Your Super performance test to utilise benchmark indices that appropriately reflect the other fundamental reforms above, and require APRA's MySuper Heatmap to measure superannuation funds' performance against a Paris-aligned Transition-benchmark rather than standard default, high-emissions indices to encourage the pivot of MySuper default options to track a lower-carbon index, with trustees and members required to 'opt-in' if they choose to pursue high carbon-exposed investments, with all the carbon price and stranded asset risks involved.

THE INDEPENDENT BODY FOR THE SMART ENERGY INDUSTRY IN AUSTRALIA