

1 December 2023

The Honourable Dr. Jim Chalmers MP
Treasurer
Commonwealth Government
Lodged electronically at: SustainableFinanceConsultation@treasury.gov.au

Dear Minister,

Response to the Commonwealth Treasury's consultation on the proposed Sustainable Finance Strategy

The Clean Energy Investor Group (CEIG) warmly welcomes the opportunity to provide comment on the Commonwealth Treasury's consultation on the proposed Sustainable Finance Strategy (the Strategy) released on the 2nd November 2023.

CEIG represents domestic and global renewable energy developers and investors, with more than 16GW of installed renewable energy capacity across more than 76 power stations and a combined portfolio value of around \$38 billion. CEIG members' project pipeline is estimated to be more than 46GW across Australia. CEIG strongly advocates for an efficient transition to clean energy with a focus on the stakeholders who can provide the cost-effective capital required for this transition.

Key points:

CEIG supports in-principle, the Strategy, recognising its critical role in channelling necessary private investments into sustainable investment categories, particularly into the energy sector, over the coming years.

Transparency in Government's Sustainable Finance Strategy: transparency is critical to ensure that all stakeholders, from investors to the broader public, have clear, comprehensive, and accessible information on the strategy's implementation, objectives, and progress. This includes transparent reporting on how the strategy is influencing investment flows towards sustainable projects, particularly in the energy sector, and how it is contributing to Australia's broader sustainability goals.

Reform to YFYS: To fully realise the social and economic benefits from the proposed Strategy, the YFYS framework requires suitable reform (such as using a more fit-for-purpose index for the performance test) to remove disincentives that discourage sustainable investment.

Co-ordination and timing of debt issuances: To ensure that public debt issuances do not crowd out capital raising activities government should work closely with the Sustainable Finance sector to ensure that issuance activities do not have deleterious consequences for other issuers within the sector.

Agility and Ambition in implementing the Strategy: Given the considerable progress evidenced within other jurisdictions around the world with regard to their sustainable taxonomies, green bonds markets and sustainability reporting frameworks; it is imperative that the Commonwealth acts expediently.

Transitional Arrangements for Reporting Entities: well-defined transitional arrangements for reporting entities should provide clear guidance and support to entities as they align their reporting practices with new frameworks. This will enable entities to accurately and effectively disclose their sustainability practices and impacts, thereby enabling informed decision-making by investors and other stakeholders.

International Alignment in Reporting: CEIG advocates for international alignment in reporting standards and practices to enhance the credibility and comparability of reports and to ensure that Australian entities are in step with global best practices. This alignment is essential for maintaining Australia's competitive edge in the global market and for effectively contributing to international sustainability efforts.

Market Stewardship in Establishing the Green Bonds Market: The new sovereign green bonds market should be founded on principles of integrity, transparency, and alignment with sustainability objectives. Market issuances should reflect co-ordination discussions with the private sector to ensure no crowding out effects.

GENERAL COMMENTS

CEIG supports in-principle the Commonwealth Government's considered and all-encompassing Sustainable Finance Strategy, recognising its critical role in channelling necessary private investments into sustainable Investment categories, particularly into the energy sector, over the coming years.

The Strategy is key to empowering Australian companies, especially those in the renewable and clean energy industries, to secure the vital capital they need for the transition towards more sustainable and environmentally friendly practices. Moreover, it will enable these firms to harness new opportunities that arise from a globally shifting focus towards greener energy solutions.

The Strategy also emphasises the effective recognition and management of financial opportunities and risks associated with climate change, which is particularly pertinent to energy investments. As the energy sector navigates the complexities of transitioning to low-carbon technologies, this Strategy provides a framework for identifying risks and leveraging opportunities in this transformation.

Additionally, CEIG values the strategy's broader perspective on sustainability, extending beyond the traditional focus on climate change. This wider approach is crucial for addressing the full range of sustainability challenges and opportunities within the energy sector, incorporating environmental, social, and governance (ESG) considerations into investment decisions. This not only facilitates a holistic approach to sustainable energy development but also ensures that investments are resilient, adaptable, and aligned with long-term environmental goals.

Through this Strategy, CEIG believes there will be a more robust alignment between financial strategies and sustainable energy goals, fostering a forward-thinking and resilient energy investment landscape. This alignment is essential for driving innovation, promoting energy security, and ensuring a sustainable future for the Australian energy sector. The ambition of the proposal is equally pleasing and compelling.

SPECIFIC RESPONSES PERTAINING TO PILLAR 1

CEIG supports the priorities aligned to Pillar 1 as being essential to the transparency of future sustainable financial disclosures and to the attraction of the necessary capital to facilitate sustainable transitions.

Priority 1 - Establish a framework for sustainability-related financial disclosures

CEIG endorses the proposal to implement mandatory climate reporting requirements as a crucial step towards standardised disclosure of climate and other sustainability-related financial opportunities and risks. This move is especially pivotal for renewable energy (RE) investors and the broader transition to renewable energy.

Standardised disclosure provides RE investors and stakeholders with clear, comprehensive, and comparable data, facilitating more informed decision-making. Investors will have access to essential information regarding the sustainability performance and climate impact of their potential investments, enabling them to identify and prioritise opportunities that align with their sustainability goals.

By mandating climate reporting, investors in the renewable energy sector will be better equipped to assess and manage the risks associated with climate change. This includes understanding how different energy projects and companies are mitigating climate risks and capitalising on opportunities arising from the transition to a low-carbon economy.

Standardised climate disclosures will increase investor confidence in the renewable energy market. Transparent and reliable data can attract more capital to the sector, as investors are more likely to invest in markets where they can accurately assess risks and returns. Mandatory climate reporting underscores the urgency and importance of the

transition to renewable energy. It signals to the market the critical role of renewable energy in mitigating climate change, potentially accelerating investment, and development in this sector.

As global momentum builds for sustainable investment, standardised reporting ensures that Australian renewable energy investments are aligned with international best practices and standards. This alignment is crucial for attracting global investors and integrating Australian renewable energy ventures into the international sustainable finance ecosystem. Critical consideration must be given to ensuring the viable participation of the superannuation sector, a matter we discuss in the latter portion of this response.

Priority 2 - Australian sustainable finance taxonomy

CEIG firmly endorses the development of an Australian sustainable finance taxonomy, recognising it as an instrumental framework for guiding market participants.

The taxonomy will provide precise definitions and criteria for what constitutes sustainable investments within the renewable energy sector. This clarity allows investors to confidently direct their capital into projects and companies that authentically contribute to sustainability goals, avoiding greenwashing and ensuring genuine environmental impact. The taxonomy standardises the metrics and evaluation criteria for assessing the sustainability of investments. This uniformity is crucial for investors who seek to compare the sustainability performance of various renewable energy projects and entities on a like-for-like basis.

By defining what makes an investment truly sustainable in the clean energy sector, the taxonomy is likely to increase investor confidence. It reassures investors that their funds are channelling towards impactful environmental initiatives, thereby attracting more investment into sustainable investments and RE.

Finally, the taxonomy aligns Australian renewable energy investments with global sustainability trends and practices which is essential for attracting international investors and ensuring that Australia remains competitive.

Priority 3: Support credible net zero transition planning

CEIG agrees with the Commonwealth Treasury's stance on the importance of credible and effective transition plans for facilitating clear market signals and supporting near- and long-term capital allocation decisions. Such plans are crucial for guiding investment towards sustainable, low-carbon solutions and aligning with global climate commitments.

In July 2023, the announcement by Minister Bowen regarding the development of sectoral decarbonisation plans was a significant step that CEIG welcomed. CEIG agrees with Minister Bowen that these plans are essential for providing a detailed roadmap for different sectors of the economy to achieve net zero emissions. This initiative demonstrates the government's commitment to a structured and targeted approach to decarbonisation, ensuring that each sector's unique challenges and opportunities are

addressed effectively.

The government's plans at the economy level are anticipated to serve as a valuable benchmark for the Commonwealth Treasury's proposed net zero planning. These economy-wide strategies will not only set clear expectations but also provide a framework within which businesses and investors can plan their transition strategies. For clean energy investors, in particular, this creates a more predictable and conducive environment for investment, as it clarifies the policy landscape and investment priorities moving forward.

From CEIG's perspective, the alignment of government plans with sector-specific decarbonisation strategies is essential. This alignment ensures a cohesive approach to achieving net zero emissions and maximises the efficiency of capital allocation in the transition to a cleaner, more sustainable economy. CEIG believes that such coordinated planning is instrumental in driving Australia's transition to renewable energy and achieving its net zero targets, ultimately supporting the broader goals of sustainable development and climate change mitigation.

Priority 4: Develop a labelling system for investment products marketed as sustainable

CEIG believes that establishing a sustainable investment labelling regime in Australia is a critical measure for addressing the unique challenges encountered by clean energy investors. This regime, envisioned to be comprehensive and detailed, will provide much-needed clarity and concrete verification mechanisms. It is designed to ensure that investments labelled as 'sustainable' truly contribute to environmental sustainability, with a specific emphasis on accelerating renewable energy development. Such clarity is vital for investors who are navigating a market that is currently beset by varied interpretations of sustainability, making it challenging to discern genuinely impactful investments.

The introduction of this labelling regime will involve integrating best practices from global sustainable finance models and adhering to international standards. This alignment with global norms is essential not only to ensure consistency and reliability in the sustainable finance market but also to position Australia as a leader in the global sustainable finance landscape.

SPECIFIC RESPONSES TO PILLAR 2

CEIG's supports in-principle the priorities outlined under Pillar 2.

Enhancing the capabilities of financial regulators is crucial in creating a transparent and stable investment environment. For clean energy investors, this means greater confidence in the market's integrity, assurance of fair practices, and a deeper understanding of systemic risks and opportunities. This environment encourages more informed and secure investments in renewable energy projects, which are vital for Australia's energy transition.

Ensuring that regulatory frameworks for sustainability governance are robust and

comprehensive across key sectors, including renewable energy, is essential. By integrating sustainability priorities effectively within corporate governance, investors gain assurance that their contributions are not only financially sound but also aligned with broader sustainability and environmental objectives. This alignment is critical for driving long-term investment in renewable energy and for steering the economy towards a sustainable future.

SPECIFIC RESPONSES PERTAINING TO PILLAR 3

Priority 9 – Issuing Australian sovereign green bonds

CEIG endorses the development of an Australian sovereign green bonds program, recognising its potential to significantly attract green capital and bolster the growth of sustainable finance markets and its alignment with CEIG's mission to support and accelerate the energy transition.

Sovereign green bonds, issued by the government, serve as a reliable and credible investment vehicle, attracting a diverse range of investors, including those who might be new to green investments. For clean energy investors, this represents a stable and government-backed opportunity to invest in renewable energy projects and initiatives. The influx of green capital through these bonds can provide the necessary funding to scale up projects which are often capital-intensive and require long-term financing.

Moreover, the establishment of a sovereign green bonds program in Australia would signal the government's strong commitment to environmental and sustainability goals. This signal can boost investor confidence in the sector, fostering a more conducive environment for investment and innovation in sustainable technologies.

CEIG endorses the promotion of interoperability of sustainable finance frameworks as a crucial step to enable cross-border flows of sustainable finance. For RE investors, this means broader access to international funding sources and investment opportunities. Such a global network of aligned sustainable finance standards can attract more diverse and significant investments into the Australian renewable energy sector.

Moreover, harmonised frameworks reduce complexity and compliance burdens for investors who operate internationally. By ensuring that sustainability criteria and reporting standards are consistent across jurisdictions, investors can more easily navigate and invest in renewable energy projects globally.

Priority 10 – Catalysing sustainable finance flows and markets

CEIG supports the Commonwealth Treasury's desire to catalyse the growth of key sustainable finance products and markets, particularly in sectors where rapid scaling up of sustainable investment is a critical policy priority.

The Clean Energy Finance Corporation (CEFC) has demonstrated commendable efforts in driving emissions reductions and sustainable investment across various sectors of the Australian economy. By providing discounted loans and finance for clean energy projects,

the CEFC has significantly contributed to making sustainable investments more accessible and attractive. This is particularly beneficial for RE investors who often face financial challenges in project initiation and development.

Additionally, the CEFC's role in spearheading the development of new sustainability-aligned financial markets and products has been instrumental in creating innovative investment avenues which diversifies investment options and opens new opportunities for investors. Continuing this focus, along with its contribution to the development of new standards and frameworks, is crucial for integrating sustainable investing into the mainstream and ensuring that it becomes a key part of the broader financial landscape.

Priority 12 – Position Australia as a global sustainability leader

CEIG supports the Commonwealth Treasury's ambition to see Australia as a global leader in sustainability. International engagement in sustainable finance opens up Australian RE investors to global best practices, innovative financing mechanisms, and a broader network of investment opportunities. By actively participating in international dialogues and agreements, Australia can align its sustainable finance strategies with global standards, which is crucial for attracting foreign investment into the Australian renewable energy sector.

Furthermore, blended finance commitments, which combine public and private capital to fund sustainable projects, are particularly beneficial for large-scale RE initiatives. These commitments can reduce the risk profile of projects, making them more attractive to a diverse range of investors, both domestic and international.

Priority 11 and 12 are both critical to the future investment in sustainable ventures, however key sources of capital (such as the superannuation system), and critical alignment frameworks (such as the Principles of Responsible Investment) may not be easily pursued given the extant framework pertaining to superannuation. Potentially limiting factors are examined in the ensuing segment.

Critical additional considerations relevant to the 3 strategy pillars

Reform the *Your Future Your Super (YFYS)* framework to unlock capital from superannuation funds for the transition

CEIG has previously raised its concerns that the current design of the annual performance test in the YFYS framework has the unintended consequence of creating disincentives to invest in the clean energy transition¹.

CEIG believes that the current YFYS framework serves to discourage superannuation funds from investing in clean energy assets given the risk of running afoul of the YFYS market benchmarks. While CEIG welcomes the ambition evidenced throughout the Strategy, the encumbrances created by the current YFYS legislation must be addressed to ensure that the full benefits of the Strategy are realised, and the superannuation sector is able to viably participate in the sustainable finance sector.

CEIG welcomes further dialogue regarding improvements to the YFYS framework to ensure that the YSYF framework serves as an enabling force rather than a hinderance to sustainable investment.

Critical planning and co-ordination of debt issuance to crowd in investment

CEIG recognises the significant benefits of critical planning and coordination in government debt issuance.

The key benefit of this strategy is the promotion of 'crowding in' rather than 'crowding out' effects. By carefully timing government debt issuances, such as green bonds or other sustainable finance instruments, the government can avoid saturating the market at times when private issuances are also taking place and complement (rather than compete with) private sector investments. This is crucial because a crowded market can lead to increased borrowing costs for private entities or reduced interest in private issuances due to the perceived security of government-backed securities.

Improving Investor Education

Investor education around the variety of sustainable investment options is integral to creating a sustainable financial ecosystem that supports and accelerates the growth of renewable energy investments.

As the finance and accounting professions seek to incorporate sustainable finance, CEIG suggests revisions to tertiary education curricula to include sustainable finance principles, ESG metrics, and climate risk assessments. This will arm future finance professionals with the skills to thrive in a sustainable financial landscape.

¹ See <https://ceig.org.au/wp-content/uploads/2023/05/CEIG-response-YFYS-Draft-Regulations-Final.pdf> and <https://ceig.org.au/wp-content/uploads/2022/10/CEIG-response-Commonwealth-Treasury-Your-Future-Your-Super88.pdf>

Finally, CEIG urges professional bodies such as CPA Australia and Chartered Accountants ANZ and universities to integrate sustainable finance into their qualification frameworks.

CEIG thanks the Sustainable Finance Unit and the Commonwealth Treasury more broadly for the opportunity to provide feedback on its Sustainable Finance Strategy and looks forward to continued engagement on those issues. CEIG awaits the opportunity to consider the forthcoming Treasury exposure draft on Climate Related Financial Disclosures, and further opportunities to engage with Treasury pertaining to this critical process. Our Policy Director can be contacted at marilyne.crestias@ceig.org.au if you would like to further discuss any elements of this submission.

Yours sincerely,



Marilyne Crestias
Policy Director
Clean Energy Investor Group Ltd
w: www.ceig.org.au