



# Australian Government

## Australia's Submission on Article 2.1c – July 2022

Australia is pleased to make this submission on Article 2.1(c) of the Paris Agreement – the global goal to make finance flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development.

Finance and investment are key to driving the transition to net zero global emissions and managing the risks that accompany climate change. Implementation of Article 2.1(c) is already in progress through a wide number of initiatives across the world. But there is much left to do. The energy sector alone requires an additional \$4 trillion of investment each year to 2030 to be on a path to achieving the Paris Agreement goals. There is no lack of capital: Glasgow Alliance for Net Zero, launched at COP26, represents more than 450 firms with over \$130 trillion assets under management all committed to achieving net zero by 2050 or earlier.

Governments have a critical role to play in supporting the flow of this capital to sustainable sources and removing barriers to private investment to accelerate the transition. We see three broad categories where Governments can act in support of Article 2.1(c):

1. Setting ambitious NDCs and targets, backed up by effective policies.
2. Ensuring finance sector regulation and policy is geared towards recognising and managing the risks of climate change, and facilitating the flow of finance into sustainable activities.
3. Public financing mechanisms that build and support the market for the development and deployment of climate solutions to reduce emissions and support resilience.

Australia shares in this submission an overview of our efforts to drive green and sustainable finance in Australia, and to support our partners in the Asia-Pacific and beyond to do the same. We look forward to further discussions at COP27 on how the UNFCCC can best add value to this agenda.

### 1. Setting ambitious NDCs and targets, backed up by effective policies

National targets including Nationally Determined Contributions (NDCs) and national adaptation plans play an important role in signalling to financial markets a commitment to Paris implementation, and establishing a trajectory for the transition. Australia is pleased to have committed to achieving net zero emissions by 2050. Australia has a new ambitious 2030 target to reduce greenhouse gas emissions by 43 per cent below 2005 levels, putting us on track to achieve our net zero emissions by 2050 target. The Australian Government lodged the new 2030 target and reaffirmed the 2050 target as an enhanced Nationally Determined Contribution under the Paris Agreement. The Government has introduced the Climate Change Bill 2022 to the Australian Parliament to enshrine Australia's national emissions reduction targets in legislation.

The ambitious new 2030 goal reflects the Government's resolve to urgently step up action and work alongside global partners to tackle the climate crisis. The Government will implement new policies across the economy to drive the transition to net zero. These policies will drive a plan to see the portion of renewable energy in our national energy market increase to 82 per cent by 2030. This transition will be supported by an investment of \$20 billion in modernising Australia's energy grid to unlock greater penetration of renewable energy and accelerate the decarbonisation of the grid.

Transmission infrastructure will also build the energy architecture to position Australia as an exporter of clean energy and to becoming a green energy superpower.

More information on Australia's policies for net zero can be found here: [Stronger action on climate change | Minister for Climate Change and Energy](#)

Australia also recognises the potential for nature-based solutions to contribute to climate adaptation and mitigation, alongside addressing biodiversity loss and delivering livelihood benefits.

Australia is already experiencing the effects of a changing climate. All levels of government, businesses, communities and individuals have important, complementary and differentiated roles in adapting to the impacts of climate change. The Australian Government's *National Climate Resilience and Adaptation Strategy 2021-25* highlights the importance of continuing to work together as a nation to improve our ability to anticipate, manage and adapt to climate change. Australia's adaptation action is underpinned by the latest IPCC science and that of our own world-class science institutions.

## 2. Financial market policies, standards and initiatives

Sustainable investment is surging globally, and more than \$130 trillion of private capital is owned or managed by financial institutions that have committed to net zero targets. Australia welcomes these commitments by the finance sector and is working to ensure Australian policy frameworks can support the effective and transparent implementation of climate and sustainability strategies by Australian financial institutions to meet these goals.

### *Climate risk assessment and disclosure*

Transparent disclosure by business of the risks (and opportunities) they face from climate change, and how they are addressing those risks, helps investors make better decisions about where to allocate capital and how to price assets. It allows investors to manage long-term financial risk, and gives regulators visibility of the system-wide implications of climate change and decarbonisation which helps inform prudential supervision and support financial stability.

The Australian Government has committed to ensure large businesses provide Australians and investors with greater transparency and accountability when it comes to their climate-related plans, risks and opportunities. New standardised reporting requirements that align with international standards will ensure that credible, usable and comparable climate-related disclosures are made regarding governance, strategy, risk management, targets and metrics including greenhouse gasses.

These changes will build on the work of Australia's Council of Financial Regulators (CFR) – the Australian Prudential Regulation Authority (APRA), Australian Securities and Investments Commission (ASIC), the Reserve Bank of Australia (RBA), as well as the Australian Treasury – to improve the ability of Australian corporates and financial institutions to manage the financial risks associated with climate change and provide high-quality comparable disclosures on these risks:

- APRA has been undertaking climate vulnerability assessments of Australia's major banks, estimating the physical and transition risks on their balance sheet and operations.
- ASIC has recently provided guidance to assist issuers to avoid greenwashing when offering or promoting sustainability-related products in the market.
- CFR agencies have continued to build their understanding and knowledge about how to measure and manage the financial and operational risks associated with climate change.

The Australian Government welcomes industry-led initiatives to drive sustainable finance. These include the Australian Sustainable Finance Institute's (ASFI) efforts to develop an Australian sustainable finance taxonomy that reflects the Australian economy and context. We look forward to

working with ASFI including through the CFR as an observer on the taxonomy project steering committee. We also welcome the International Sustainability Standards Board's commitment to deliver a comprehensive global baseline of sustainability-related disclosure standards, which can provide a strong foundation for clear and consistent disclosure of climate and other sustainability risks.

High quality disclosures require high quality data. Australia's National Greenhouse Gas Emissions Reporting Scheme (NGERs) was introduced in 2007 and underpins world-class reporting by Australian emitters. Building on this, the Government has introduced the Corporate Emissions Reduction Transparency Report – a new initiative to improve the quality and comparability of corporate-related information and data, and transparency in Australia's carbon markets. Published annually by the Clean Energy Regulator, the CERT Report shows eligible companies' gross and net scope 1 and 2 emissions, renewable electricity usage and offsets. The Clean Energy Regulator also verifies progress data for eligible commitments using data it already collects. The CERT Report has been designed to support disclosures and sustainability reporting by companies by providing further rigour around corporate climate-related metrics, targets, and data.

#### *International developments and collaboration*

International collaboration will be crucial to accelerate the implementation of Article 2.1(c) and to avoid the transaction costs and barriers that occur when frameworks are not inter-operable across jurisdictions. To this end, Australia is negotiating an innovative Green Economy Agreement (GEA) with Singapore. The GEA will reduce barriers to trade in environmental goods and services, foster convergence on regulations and standards, including sustainable finance policies, and explore new opportunities in green growth sectors. The GEA aims to contribute to multilateral and regional policy development by establishing policies, standards and initiatives that will create jobs in green sectors, and strengthen environmental governance and global capacity to address environmental issues, in particular climate change.

Australia also engages internationally on sustainable finance through both the G20 Sustainable Finance Working Group, the Network for Greening the Financial System, as well as through bilateral engagement. Australia supports the G20's Sustainable Finance Roadmap, including efforts during Indonesia's G20 presidency to support transition finance and ensure sustainable finance is accessible and affordable.

#### *Supporting broader environmental objectives*

Australia recognises the need to consider the direct and indirect linkages between climate goals and addressing biodiversity loss, land and ocean degradation, and the important role that nature-based solutions can play in addressing these issues in concert while also supporting livelihoods. Australia's AUD\$80 million contribution to the Global Environment Facility's eighth replenishment is a key contribution to these efforts.

We are actively engaged in negotiation of the post-2020 Global Biodiversity Framework, which will be considered for agreement at the upcoming part two of the fifteenth meeting of the Conference of the Parties to the UN Convention on Biological Diversity (CBD COP15.2) in Montreal in December. Action under the Paris Agreement will need to draw together three interlinked objectives of the UNFCCC, UN CBD and the UN Convention to Combat Desertification (UNCCD).

Alignment of financial flows with global biodiversity goals is important to the success of CBD COP15. In line with this objective, the Taskforce on Nature-related Financial Disclosures (TNFD) is seeking to support a shift in global financial flows towards nature-positive outcomes, by developing a framework for businesses and organisations to report and act on nature-related risks and opportunities and incorporate them into decision making.

The Australian Government is a strategic funding partner of the TNFD and member of the TNFD Stewardship Council, which oversees the development of the TNFD framework. The Government is actively engaging with Australian market participants across different sectors of the economy – including the extractives sector, the agriculture sector and the financial services sector – to help inform the TNFD framework’s design. This engagement is designed to help ensure the TNFD framework is fit for purpose, builds industry readiness and informs government policies and programs. We are also garnering international support for TNFD and nature-based solutions, consistent with Australia’s commitment to being a regional leader in nature financing.

### 3. Building sustainable markets through public finance mechanisms

The Australian experience has shown the key role that government-funded mechanisms can play in directing finance along a pathway to low emissions. Public financing is essential for creating markets for new technologies, filling gaps where the private sector is unlikely to invest and crowding in private capital through de-risking projects and technologies. This is particularly important in climate finance as accelerating technology development has cumulative effects on the decarbonisation process by bringing forward the adoption of cleaner technologies.

The Australian Government has established two key independent agencies to provide significant public financing for renewable and low emissions energy and technology. The Australian Renewable Energy Agency (ARENA) provides grant funding towards research and development and early-stage commercialisation of renewable energy technologies and projects. The Clean Energy Finance Corporation (CEFC) is one of the world’s largest government-owned green banks, and supports renewable energy, energy efficiency and low emissions technology projects through debt and equity investments.

As of March 2022 ARENA and the CEFC have made investment commitments of over \$12.1 billion through more than 875 direct transactions and have delivered over 36,750 small scale co-financing transactions with commercial partners. Together ARENA and the CEFC’s investments have supported projects with a total value of more than \$44 billion. Further information on the work of these two agencies is available at <https://arena.gov.au/> and <https://www.cefc.com.au/>.

#### **Case Study: ARENA’s Large Scale Solar Round**

ARENA’s Large Scale Solar PV Competitive Round is a key example of how government financing can accelerate the development of renewable energy. Between late 2015 and late 2017, the Round saw the deployment of \$90 million in grant funding to 12 solar farms, with the grant funding allowing the projects to secure further commercial financing to support construction. The Round ended up supporting the deployment of more than 490MW of Large Scale Solar PV, more than double its original goal of 200 MW. ARENA’s funding is credited with significantly accelerating the development of the large-scale solar sector in Australia, with over 80 large solar farms currently operating in the National Electricity Market in 2022 and many more in commercial development.

### 4. Supporting our partners in Southeast Asia and the Pacific

Australia is committed to sharing its expertise and working with countries in our region to support finance and investment consistent with a low-emissions, climate resilient future. The Government’s plans to boost development assistance to the region includes a significant focus on climate, including

a new Pacific climate and infrastructure partnership to be delivered through the Australian Infrastructure Financing Facility for the Pacific; and a \$200m Indonesia Climate and Infrastructure Partnership.

We will provide at least \$2 billion in climate finance from 2020-25. We will continue our strong focus on adaptation finance, and draw on our blended finance mechanisms to build markets for climate investment and catalyse climate finance. Current Australian Government initiatives include the Australian Climate Finance Partnership and Emerging Markets Impact Investment Fund and our support for the Private Infrastructure Investment Group. These along with other innovative finance mechanisms will be considered as part of the Government's review into new forms of development finance.

Australia's climate finance includes efforts to deliver - in partnership with Indigenous Peoples - multiple benefits for climate mitigation and adaptation, biodiversity and livelihoods through support for nature-based solutions in our region, for example under our Climate Resilient by Nature program and our work on Blue Carbon in the Indo-Pacific. These climate and biodiversity co-benefits are an important way to improve the efficiency and effectiveness of our climate finance.

Australia also continues to work with partners in our region to strengthen governance mechanisms and establish the enabling environment to support and attract investment. Our Indo-Pacific Carbon Offsets Scheme will support greater transparency and Article 6 preparedness in the region, and enhanced access to private sector finance. Australia also contributes to the Multi-lateral Development Bank and supports their efforts to provide technical assistance as well as direct financing to crowd in private finance.