

Climate & Recovery Initiative Public Forum

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Remarks by Don Russell

[Transcript prepared by Centre for Policy Development]

Thanks Geoff and Anna. I am very pleased to be able to offer my thoughts on all of this.

I guess it is easy for us now that we are all caught up in the circus of the transition to forget a little bit how important this election was. I think its fair to say the world was teetering on the edge of something really chaotic. Countries are path dependent and I think it is fair to say that another four years of the Trump Administration would have done lasting damage to US institutions. But I think it would have also set back the chances of any global cooperation on a whole range of issues, including climate, for a very long time.

Knowing the US, I'm sure there are still those fearful that we will look back and we will see that Trump was the first of the mad US presidents. For the time being, I think we should all think that the US has stepped back and has reconsidered the last four years and has signed up to a more orderly and rational approach to public policy.

But I think it's a mistake to see that we are moving back to the Obama years, particularly around China. The US remains incredibly polarised, and notwithstanding the fact that Biden was a clear winner, Trump came very close to winning – very close indeed. The Republican Party itself improved its position in the House, and did better in the Senate than was expected, and in state races all around the country.

The big change with the Biden Administration is that there will be a strategy on climate. They will rejoin the Paris Agreement, which means that they will have a plan for COP26. As ever, its worth remembering that regardless of who controls the Senate, the US will not be in a position and

can never be in a position to enter into binding agreements. The treaty power in the Senate is overwhelming. It simply requires 60 votes. So there is no way the US can enter into binding commitments. The world I think has come to understand this and can live with it. But it has galled a lot of players and participants when the US expects other countries to make commitments when they themselves cannot.

I think its fair to say that it is unlikely that the Biden Administration or the Democrats will control the Senate, and we are looking at a return to the last two Presidents where a lot of action came through executive powers. I've been suspicious for some time that the Supreme Court will eventually curb the power of the US President to rule by fiat. I think that was all in abeyance while Trump was President, but I wouldn't be surprised at all if the Supreme Court [took] action in the next four years to rein in powers that President Obama took upon himself and Trump took upon himself. So the executive authority I expect may well be constrained in the next four years.

Biden has pledged to spend \$2 trillion on clean energy. There is nothing like dollars to form the basis of the discussion with various interests in the US. So assuming that the Senate is of a mind to try and build a greater level of cooperation with the Democrats than has been the situation in the past, that at least provides some mechanism whereby there is scope for the Senate and the Administration to coalesce around some climate change initiatives.

I think it's important to accept that China is inevitably going to play a clear role in this. Xi and Obama were the important drivers of the Paris COP outcome. I think it's fair to say it wouldn't have happened without US-China cooperation. It is hard to see COP26 being a success without US-China cooperation. A number of people have made this observation and it is true – climate is an opportunity for China and the US to find a new accommodation. But the key thing is that they both need to want to.

It will be a familiar world with a Biden Administration. The US will be looking to work with allies. But they will be calling out human rights abuses in China and the rights of Hong Kong and Taiwan. And China will find this particularly difficult and awkward. It may well take more discord before China and the US are willing to cooperate.

So I think, collectively, we should look forward and plan assiduously for COP26. But we shouldn't allow ourselves to be totally disappointed and devastated if COP26 doesn't deliver the results we are looking for. Many have observed that China thinks in terms of centuries, possibly millennia. One year may well just have to go through to the keeper before they are willing to engage with the Americans.

Having said all of that, I think there are extraordinary opportunities around COP26. It is good to remember that COP26 started off in Brazil, meandered through Chile, ended up in Spain, and most people have forgotten about it. There will be more structure, simply because the Americans will have a plan and the world at the very least will have to adjust to that.

It will be very dangerous for Australia, in this sort of environment, to be viewed as a free-rider on global efforts to reduce emissions. A number of people have observed that the EU is actively considering border carbon taxes to target countries that are not pulling their weight. Similar ideas are being floated in the US, particularly around Biden himself. I have always thought it is dangerous when US Nobel Laureates like William Nordhaus are advocating tariffs on non-participants on global [issues] like climate change.

Australia will not want to be seen to be actively opposing the US in the run up to COP26. So we will be in a tricky position where we will need to trim our policies so we are not voting against the US. Fortunately, there are parallels between our Technology Roadmap and the US and their \$2 trillion. But it is going to be particularly dangerous for Australia to be flirting with such things as carryover credits. That puts us in very bad company, with a whole stack of other deadbeat countries, at a time when the world will be wanting to lift global standards. So I think it will be very much in Australia's interests to draw a line under carry-over credits and sign up with the rest of the right-thinking members of the world community.

At AustralianSuper – we have, at the Board’s last meeting last month, committed to an Australian Super portfolio which will be carbon neutral by 2050.

It is important to realise that the fund will always, does always act in the best interests of members, and that our commitment around carbon neutral by 2050 comes very much from an active role of incorporating climate risk into the investment decision.

This is not a solution we have imposed on the portfolio. It is what grows out of a long-term view about the importance of climate risk in the long-term returns of our members.

The other important thing is that we are on track to achieving a carbon neutral portfolio by 2050. Of potentially even greater interest is that we are on track for a 45% reduction from the 2010 portfolio by 2030.

So I think it is a powerful point that Australian Super, acting in the best interests of the members and explicitly taking account of climate risk as a long-term investor, has come to the position that for the best interests of the members we need to be carbon neutral by 2050.

As a long-term investor, we have a very strong interest in getting and being able to understanding how companies are managing climate risk, making sure that companies are actively engaged in long-term strategic management of their companies around climate risk. We are very interested in companies developing a capacity to outline scenarios around various different views of the world. Going back to Geoff’s remarks right at the beginning, the whole TCFD notion and the whole notion that directors and businesses have to - in discharging their responsibilities - take account of all of this as they go about running their companies.