



Joint Standing Committee on Trade and Investment Growth Inquiry into the prudential regulation of investment in Australia's export industries

July 28, 2021

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Text of Opening Statement delivered by Travers McLeod, CPD's CEO, appearing with Toby Phillips, Director of our Sustainable Economy Program

Thank you, Chair and Committee Members, the Centre for Policy Development is grateful for this opportunity to participate in your public hearing.

My name is Travers McLeod, and I am CPD's CEO. With me is Toby Phillips, Director of our Sustainable Economy program. We're joining you from Wurundjeri land in Melbourne.

CPD is an independent policy institute. We work on long-term policy challenges and opportunities facing Australia and the region. As our submission explains, most of CPD's work in relation to the Inquiry's Terms of Reference concerns climate change and climate risk, including the implications of climate risk for corporate decision-makers.

Our work has included the legal opinions on directors' duties and climate change from Noel Hutley SC and Sebastian Harford Davis on advice from MinterEllison. Three opinions have been developed and released, in 2016, 2019 and 2021. CPD has brought together groups from government, business and the community — from Australia and abroad, including the Bank of England — to discuss these issues on a regular basis. We have also hosted major speeches on these issues from APRA, ASIC and the Reserve Bank.

Over the past 12 months, CPD has been convening the Climate and Recovery Initiative – a group of around 30 senior leaders from industry, civil society, government departments, and regulatory bodies. We've done so in partnership with ClimateWorks Australia, the Australian Industry Group, the ACTU, and Pollination.

A key reason why we started investigating the responsibilities of company directors and fiduciaries with respect to climate change is because regulators and financial institutions in other markets around the world have been internalising climate-related physical and transition risks for some time. We wanted to help Australian directors to be better prepared as these issues came into sharper focus and global capital continued to shift. We worried about Australian firms and communities being left behind and exposed.

Our work has reinforced what has become a commercial and governance reality in Australia, which is that risks from a changing climate and changing global demand for carbon-intensive goods are material to the interests of many companies and investors. Directors and fund managers have a duty to identify, manage, disclose and respond appropriately to such risks.

To be clear: this sort of risk management is fundamentally about making economic decisions, and it has been a long time coming. The Reserve Bank's Financial Stability update in October 2019 had a dedicated section which explained clearly the financial stability risks posed by climate change. That update referred to the Hutley opinion. ASIC has also endorsed the approach taken by the opinions, as have former High Court judges.

Australia's financial regulators have been talking about climate risk assessments and scenario analysis for several years, often in coordination with their international counterparts. Asset managers around the world – much larger than Australian banks – have taken even greater steps to protect their balance sheets from climate risks.

The focus of this Committee is export industries. It's worth noting that CPD's analysis of Australia's top-20 trading partners found that over 80% of exports go to countries with ambitious net zero targets. Our financial sector is planning ahead with that reality in mind. When you add that to the growing legal consensus and international best practice, it should be no surprise that Australian lenders and firms are starting to internalise and respond to these commercial and compliance risks too.

As we say in our submission, structural change driven by climate impacts and decarbonisation will create major challenges, risks and opportunities for many Australian businesses and regions. These require a comprehensive national policy response that identifies a whole-of-economy strategy and roadmap for decarbonisation and supports effective transition planning for key regions and industries.

Thank you. We are happy to answer any questions on these points or our submission.