

Climate & Recovery Initiative

Stakeholder Roundtable Six

9 September 2021, 4:00-6:00 pm AEST

Contact: Allison Orr
Operations Director, CPD
allison.orr@cpd.org.au, 0423602771



Climate & Recovery Initiative

The **Climate & Recovery Initiative (CRI)** is a collaborative initiative coordinated by the Centre for Policy Development and ClimateWorks Australia, with a steering group that includes Pollination Group, Australian Industry Group and the Australian Council of Trade Unions. Working together, we are seeking to identify the best ideas and opportunities for aligning Australia's economic recovery with climate and transition priorities, and to get them into the right hands.

Our stakeholder roundtable series brings together trusted leaders, experts and advisers from business, regulation, policy and the community to consider the challenges and opportunities ahead. The sixth roundtable in the series will focus on the EU's Carbon Border Adjustment Mechanism proposal, other trends in international capital flows, regional opportunities for low-carbon industries and the potential to use procurement reform as a lever on over 15% of GDP.

This briefing pack contains:

- Instructions for joining via Zoom
- Roundtable agenda and participant list
- Recap past CRI work
- International carbon trade and capital flows
- Regional decarbonisation and REIPs
- Procurement frameworks



Joining the roundtable via Zoom

This meeting will be conducted on Zoom video conferencing. For this meeting to run as smoothly as possible, we would prefer that all attendees join the Zoom call with video. If you are unable to join via video or have difficulties connecting on the day, please contact **Allison Orr** at allison.orr@cpd.org.au or on 0423602771.



Joining via laptop

Please join the call 5 minutes ahead of the start time

1. Start the call on your computer or tablet by clicking the following link: <https://us02web.zoom.us/j/81627509268>
2. For those without Zoom installed please click “join from browser” at the bottom of the screen. For those with Zoom installed please click “open zoom.us”
3. If prompted, please enter your name
4. If prompted, please enter the meeting ID 816 2750 9268
5. Turn on your video and ensure your audio is connected



Joining via phone

1. Please join the call 5 minutes ahead of the start time
2. Join the call using one of the following numbers:
+61 2 8015 6011
+61 3 7018 2005
+61 8 7150 1149
1. Use meeting ID 816 2750 9268
2. Use password 328512
3. Press # when asked for participant ID
4. Use *6 to toggle mute/unmute

During the discussion

1. When you would like to contribute to the conversation please click “Participants” at the bottom of the window, then click “Raise hand”
2. Please “mute” your microphone when you are not speaking
3. Use of the “Chat” function will be available throughout the call to ask specific questions or provide feedback when required

Agenda – Roundtable Six, 9 September 2021

Time	Duration	Agenda Item
4:00pm	10 mins	Welcome and introductions <i>Travers McLeod, CEO, CPD and Anna Skarbek, CEO, ClimateWorks</i>
4:10pm	45 mins	International carbon trade and capital flows Featuring remarks from Olivia Gippner, EU Commission, and Tennant Reed, Australian Industry Group
4:55pm	15 mins	Coordinated national action: REIPs and procurement Opening presentations from Beyond Zero Emissions and the Centre for Policy Development
	35 mins	Parallel discussions on two topics: <ol style="list-style-type: none">1. Investing in Renewable Energy Industrial Precincts to drive regional transition2. Using procurement as a lever to build the low-carbon economy
5:45pm	10 mins	Return from parallel discussions to full group
5:55pm	5 mins	Conclusions and next steps <i>Anna Skarbek</i>

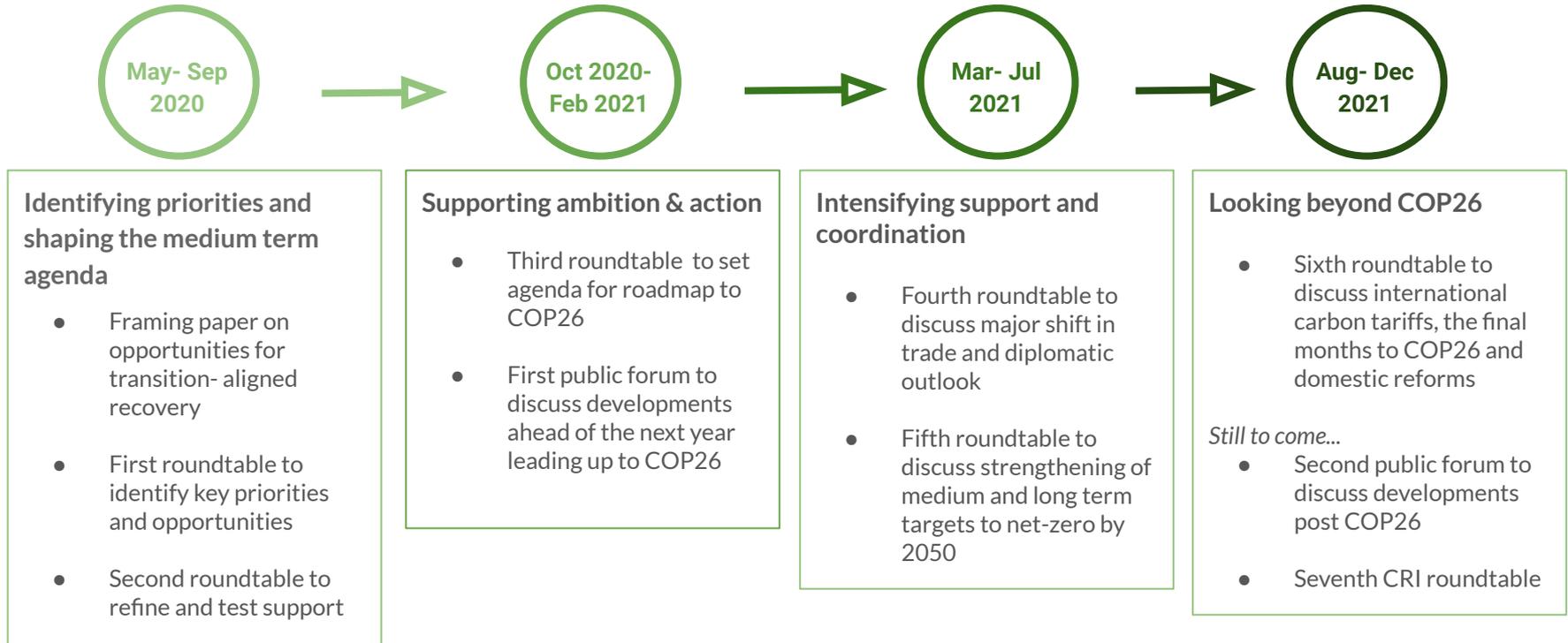
Participant list for Roundtable Six

Name	Position and affiliation
Aaron Brock	Co-Director Sustainable Finance, NSW Treasury
Alex Heath	Head of Economics Analysis, Reserve Bank of Australia
Anna Skarbek	CEO, ClimateWorks Australia
Anthea Long	Head of Northern Australia and Major Projects Division, Department of Industry, Science, Energy and Resources
Aruna Sathanapally	Executive Director, Economic and Revenue Analysis, NSW Treasury
Bianca Sylvester	Director, Clean Energy Finance Corporation
Cathie Armour	Commissioner, ASIC
Chris Barrett	Deputy Secretary, VIC Department of Treasury and Finance
Darren Miller	CEO, ARENA
Dave Andrews	Procurement Lead, Australia & NZ, Microsoft
David Shankey	Deputy Director General, QLD Department of Energy and Public Works
David Thodey AO	Chair, CSIRO, Tyro, Xero; Co-Chair, Australian Climate Leaders Coalition
Don Russell	Chair, Australian Super
Eytan Lenko	Executive Chair, Beyond Zero Emissions
Geoff Summerhayes	Senior Advisor, Pollination & former Board Member, APRA
Graham Sinden	Head of Climate Risk, APRA
Guy DeBelle	Deputy Governor, Reserve Bank of Australia
Heidi Lee	CEO, Beyond Zero Emissions
Helen Bennett	Head of Climate Change Division, Department of Industry, Science, Energy and Resources
Ian Learmonth	CEO, Clean Energy Finance Corporation
James Larsen	Climate Coordinator, Deputy Secretary, Department of the Prime Minister and Cabinet
Jamie Isbister	Ambassador for the Environment, Department of Foreign Affairs & Trade
Jo Evans	Deputy Secretary, Climate Change and Energy Innovation, Department of Industry, Science, Energy and Resources
John Lydon	Co-Chair, Australian Climate Leaders Coalition
John Thwaites	Chair, Climateworks Australia

Name	Position and affiliation
Jolly Yeung	Director, Procurement Engagement Asia, Microsoft
Kate Wilson	Executive Director, Climate Change, NSW Department of Planning, Industry and Environment
Louise Davidson	CEO, Australian Council of Superannuation Investors
Luke Brown	Assistant Secretary Climate, Department of the Prime Minister and Cabinet
Mark Wakeham	Senior Advisor, Australian Council of Trade Unions
Matthew Brine	First Assistant Secretary, Commonwealth Treasury
Meghan Quinn	Deputy Secretary, Markets Group, Australian Treasury
Michele O'Neil	President, Australian Council of Trade Unions
Michelle Andrews	Director General, Western Australia Department of Water and Environmental Regulation
Olivia Gippner	Member of Cabinet, EU Commission Executive Vice Presidency
Patrick Suckling	Senior Partner, Pollination Group
Paul Grimes	Coordinator General, NSW Department of Planning, Industry and Environment
Richard Yetsenga	Chief Economist and Head of Research, ANZ Banking Group
Rupert Posner	System Lead - Sustainable Economies, ClimateWorks Australia
Ryan Swenson	Head of Sustainable Development & Government Relations, Offceworks
Sam Mostyn AO	Chair, Chief Executive Women
Sarah Gill	Senior Manager Climate Change, WA Department of Water and Environmental Regulation
Stuart Hocking	Deputy Chief Executive, SA Department of Treasury and Finance
Tennant Reed	Principal Advisor, National Public Policy, the Australian Industry Group
Tim Reed	President, Business Council of Australia
Toby Phillips	Program Director, CPD
Tom Quinn	Head of Policy and Research, Beyond Zero Emissions
Travers McLeod	CEO, CPD
Warwick Smith	Economist, CPD
Zoe Whitton	Executive Director, Pollination Group

Recap of past CRI work

The CRI Journey so far



Key question for this sixth roundtable:

As we reach the end of the roadmap to COP, what are the key climate issues Australia can make progress on domestically?

Our roadmap to COP26

Over 2021, we have been focussing on 5 key issues in the lead-up to COP26:

CRI Roundtable 4 – March 2021

Secure Australia's position in a green economy

discussion with Paul Bodnar, former Senior Director at the U.S. National Security Council and Special Assistant to President Obama on international climate policy

Vision for jobs and transitions in key regions

discussion on design considerations for a 'Carbon Transition Commission' or other national transition planning effort, with lessons from Germany's coal transition commission and Collie, WA.

CRI Roundtable 5 – June 2021

Accelerate key investment, accountability and disclosure mechanisms

a coordinated approach to incorporate climate risk into government balance sheets, and global developments in mandatory reporting and shareholder advocacy

Build net-zero potential for 2050

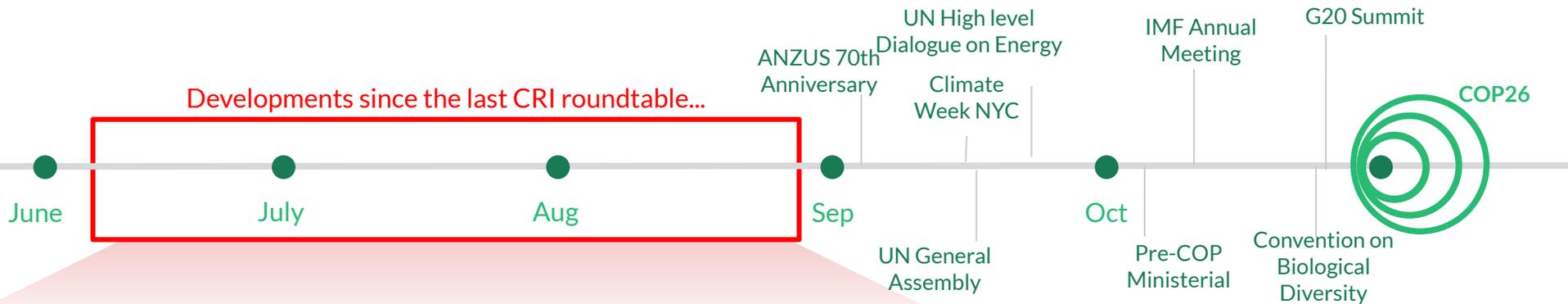
discussion on the landmark IEA report Net Zero by 2050 and Commonwealth progress towards COP26

Strengthen 2030 targets

presentations from British High Commission (ahead of G7) and the UN Sustainable Solutions Development Network to kick-off discussions of how the world will change over the next decade

In CRI Roundtable 5, participants identified carbon pricing, regional transition planning, and closer state and territories coordination as future priorities for the Climate and Recovery Initiative.

Major developments since the last CRI roundtable



International

- The European Union announces a proposed **carbon border adjustment mechanism**.
- **United Nations' IPCC** climate report calls for urgent need to stick to 'carbon budget' to limit global warming to 1.5C.
- Japan revises **2030 target to 46%** emissions reduction from 26%.
- International Monetary Fund announces a proposal for **international carbon price floors**
- JPMorgan Asset Management and other big investors to **demand annual vote on companies' net zero plans**

Australia

- Tomago aluminium smelter **announces plans to switch from coal and gas to renewables by 2029**
- Newcrest mining, Transurban, and other 47 ASX200 companies **committed to net zero by 2050**
- Aware Super announces plans to **divest from companies** failing to act on climate change risks
- Robeco Asset Management to drop **Australian bonds if the government does not address transition risk**
- Santos sued over '**clean energy**' claims for gas business
- AICD publishes **climate change governance guidelines for directors**

International carbon trade and capital flows

Recent international developments on CBAM and global capital markets

The European Commission has proposed a Carbon Border Adjustment Mechanism (CBAM)

The European Union has proposed the **'Fit for 55' package** to revise and update EU legislation with the aim of ensuring policies are in line with their goal of cutting emissions by 55% by 2030.

the EU is proposing a carbon border adjustment mechanism (CBAM) – a tax on imports with high carbon emissions – to ensure their newly-regulated industries are not disadvantaged by competing against unregulated firms in the global market.

Carbon Border Adjustment Mechanism (CBAM)

- a proposed charge to be imposed by the EU on imported products from countries with no corresponding carbon price in line with EU standards.
- the proposal includes a transition phase from 2023-2025 before the charge would become fully operational in 2026.

Goals of CBAM

- To ensure industries in the EU remain competitive relative to others in non-EU countries unaffected by the 'Fit For 55' package.

Coverage of CBAM

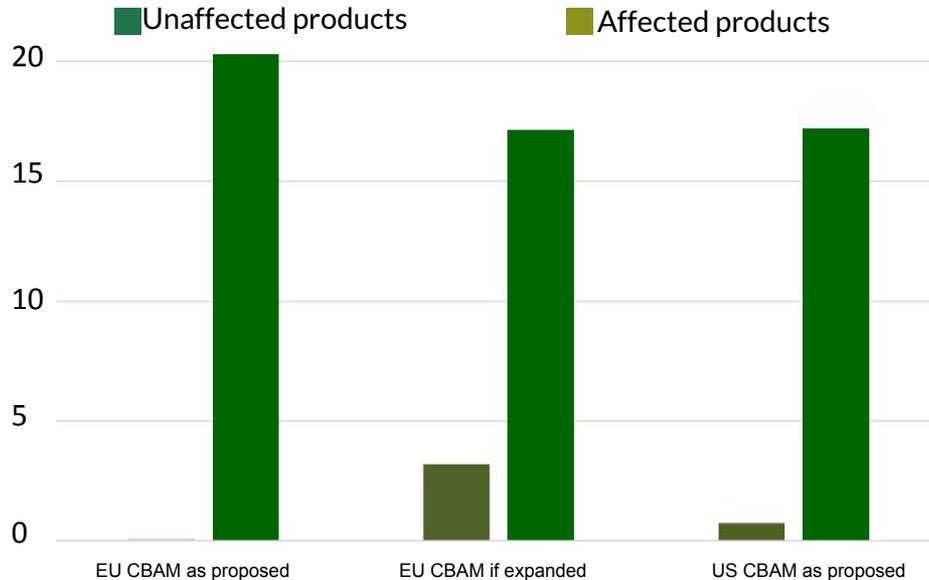
- Initial coverage will be on direct high carbon emissions products: cement, iron and steel, aluminium, fertilisers and electricity.
- Probable expansion to more products and to embodied electricity emissions; possibly other embodied emissions including transport.

Aftermath of CBAM announcement

- Initial proposals or consultations for similar carbon adjustments are occurring in Japan, US, UK, Canada and Israel.
- As a result of these policies, carbon disclosure and accounting frameworks may become a mainstay of future trade agreements.

With its current design, CBAM would have little impact on Australian exports

Australia's goods exports to the EU and USA (\$billion/year)



Source: [Australian Industry Group, 2021](#)

- The proposed CBAM would not have a significant effect on Australia's major exports to the EU.
- Aluminium, iron, steel and fertiliser make up just 0.25% of Australia's goods exports to the EU.
- Initial profit impacts are likely to be neutral, and may even be improved for some firms if the EU recognises Australian data on individual emissions intensity.
- More countries adopting CBAM policies and wider product coverage would affect more trade. Long term profit impacts depend on Australian emissions reduction performance, especially as CBAM(s) expand to embodied electricity emissions.
- The biggest climate-related risk to Australia's trade position is not likely to be the introduction of CBAMs, but reduction in demand as a result of domestic energy transition policies.

Australia's status as a global outlier is putting pressure on the cost of capital

Climate is influencing global capital markets in a significant way ... affecting asset allocation across global capital markets.

Treasurer Josh Frydenberg, August 2021

Climate-related risk had become increasingly prominent ... [and] could affect the cost and availability of finance for corporations and governments.

RBA board, June 2021

Global investors are moving rapidly, but they have limited capacity to evaluate the entire universe of investment opportunities through these new frameworks. Right at the moment, in global capital markets **style matters just as much as substance**. Many investors will respond to broad signals and messaging until the market for climate and transition risk analysis fully matures.



Sovereign bonds

- FTSE Russell published analysis where Australia is almost-guaranteed to default by 2050 under a “disorderly transition” scenario, and have underweighted Commonwealth bonds in their Climate Risk-Adjusted world bond index.
- The central bank of Sweden sold their holdings of WA and QLD state bonds due to climate risk.
- There is high demand for green government debt: Germany's green bonds have a 3-5 basis point premium over matched non-green bonds.



Corporate finance

- Ratings agencies – including S&P and Moody's – have started publishing their frameworks for how they will incorporate climate and transition risk into corporate ratings. These commonly include a general parameter for “policy”.
- BlackRock has signalled a strategic preference away from emerging market equities due to transition risk.
- Demand outstrips supply for well-labelled and accredited green corporate bonds, with a 15-20 basis point “greenium”.

Analysts generally rate Australia as moderately exposed to *climate risk* (which is largely out of our control) but much more exposed to *transition risk* (almost entirely within our control). National transition planning – a clear signal of intent from governments and firms – would avoid the risk of Australia losing out as global capital market shift.

Regional decarbonisation and REIPs

Leaning into the global wave of carbon transition

Global shifts in demand will affect Australian regions

Over 70% of Australia's major export partners (by trade volume) have committed to ambitious 2050 targets. The impact on Australia's major carbon-intensive exports will extend through the economy, highlighting the need to identify transition opportunities. CPD has applied three established global scenarios:

1. Concrete policies announced by other countries
2. Actions required to meet existing targets
3. The IEA's scenario for global net zero by 2050

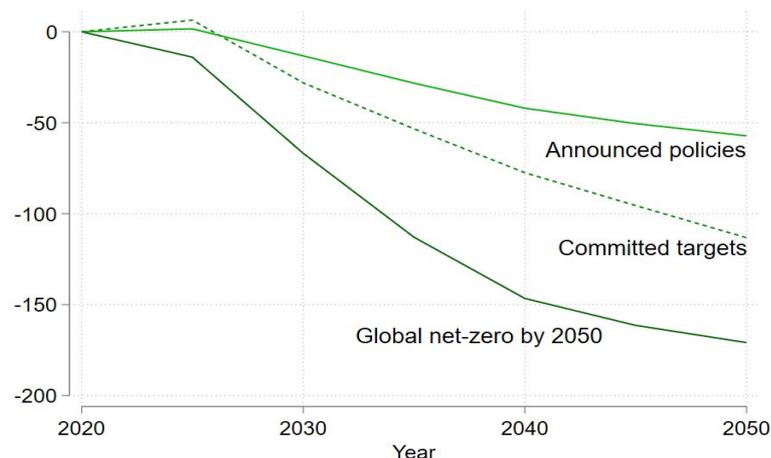
The impact of this global demand shift is significant and unevenly distributed across the Australian economy. CPD is modelling how these scenarios play out across Australia's supply chains through LGAs and secondary industries.

More than half the employment in some LGAs is directly or indirectly reliant on carbon-intensive exports.

Percentage of current jobs exposed to transition risk by 2030 and 2050 in IEA Net Zero scenario

	Isaac	Singleton	Central Highlands (Qld)	Mid-Western Region (NSW)	Muswellbrook
2030	-49.93	-37.57	-29.80	-22.14	-20.48
2050	-73.67	-59.32	-46.60	-34.33	-33.60

Change in total output resulting from reduced demand for exports (\$b/yr).



The impacts extend beyond primary industry to a wide range of sectors including significant effects in finance, retail, hospitality and construction.

The good news is that if Australia leans into the carbon transition, new prosperous industries can be built around regions' existing skill and occupational profiles...

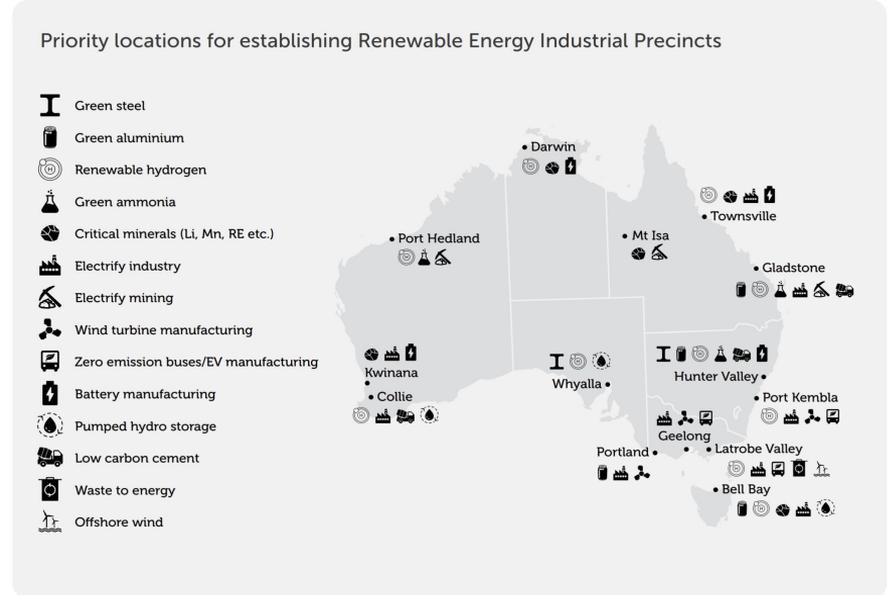
Carbon transition brings the opportunity to build strong regional economies

Renewable Energy Industrial Precincts (REIPs) are clusters of industrial firms with 100% renewable energy use, connected to new renewable energy production.

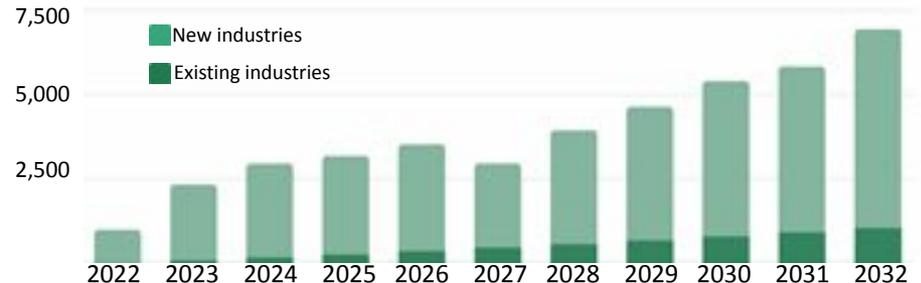
This strategy, already being pursued in some places, builds on existing skills and strengths in mining, mineral processing and manufacturing. It can create good quality jobs in the same regional communities most at risk from global transition.

Beyond Zero Emissions (BZE) published a July 2021 report identifying the opportunity for REIPs in 14 regions.

Establishing REIPs in just two regions – Gladstone and Hunter Valley – would lead to an estimated 45,000 jobs, \$35.8bn of new capital investment and \$13bn of ongoing annual revenue. Expansion to more regions would generate additional gains, building on Australia's industrial strength and securing the future of transition-affected communities.



Economic impact in the Hunter Valley (\$m)



Procurement

A lever to push \$200+ billion in government spending towards the low-carbon economy

Public procurement can drive decarbonisation

Goods and services purchased through government procurement processes amount to **over 15 percent of GDP**. This is a powerful lever to drive national demand for low-carbon goods.

Most jurisdictions have high-level principles to support sustainable procurement, but it is not embedded in the financial mechanics and processes. There are several ways to push this forward:

Purchasing based on life-cycle cost	<i>Fix broken incentives that prevent officials from buying better life-cycle value products which have higher upfront costs; for instance: a special fund could cover upfront expense, or internal budget frameworks could credit line areas with life-cycle savings.</i>
Internal carbon pricing, consistent with government goals	<i>Incorporate a carbon price directly into procurement costings, putting a dollar value on carbon-intensive options in line with government emissions reduction targets.</i>
Drive industry-level change around reporting and disclosure	<i>Put additional requirements on bidders that meet certain thresholds – eg. if a contract is over \$10m, or if total supplier turnover over \$50m – require them to meet global standards in supply-chain emission disclosure.</i>
Add low-carbon options to supplier panels and central purchasing agreements	<i>A regular audit of supplier panels or common user agreements – focussed initially on high-volume products such as electricity supply – could influence billions of dollars of day-to-day operational purchases.</i>
Actively stimulate demand in nascent markets	<i>Government's could create a demand floor for new technologies (eg. hydrogen gas, EV cars), either by immediately purchasing large volumes or by making an advanced commitment to purchase large volumes if they can be supplied at a set price.</i>
Incorporate end-of-life-cycle planning from the start	<i>A circular economy is possible through reuse, repair, refurbishment, remanufacturing and recycling. The cost of end-of-life-cycle processing could be internalised in purchasing decisions, eg. by favouring suppliers that take responsibility for reuse.</i>

Current progress is patchy – there is significant potential for national coordination

In recent years we have seen the power of procurement to achieve social and economic goals beyond value-for-money. The accounting rules set by Finance Departments and corporate CFOs have an outsized impact on the economy.

Past attempts have included using procurement to boost Indigenous employment, address modern slavery, and make advance market commitments for vaccine development. There's no reason that these tools couldn't be turned towards decarbonisation.

Questions for discussion:

- *What are the “low-hanging fruit” of public procurement reform?*
 - *What can we learn from developments in the private sector? Do they have different priorities or opportunities for reform?*
 - *Would it help to develop a shared baseline package of reform between states, or between governments and industry?*
- *Who from the public and private sectors can take this reform agenda forward so there is coordination and scale?*

Public procurement frameworks in Australia generally deal with emissions reduction at the level of principles, not the financial rules used for decision-making:

