

4 December 2020



Dear Committee Secretariat,

**Climate Change (National Framework for Adaptation and Mitigation) Bill 2020 &
Climate Change (National Framework for Adaptation and Mitigation)
(Consequential and Transitional Provisions) Bill 2020**

UniSuper is the superannuation fund for Australia's Higher Education sector. With over \$85 billion of funds under management, UniSuper has been factoring the risks associated with climate change in our investments for over a decade. UniSuper also manages Australia's largest pool of sustainably labelled, fossil fuel free investments in our Sustainable High Growth, Sustainable Balanced and Global Environmental Opportunities options, with over \$10 billion in funds under management (up from \$6 billion at the beginning of 2020).

Climate change is a systematic risk to investment returns, financial stability, communities and economies. The decisions that governments, investors, companies and individuals make today will have a material impact on the lives and superannuation returns of millions of Australians. The Climate Change National Framework Bill would provide a responsible national framework, setting a clear goal for net zero emissions by 2050 and ensuring independent guidance on emission reductions and building climate resilience.

Australia has committed to the Paris Agreement, which aims to limit global warming to 1.5 degrees. The gap between the long-term emission reduction trajectory required to meet this ambition and the current 2030 targets creates policy risk that inhibits investment in sectors and companies that are exposed to these risks. ***At UniSuper, this gap between policy and stated ambition has been one reason that, despite our interest in renewable energy, we have not made any unlisted investments in the energy sector (both renewable and other) over the last decade, as expected returns we considered were reliant on stable energy market dynamics.***

A critical mass of countries and companies are transforming their economies and business strategies in line with net zero emissions. This transformational shift will ensure that decarbonisation will be one of the key investment themes of the next decade. As long-term investors, it is incumbent on us to seek and identify these opportunities, but also encourage our investee companies to adapt and thrive in a decarbonising world. Consistent with this, ***UniSuper has committed to achieving net zero absolute carbon emissions in our investment portfolio by 2050, in alignment with the Paris Agreement. This ambition is supported by company targets, with over half of our investments (by FUM) having set net zero or science-based targets. This ambition is supported by short- and medium-term targets that hold ourselves and our investee companies accountable.***

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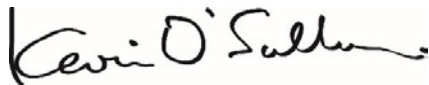
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Many of our members are vocal in their support for the rapid phase out of fossil fuels and we are regularly targeted by activist groups who seek divestment of companies with exposure to fossil fuels. Activists are attempting to use divestment as a mechanism to force the closure of the fossil fuel activities of these companies by stopping the flow of capital. We are also seeing banks putting in place divestment timelines (in line with the aims of the Paris Agreement), which will increase the cost of capital and challenge growth prospects for companies operating in targeted industries. ***We do not believe financial markets should be a substitute for effective and coordinated climate policy.***

The current policy gaps between medium term targets and long-term ambition increases the risks facing investors and companies when considering climate related risks. We see this as an opportunity for a robust governance framework which will reduce the costs of managing climate change risk by providing clarity, transparency and predictability around government decision making.

The attachment to this letter provides UniSuper's views on specific parts of the Bill. Any questions regarding UniSuper's position on the Bill should be directed to Sybil Dixon, Senior Investment Analyst, Equities.

Yours sincerely,

A handwritten signature in black ink that reads "Kevin O'Sullivan". The signature is written in a cursive style with a large initial 'K' and a long horizontal stroke at the end.

Kevin O'Sullivan
Chief Executive Officer

ATTACHMENT

UniSuper's views on specific parts of the Bill

UniSuper supports in principle Parts 2 and 3 —National climate change risk assessment and National adaptation plan.

Australia needs to develop a more comprehensive understanding of its systemic vulnerability to climate change, determining adaptation pathways and timing of adaptation actions required and the level of investment needed.

Much of the stock of capital and investment required to adapt is owned by and will need to be financed by private capital.

A sound understanding of areas of **disruptive risks** as a result of a decarbonising economy, as well as an up-to-date national assessment of infrastructure at **physical risk** to the effects of climate change, is required. This would allow for a quantification of the investment required into adaptation, which would, in turn, facilitate private sector capital flows.

UniSuper is supportive of Parts 4 and 5 —Emissions reduction targets and budgets

UniSuper has set a net zero target for our portfolio. We have also set a short-term target to have all our material Australian investments set Paris-aligned operational targets by the end of 2021.

A clear and robust long-term federal strategy to manage the systemic economic risks of climate change and achieve net zero emissions would support economic growth, avoid unnecessary disruption, unlock investment opportunities, and support a just transition in communities impacted by shifting global and domestic markets, providing a clear line of sight to the end goal.

Greater transparency around future policy direction would enhance the efficient allocation of capital by supporting investors to better price current and future climate risks. It also would reduce the risk that investments will be stranded as governments increase action through time or act abruptly, with sharp policy interventions at a later date. Finally, it would allow investors to identify investment opportunities across the economy and support new industries where Australia can have competitive advantage.

UniSuper is supportive of Part 6—Climate Change Commission

Both the Government and the Opposition support the Paris Agreement and achieving net zero emissions (although the Government has an uncertain timeframe). Through the framework of the Paris Agreement and other external developments, such as shifting capital markets and technology cost reductions, governments will be continuing to lift their levels of ambition on climate change over time.

This increases the risk that the political system will continue to respond with a myriad of (in some cases very costly) policy interventions.

Credible, transparent and independent governance can play a role in avoiding this through countering vested interests and providing the Parliament alternative policy options to achieve the national interest with the least amount of cost and disruption.

By providing business and investors with clarity and confidence in government decision making, government will enable business to plan better. Even if policy were to be changed, there would be in place an established and independent process upon which policy decisions are made.