Submission on Singapore-Australia Green Economy Agreement

December 2021

Background

HESTA welcomes the opportunity to make this brief submission to assist in negotiations with Singapore on a Singapore-Australia Green Economy Agreement.

HESTA is an industry superannuation fund dedicated to meeting the specific needs of employees working in the health and community services sectors. HESTA invests $66 billion of assets on behalf of 900,000 members.

We advocate for a fair, healthy community and a sustainable economy so that our members can face the future with confidence. The performance of our assets and our members' financial wellbeing can be materially impacted by changes to the retirement system, changes in the investment landscape and systemic risks such as climate change. Investment outcomes are being impacted by how the global economy transitions to a low carbon future, and it is in the best financial interests of our members to manage climate risk in our portfolio.

HESTA believes that as a responsible steward, investing for multiple generations of members we have a duty to advocate and invest to support the transition to a low carbon future, this can be done in concert with delivering strong financial returns for members.

HESTA was an early investor in renewables and clean technologies and welcomes the prospect of investment opportunities arising from the Green Economy Agreement (GEA) that meet appropriate risk and return parameters.

Proposals to remove of tariffs and other barriers to investment as part of the GEA are welcome. We also see opportunities to facilitate the allocation of investment capital through partnerships with government and the investor community.

Role for Government

There is a key role for government as a facilitator of opportunities in helping to 'seed' investment in new or emerging technologies and providing policy settings to encourage this. Investment in new technology development is higher risk, similar to early-stage venture capital, where the failure rate of investments is high. The government can facilitate scale opportunities by partnering alongside private equity in start-up funding.

The flow on effect is an increase in investment opportunities where there is long-term contractual certainty, allowing investors to deploy capital at scale with greater confidence.

Effective facilitation by government can allow more investable opportunities across the risk spectrum of private equity investments, including providing debt / finance which would provide for more allocation options for investors.

Policy settings are also a vital backdrop to attract the potentially trillions of dollars in global institutional investment needed to underpin the necessary transition to a low carbon future. Australia is effectively competing for its share of global capital and agreements with countries such as Singapore can help to facilitate and secure a share of this potential investment.

We note that Singapore and other countries are shifting from voluntary to mandated frameworks for climate risk disclosure. Investors such as HESTA welcome this to provide clarity and a level reporting field to remove disincentives to transparency in risk reporting. We would welcome any support the GEA could give to these types of measures.

Supporting new investment models

The recently announced Low Emissions Technology Commercialisation Fund that will invest $500m in capital via Clean Energy Finance Corporation (CEFC) matched with $500m from private sector investors presents an effective model to accelerate the development of new low emission technologies.

Similar partnerships within the GEA to develop new technologies to assist the transition to a low carbon economy could provide opportunities to create centres of excellence in strategic areas and identify and develop technologies where Australia has a competitive advantage.

Investor collaboration

There are also opportunities to increase collaboration and ideation with institutional investors, including expanding the focus of bodies like the Australian Renewable Energy Agency (ARENA) and the CEFC to support investor practice and knowledge sharing. The sophistication of how investors manage, measure and incorporate climate change considerations into their investment decision making and process continues to develop.

Conclusion

Climate change presents a financial risk to the HESTA portfolio and the world in which our members will retire; consequently, we welcome any measures through agreements such as the GEA to facilitate investment, strengthen environmental governance, and increase efforts to address climate change.