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MINISTER FOR THE ENVIRONMENT, HERITAGE AND THE ARTS

Speech to the Responsible Investment Association Australasia

Sydney

Tuesday 19 August 2008

[CHECK AGAINST DELIVERY]

Thank you, Louise. It gives me great pleasure to join this stakeholder consultation forum today.

I would like to begin by acknowledging the traditional owners of the land on which we meet, the Cadigal people, and pay my respects to their elders past and present.

Your association will mark its 10th anniversary next year, and its membership now spans fund managers large and small, financial advisers, charities, businesses and others.

So before I talk about the challenges and opportunities of the future, I'd like to applaud the leadership your members have demonstrated over the past decade in working towards a more sustainable Australia.

As the Prime Minister noted in his address to the National Business Leadership Forum on Sustainability in May, fore-sighted business leaders have long been promoting such concepts as social responsibility and sustainability.

Along with research centres and community organisations, the business and finance sector has often been ahead of the game in informing public debate and helping develop practical solutions to environmental challenges.

In fact, prior to coming to Government, it was striking that almost every week we could identify another example of private sector leadership on climate change, at a time when the previous Federal Government was showing none.

During the past decade of federal government paralysis, you helped fill the policy void and shepherd the concepts and practice of sustainability and corporate responsibility from the margins to the mainstream of corporate Australia. Australian business now stands on the cusp of a new era of

socially responsible investment, one which will see business models transformed and Australian expertise exported to our region.

This Government fully understands the critical relationship between ensuring a sustainable environment and achieving long-term sustainable investment returns; simply put, it's not a zero-sum game.

The challenge

As a society, there is no doubt that we are already paying the price for the less-than-responsible investment decisions of the past.

Every day another scientific or economic report comes out to drive this home. For example, economists at Massachusetts' Tufts University recently confirmed for the US what Sir Nicholas Stern found for the planet and Ross Garnaut found for Australia - that it makes better economic sense to cut greenhouse gas emissions early, rather than delay the decision and suffer the worsening impacts of climate change.

We are paying the price for lack of foresight - for short-termism at the expense of long-term sustainability.

The emergence of climate change as arguably the greatest challenge of our time highlights the inextricable link between the actions we take in relation to our environment, society, and economy.

The environmental crisis in the lower lakes of the Murray Darling Basin, where for too long the ecological needs of the river have been neglected, warns of a potential economic disaster in our food bowl and threatens the very existence of some rural towns and communities.

There is widespread scientific consensus that the early impacts of climate change have already appeared and that further impacts are inevitable, no matter what happens to future global greenhouse gas emissions. We cannot forget that Australia is a hot, dry and weathered continent and especially susceptible to changes in its already extreme conditions.

The decisions we make today about infrastructure, health, water management, agriculture, biodiversity and housing will have lasting consequences. We need to plan now for the impacts of climate change in the future. And we need to factor this planning into the financial decisions and investments we make.

Growth in responsible investment

Over the past decade we have witnessed an increasing demand from the Australian community for factoring environmental, social and governance issues into investment decisions.

The community, including investors, is more aware than ever that there are real and immediate consequences that flow from each investment decision they make.

So it is pleasing to see the recent growth in responsible investment, where both core responsible investment and managed responsible investment portfolios grew 43 per cent in 2006-07 from \$13.5 to \$19.4 billion, an increase of \$5.9 billion and from \$12.0 to \$17.1 billion, an increase of \$5.1 billion. That is more than twice the growth rate of total investment management of all types of managed portfolios.

I also welcome the enthusiastic Australian industry response to the United Nations Principles for Responsible Investment launched in April 2006. Sixty-six Australian organisations and eight international fund managers are signatories to this framework - representing more than 30 per cent of all funds under management in this country.

Approximately one in six signatories to the PRI is an Australian institution. This compares to the United Nations Global Compact where just one in one hundred signatories are Australian companies.

However, we still have a long way to go before we catch up with Japan and the United Kingdom in terms of corporate responsibility reporting. KPMG's last international survey of companies in 16 countries in 2005 had Australia's rate of reporting at 23 per cent of its top 100 companies, compared with 81 per cent in Japan and 71 per cent in the UK.

Nevertheless it's clear that we stand on the brink of a sea-change in response, where this growing appetite for a responsible approach to environmental, social and governance matters will transform the business and community sector.

It's a mood I've sensed as I've been travelling around Australia conducting roundtable discussions on household energy efficiency, bringing together representatives of industry, business, NGOs and academia to focus on the solutions to help households reduce their energy use and their environmental footprint.

There is an overwhelming willingness to make a contribution, recognising the key task of integrating environmental concerns in practical everyday actions. And as I talk to those who follow the investment landscape closely, they tell a similar story - that we stand at a moment where investment is moving towards a critical mass, where young entrepreneurs, angel investors and venture capitalists are linking up in a way that has the potential to take clean technologies from the periphery to the mainstream.

Where imaginations have been fired by a sense of opportunity, and by the necessary steps – including the very necessary investment - as we begin growing clean technology industries and reducing our carbon pollution over the long term.

In this landscape, responsible investors – those that choose to integrate environmental, social and governance issues into portfolio management – have a critical role to play.

In some cases the driver will be maximising financial returns, in others acting in accordance with personal ethics or furthering societal goals. Increasingly, it will be some combination of all three, as we recognise the best long term investment returns are aligned with the best long-term social, environmental and governance outcomes.

This recognition will become even stronger with the introduction of the Carbon Pollution Reduction Scheme, as investors are finally given the certainty of a long-term framework as we transition towards a low-carbon future.

What is clear is that anyone who thinks Australians are motivated by their hip pocket alone is misreading where we stand right now, and more to the point, where we're heading.

Household sustainability

Last week I announced Perth as the seventh Solar City in the Australian Government's \$94 million Solar Cities program - where diverse consortium members, from business and industry, community groups and different levels of government, come together to deliver innovative mixes of energy efficiency solutions for local communities.

The Solar Cities consortia are encountering an enthusiastic community response to climate change and sustainability. Some have found that when households sign up for the trial, the vast majority don't ask what's in it for them. They just want to be part of this community response to sustainability. And I expect this anecdotal evidence will be reflected in quantitative results as Solar Cities continue to roll out around Australia.

This month I have been holding a series of workshops in capital cities, discussing how we can help Australians take practical action now to prepare for the introduction of a carbon pollution reduction scheme in 2010.

Our message to households is very similar to the message you are giving to investors: the investments you make today will have a major impact on the future.

Just insulating your house, for example, might cost around \$1200 but can save you up to \$600 a year in energy costs, and cut carbon pollution by up to 1.6 tonnes per year.

Replacing an electric storage hot water system with a solar or heat pump hot water system has upfront costs, but may also save you between \$300 and \$700 on your electricity bill each year and reduce your household's greenhouse gas emissions by between two and four tonnes per year.

With paybacks like this, these kinds of investments should be no-brainers – and that’s why we have an immediate challenge to give technologies like insulation the same profile as other solutions, for example, installing solar panels.

These are just two examples of how the costs of inaction can be greater than those of taking action. There are many more. And these kinds of solutions are front of mind as we consider the equity and distributional consequences of acting on climate change.

Already we have brought forward a significant platform through our first Budget, with an investment of more than \$1 billion in household and community renewable energy, and energy and water efficiency.

We’re deploying the most cost-effective technologies, for example the \$150 million Low Emission Plan for Renters, providing rebates for installing energy-efficient insulation in rental homes.

We’re providing incentives and recognition for manufacturers to bring energy-saving products into the market by expanding, accelerating and strengthening energy rating labels and standards for appliances, like televisions.

We are transforming markets away from the most inefficient and costly products. For example we are accelerating the phase-out of inefficient lighting, we’re providing rebates for solar hot water systems to replace inefficient systems, and we’re working with the States and Territories to phase-out the most inefficient systems over time.

And we’re integrating these approaches, looking to harness the market through innovative financing arrangements like Green Loans, a \$300 million commitment to deliver Green Renovation packs, sustainability assessments, and low-interest loans for energy and water efficiency to up to 200,000 households from early 2009.

Every one of these initiatives involves providing accurate information to the market and to households on how to make the best investments for the future. And importantly, every initiative involves working with industry, and those companies that are leading this revolution in energy efficiency will clearly be attractive to investors.

Renewable energy also presents a significant opportunity, as the Government delivers on its commitment to expand the renewable energy target, ensuring that 20 per cent of Australia's electricity comes from renewable energy by 2020.

This commitment is designed to complement our Carbon Pollution Reduction Scheme, and will be phased out between 2020 and 2030 as the scheme matures.

We expect this to be particularly appealing to super funds looking for returns over the long term.

Skills shortage

Whilst we know responsible investment has enormous potential both to respond to the community's desire to do the right thing, and as a driver of industry best practice, the fact is that before it can fulfil this potential we need to build the capacity of Australia's investment industry to incorporate environmental, social and governance issues into investment analysis and decisions.

Like so many other industries in Australia today, responsible investment is constrained by a skills shortage.

I understand that while a number of Australian companies produce sustainability reports using the Global Reporting Initiative, few investment analysts actually understand how this framework operates.

That means companies aren't questioned on their environment, social and governance risks, which results in less pressure on companies to disclose, and less pressure to improve their environmental and social performance. And as fund managers in the Australian market report their performance to their clients on a regular, sometimes daily, basis this focus on short-term investment performance creates an incentive for fund managers to engage almost exclusively in short-term decision making.

That means less attention on the environmental, social and governance issues that can impact on the longer term performance of companies.

Over the long-term, this can have major consequences, including on how assets are priced, and therefore how capital is allocated in the economy. Climate change is, of course, the most graphic and compelling example of a long-term risk that should be factored into investment decision making. If institutional investors are not equipped to account for the impact of climate change on investments, they ultimately contribute to sending the wrong price signal to the market.

If lower risk companies are not recognised through higher share prices this also has the potential to impact on the allocation of capital in the economy. It is critical then to build the knowledge of finance industry professionals to factor in environmental, social and governance issues in their decision making and so influence the allocation of economic resources to companies that manage climate change risks. This should increase the pace of adaptation to a carbon constrained economy and, let's face it, a carbon affected planet.

However we look at it, the need to build the knowledge and skills of all Australians in rising to the challenges of climate change, water security and sustainability is an absolutely central component of the skills development and modernisation project that this Government is undertaking.

The Academy

That brings me to my welcome task today, and that is to launch your Association's Responsible Investment Academy.

The Academy's primary objective is to address this skills gap so that we can establish clear, realistic price signals for pollution, waste, water, contamination and the loss of biodiversity.

And by doing that, of course:

- we achieve behaviour change,
- we see the emergence of new management techniques,
- new analysis and forecasting practice,
- greater sophistication in pricing risk, and
- an additional focus on new and emerging technologies,
- with all of these helping us on the journey of mitigating and adapting to climate change.

I am pleased that my department is making a modest investment in the academy with a \$50,000 grant under its Education for Sustainability Grants Program.

This is one of five projects we are funding under the program this year worth \$211,000 in the fields of further and higher education, business and industry, business and community.

Along with the governments of NSW and Victoria, who are also contributing to the project, we recognise the very important role that the Academy will play. I look forward to watching its development, in particular the accreditation system you are planning for courses run through the centre. I understand you're already well underway, with Steve Gibbs, the former CEO of industry super fund ARIA, appointed to chair the Academy's inaugural National Advisory Board.

Conclusion

The Australian Government recognises climate change as a priority for decisive and responsible action.

The introduction of a broad-based Carbon Pollution Reduction Scheme in 2010 will set us on a path to reduce Australia's emissions at least cost, creating a robust and competitive domestic carbon market.

This major economic reform will create real incentives and provide for regulatory and investment certainty – driving essential investment in low emissions projects and technologies.

Indeed, Australia's transformation into a low carbon economy will require substantial investment in long-lived assets.

Your association – along with the thousands of businesses that have embraced corporate sustainability reporting - have already been instrumental in helping us understand the financial impact that environmental issues have on achieving long-term sustainable investment returns.

Now that the Government has a comprehensive plan of action for tackling the sustainability challenges before us, the need for business leadership on sustainability challenges is greater than ever.

We look forward to drawing on your skills and capacities for responsible investment and long-term decision making.

And given the inextricable link between the health of the environment and our economic well being, I look forward to the Academy playing its part in creating a well informed, responsible and more responsive investment community in an era of unprecedented challenge and change.

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