Long-term strategies and the investor perspective

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February 2020
A snapshot of the issues
TRANSITION risk, PHYSICAL risk, FINANCIAL risk

Recommendations of the Task Force on Climate-related Financial Disclosures
The Paris Agreement creates a pathway and a process for ongoing change. This is acting as an investment signal, driving competition and increasing ambition.
Climate change is a SYSTEMIC RISK

Reserve Bank calls climate change a “first order economic risk” for the Australian economy.

Projected effect of temperature changes on regional economies

Source: Burke et al. (2015) doi:10.1038/nature15725
Climate Change
- **Far-reaching** – will affect entire economy
- **Foreseeable** – high certainty of higher risk
- **Irreversible** - risks will have irreversible impacts
- **Path dependent** - scale of impacts determined by short-term actions

Systemic risks
- **Physical risks** – climate and weather-related events
- **Transition risks** – adjustment towards net zero emissions economy

Finance system
- Impact on property values and market, infrastructure
- Disruption of supply chains
- Insurability of assets, communities, individuals
- Reassessment of the value of a large range of financial assets
- Risk of stranded assets

Source: Central Bank Network for Greening the Financial System
What investors need from a long-term strategy
To strengthen investor confidence, it is vital that governments deliver credible and continued support for action to achieve a net zero emissions and climate resilient economy.
Principles of strategy development

- Engage in extensive consultation to build community consensus on long-term emissions pathways
- Undertake scenario analysis to avoid the false sense of certainty that can emerge from focusing on a single scenario
- Build on existing public and private sector processes
- Examine risks, opportunities and synergies and avoid an overreliance on macroeconomic modelling
- Ensure consistency with the objectives of Paris Agreement to limiting global warming to 1.5°C and well below 2°C
- Integrate the physical risks of climate change to ensure long-term strategies are resilient to both the transition and physical risks of climate change
Thank You!

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