The Climate Change Authority
GPO Box 1944
Melbourne VIC 3000

via website: www.climatechangeauthority.gov.au/submissions

11th June 2013

Re: Caps and Targets Review Issues Paper

Thank you for the opportunity to provide comment on the Caps and Targets Review.

Investors such as those Regnan represents are long-term focussed and widely diversified. They account for a large and growing share of funds provided to businesses, and bear a growing share of the responsibility for providing for Australians in their retirement years. Their portfolios include exposure to equity stakes in Australian and international companies; debt issued by sovereigns, corporates and other institutions; real property and infrastructure assets (such as ports and power generation) as well as myriad, "alternative" investments such as farmland.

The distinct perspective afforded by this long term horizon and broad diversification enables such investors to support policy settings that maximise *aggregate* economic benefits (or minimise aggregate costs) over the long term. This perspective contrasts with many individual businesses and industries (including many owned by such investors) whose goals are governed by the narrower economic focus and/or shorter-term financial interests they are obliged to prioritise.

Minimising costly, disruptive changes to climate and weather systems should be the sole imperative in setting caps and targets for Australia's atmospheric carbon emissions.

Consistent with this perspective, we have since 2008 called for early and decisive action to minimise the aggregated costs of climate change to investors and to the economy over time. We accept the premises of the Climate Change Review's Issues Paper; that urgent, decisive and coordinated global action needs to target limiting warming to two degrees. We urge the Climate Change Authority to adhere to a broad and long-term perspective when formulating its recommendations, particularly when prioritising among competing claims.

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Given the significance of total atmospheric carbon concentrations to warming, we advocate greater emphasis on the emissions budget in framing the implications of caps, targets and trajectories. While challenging given the probabilistic nature of climate predictions, this approach would more readily allow stakeholders to assess any action (e.g. changing the 2020 target) against an emissions budget benchmark in preference to a benchmark that referenced business-as-usual or the emissions levels in a prior year.

Notwithstanding the above, Regnan sees tighter emissions targets as desirable in the period to 2020 as this would have greater probability of limiting warming to two degrees. We observe that other jurisdictions (e.g. the EU) have tighter targets on a conditional basis, similar to the 15% and 25% conditional targets set by the Australian government. This means the impact of reduced Australian emissions may be amplified through the interdependencies of the global system.

A minimum 15% target for 2020 is most consistent with the 2050 objective.

Regnan sees a 2020 minimum target of 15% (on 2000 levels) as appropriate, given that the trajectory associated with this target would more closely approach that of a smooth pathway to the 2050 objective (80% reductions on 2000 levels). A target of 15% would consequently reduce the magnitude and likelihood of abrupt and disruptive reductions being required subsequent to 2020, developments which may confound public and political support for actions that limit warming to acceptable levels.

The consistency of this trajectory before and after 2020 would also result in a more accurate near-term signal to business and to investors about the abatement that is required. We note analysis by the Investor Group on Climate Change that identifies Australia as having a greater abatement challenge relative to other high-emitting nations. We view a 15% target as more capable of stimulating the attention and the activity necessary to drive the Australian economy to engage more fully with this challenge.

Regnan notes that for any given emissions budget, strong reductions in early years enable greater flexibility in later years. This is significant in the context of global agreements tightening over time, as abatement is likely to be more difficult and/or more expensive in later years, particularly given the interdependent country commitments mentioned above. By delaying the accumulation of atmospheric carbon, earlier action is also likely to offer the Australian economy greater flexibility in later years to deploy low-carbon alternatives even where these are emissions-intensive to establish (e.g. if low emissions power-generation requires emissions-intensive construction or manufacture).

Regnan thanks the Climate Change Authority for the opportunity to present its views and the perspectives of long term and widely diversified investors. We would welcome the opportunity to discuss matters within this document, or related matters, should it be of assistance to the Authority in forming its views.

Yours sincerely

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About Regnan

Regnan is an institutional investor initiative established in 2007 to investigate and address environmental, social, and corporate governance -related sources of risk and value for long-term shareholders in Australian companies.

Its research directs the program of company engagement and advocacy it undertakes on behalf of its clients. Its clients invest $45.5 billion in S&P/ASX200 companies (at December 2012).

Regnan's owners are BT Investment Management, Commonwealth Superannuation, Hermes Investment Management, HESTA Super Fund, NSW Local Government Superannuation Scheme, Vanguard, VicSuper and the Victorian Funds Management Corporation (VFMC).