CENTRE FOR POLICY DEVELOPMENT

media release

CPD welcomes Reserve Bank of Australia statement on the economic impacts of climate change

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The Centre for Policy Development (CPD) welcomes tonight's statement by Reserve Bank Deputy Governor Dr Guy Debelle on climate change and the economy.

Speaking at a CPD public forum, Dr Debelle said that climate change means that the weather now changes in "trend(s) rather than cycles" and that "both the physical impact of climate change and the transition are likely to have first-order economic effects."

"We need to reassess the frequency of climate events," Dr Debelle said in his speech. "In addition, we need to reassess our assumptions about the severity and longevity of the climatic events."

"The economy is changing all the time in response to a large number of forces," Dr Debelle said. "But few of these forces have the scale, persistence and systemic risk of climate change."

"The policy environment has a key effect as well as the climatic environment," Dr Debelle said. "Decisions that are taken now can have significant effects on future climate trends and can limit or eliminate the ability to mitigate the effect of those trends."

Dr Debelle supported earlier statements made by APRA Executive Member Geoff Summerhayes and ASIC Commissioner John Price about the implications of climate change for financial stability.

"Financial stability will be better served by an orderly transition rather than an abrupt disorderly one," Dr Debelle said. He strongly endorsed the need for businesses to implement the recommendations of the Task Force for Climate-related Financial Disclosures, emphasising the important role of scenario analysis.

The RBA's intervention is yet another crucial statement on climate change by Australia's financial regulators.

"We have known about the profound economic and financial impacts of climate change for a long time," said CPD Policy Director Sam Hurley. "What is new is that our central bank and financial regulators are now speaking with one voice about the climate challenge, and thinking very carefully about how it cuts across their mandates."

"Regulators have realised that when it comes to climate change, the long term is now," Mr Hurley said. "While climate impacts will intensify over time, many are already being felt, and regulators need to be on the lookout today."

CPD CEO Travers McLeod said the statement indicated growing awareness that climate and other sustainability risks require concerted responses from leaders across our financial system.

"Australia's central bank and regulators have joined a groundswell of global activity on climate and sustainability risks" Dr McLeod said. "Increasingly, they aren't just talking about these risks: they are expecting better responses from financial institutions and corporations."

"Tonight's statement is critical, but government can't sit on the side-lines when it comes to climate change," Dr McLeod said. "The Federal Government should work with industry to develop an Australian roadmap for sustainable finance."

"A Sustainable Finance Taskforce like those in Europe and Canada could secure Australia's place in surging global markets for green finance, and ensure the finance sector weighs the public interest alongside shareholder interest."

The CPD public forum, the third in a series that included earlier statements by APRA and ASIC, was hosted by Minter Ellison in Sydney. Dr Debelle was joined for a panel discussion by Kate Mackenzie (European Climate Foundation), Blair Comley (former Secretary of the Department of Climate Change and Energy Efficiency and former Secretary of the NSW Department of Premier and Cabinet) and Katharine Tapley (Head of Sustainable Finance, ANZ).

Dr Debelle's remarks are available in full here: https://www.rba.gov.au/speeches/2019/sp-dg-2019-03-12.html
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BACKGROUND
Relevant CPD work and earlier key statements by Australian regulators on climate risk

October 2016: CPD Business Roundtable on Climate Risk and Directors' Duties, featuring remarks by former Bank of England Executive Director Dr Paul Fisher. https://cpd.org.au/2016/10/directorsduties/

"This is a hard-headed commercial business risk issue, particularly for firms in the financial sector, which they need to be taking into account…You don't need to believe that climate change is man made, you just need to believe that governments are going to do something about it – which they are. Previously people have said climate change is going to take a long time to come through – 30, 50 years, plenty of time to take action. But of course, financial markets are forward-looking, and as news accumulates they tend to jump and overshoot." Dr Paul Fisher

November 2016: Release of legal opinion by Noel Hutley SC and Sebastian Hartford-Davis on company directors' duties to consider and disclose climate-related risks.
https://cpd.org.au/2016/10/directorsduties/

"The duty of care and diligence is capable of requiring company directors to consider and disclose their exposure to physical, transition and liability risks associated with climate change. It is likely to be only a matter of time before we see litigation against a director who has failed to perceive, disclose or take steps in relation to a foreseeable climate-related risk that can be demonstrated to have caused harm to a company."

February 2017: 'Australia's new horizon: climate change challenges and prudential risk', speech by APRA Executive Member Geoff Summerhayes as Insurance Council of Australia Annual Forum.
https://www.apra.gov.au/media-centre/speeches/australias-new-horizon-climate-change-challenges-and-prudential-risk

"While climate risks have been broadly recognised, they have often been seen as a future problem or a non-financial problem. The key point I want to make today, and that APRA wants to be explicit about, is that this is no longer the case. Some climate risks are distinctly 'financial' in nature. Many of these risks are foreseeable, material and actionable now. Climate risks also have potential system-wide implications that APRA and other regulators here and abroad are paying much closer attention to."

November 2017: 'The weight of money: a business case for climate risk resilience', speech by APRA Executive Member Geoff Sumemrhayes at CPD Public Forum. https://www.apra.gov.au/media-centre/speeches/weight-money-business-case-climate-risk-resilience

"APRA has been improving our own understanding of how the transition to a low carbon economy may impact on individual entities, financial sectors and the broader economy…APRA supervisors have begun to ask questions of regulated entities. Initially, these have related primarily to awareness: is the entity aware of APRA's comments about climate-related risks? Has it investigated or planned to investigate the issues raised? And if it has investigated them, is action required? Increasingly, APRA will expect more sophisticated answers, especially from well-resourced and complex entities."

June 2018: 'Climate change', speech by ASIC Commissioner John Price at CPD Public Forum.
https://asic.gov.au/about-asic/news-centre/speeches/climate-change/

"*Indeed, directors would do well to carefully consider the memorandum of opinion by Noel Hutley QC and Sebastian Hartford-Davis on climate change and directors duties …[T]he Hutley opinion highlights and reinforces the need for directors to adopt a probative and proactive approach in assembling the information reasonably required to inform their decision making in this area."*

BACKGROUND
Other statements by central bankers on climate change

First report of the Central Banks and Supervisors Network for Greening the Financial System, October 2018. https://www.banque-france.fr/sites/default/files/media/2018/10/11/818366-ngfs-first-progress-report-20181011.pdf

> *"NGFS Members acknowledge that climate-related risks are a source of financial risk. It is therefore within the mandates of Central Banks and Supervisors to ensure the financial system is resilient to these risks. As set out in the academic literature, climate change will affect the global economy and so the financial system that supports it. The financial risks it presents are in consequence system-wide and potentially irreversible if not addressed. Exact pathways may be uncertain but it is foreseeable that financial risks will crystallize in some form through either the physical or transition channel, or some combination of them both. And while the financial risks may be realized in full over extended time horizon, the risks call for action in the short-term to reduce impact in the long-term."*
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> [Note: The Reserve Bank of Australia joined the NGFS in 2018]

'Monetary policy and climate change', Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, November 2018. https://www.bis.org/review/r181109f.pdf

> *"More frequent climate-related shocks may increasingly blur the analysis of the medium-term inflationary pressures relevant for monetary policy. More fat-tailed shocks may erode central banks' conventional policy space more often in the future. And uncertainties surrounding the speed and scope of the transition towards a low-carbon economy can potentially impact medium-term inflation expectations, posing challenges to central banks as the horizon of monetary policy is stretchable but not infinite. These and other questions deserve further careful analysis."*

'The shared response to climate change: turning *momentum* into action', Ms Sarah Breden, Executive Director, Bank of England, May 2014. https://www.bankofengland.co.uk/speech/2018/sarah-breeden-remarks-to-the-green-finance-initiative-and-green-finance-committee

> *"We are part way through a transition in thinking where climate change is moving from being a social responsibility issue to being a core financial risk at the heart of how companies manage their business…It's clear to me that many different actors - companies, investors, financiers, climate scientists, governments, financial policy makers - have a part to play, given their mandates and specialisms, to support this transition in thinking. And it is also clear that that transition in thinking needs to lead soon to transition in action, if we are to reduce these financial risks in a timely manner and so avoid a late and abrupt transition to the low carbon economy to which governments have committed."*

'Thermometer rising: climate change and Canada's economic future', Mr Timothy Lane, Deputy Governor of the Bank of Canada, March 2017. https://www.bis.org/review/r170405b.pdf

> *"The effects of climate change are already being felt, and action to address climate change is being taken now. If it is on a sufficient scale to address the problem, it is also on a sufficient scale to have a meaningful economic impact. The issues are complex, but basic economics can cut through some of the complexity. Putting a price on carbon is a core element of Canada's strategy for addressing climate change. And if we get the price right, we can do a lot right. Early steps are also being taken to make the financial system an effective tool for green finance, including here in Canada. There are signs that momentum is building."*

'Breaking the tragedy of the horizon', Mr Mark Carney, Governor of the Bank of England, September 2015. https://www.bis.org/review/r151009a.pdf

"Our societies face a series of profound environmental and social challenges. The combination of the weight of scientific evidence and the dynamics of the financial system suggest that, in the fullness of time, climate change will threaten financial resilience and longer term prosperity. While there is still time to act, the window of opportunity is finite and shrinking…. With better information as a foundation, we can build a virtuous circle of better understanding of tomorrow's risks, better pricing for investors, better decisions by policymakers, and a smoother transition to a lower-carbon economy."