



QUEENSLAND FUTURES INSTITUTE



QLD POLICY LEADERS' FORUM

OUR SUSTAINABLE FUTURE: MOBILISING QUEENSLAND'S FINANCIAL OPPORTUNITIES

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Snapshot

The Queensland Futures Institute's Forum – *Our Sustainable Future: Mobilising Queensland's Financial Opportunities* – outlined the breadth of Queensland's natural capital and the imperative to develop solutions to adequately quantify and value the benefits of these assets. Appropriately valuing and investing in our state's natural assets will require market-based solutions to align investment incentives with sustainability goals and drive long-term economic and environmental value.

Summary of Panel Comments

- In a rapidly transforming World, it is critical to ensure clear signals and efficient markets exist to facilitate investment and financing in natural capital initiatives and assets.
- Queensland's natural assets are a key pillar supporting several industries across our economy, but we must ensure they are adequately valued in investment decisions, particularly as we address biodiversity loss and climate change.
- The Great Barrier Reef is a significant asset for Queensland, and it is imperative to develop solutions to protect. The Reef Credit Scheme is one example of a nature-based solution to do this, but developing robust and transparent methodologies to quantify and value outcomes is critical to its success.
- As a solution more broadly, nature repair markets require collaboration, a stable policy environment, and pioneering investment to signal their success in generating outcomes across ecosystems and to provide confidence to investors.
- Deep markets for these products will emerge if natural capital investments are proven to be effective. This will give rise to broader investments by fund managers and superannuation as natural capital forms a distinct asset class.
- Government will continue to play a critical role in supporting sustainable investment, as exemplified through the Australian Government's recent Sustainable Finance Strategy.

Panel Comments

What do you think is the biggest natural capital investment opportunity in Queensland right now? What are the barriers to scaling investment into these activities or sectors, and how can we overcome these?



Elizabeth Rose

- Queensland's economy is based on our plentiful natural resources, spanning mineral and resources, the natural capital of the Great Barrier Reef, our plentiful sun and wind, fertile land and vast forests.
- These natural assets underpin the diversity of Queensland's economy and support the mining, tourism, fisheries, forestry, and renewable energy industries. They also provide the biodiversity which Queensland is known for.
- Our economy is deeply connected to natural capital, but this is not appropriately valued in investment decision making. As we face the twin crises of climate change and biodiversity loss within our economy, it is critical to consider these natural assets into the future as we continue to grow a prosperous Queensland economy.



Maree Adshead

- The biggest natural capital investment opportunity in Queensland is the Great Barrier Reef.
- The reef is valued at around \$56 billion, supports 64,000 jobs, and contributes \$6.4 billion annually to the economy.
- However, poor water quality is the second largest threat to the reef's health behind climate change. This is why the Commonwealth and Queensland Governments have set targets to enhance water quality by reducing soil sediment (by 25%) and dissolved inorganic nitrogen (by 60%) by 2025.
- Meeting these targets has been estimated to cost \$8.2 billion to achieve and will require more than grant funding or regulatory intervention alone. There is a significant role for market development around sustainable opportunities which will contribute to protecting our natural capital.
- One example of this is the Reef Credit Scheme, which has been instrumental in pioneering environmental markets and testing the robustness of their methodologies for six years. The Scheme is a standard that sets out the rules, eligibility and accounting methodologies to value and quantify outcomes – which in this case is removing one kilogram of dissolved inorganic nitrogen or 538 kilograms of sediment. We independently audit and administer the scheme to measure and verify pollutant reduction. This process results in the issuance of reef credits, which are tradable certificates – not unlike a carbon credit – that correspond to a verified outcome. Projects and the Reef Credits generated are tracked through our publicly accessible Registry.
- Through this process, we have identified several barriers around the effectiveness of the scheme and scaling investment, including insufficient methodologies and difficulty in engaging landholders. This results in difficulties in generating the supply of reef credits which results in inability to balance the market and achieve the desired outcomes, regardless of the amount of investment we can attract.
- There is a strong need for better explanatory material to educate participants on the opportunity of this market and ensure robust certificate supply. On the demand side, government investment in credits would provide a strong signal and boost market confidence in the integrity of this market.
- While the Queensland Government has committed \$10 million to reef credits, there remains a significant financing gap which must be met in order to meet the estimated \$8.2 billion required to achieve the work and activities required to protect the reef.

Panel Comments



Anna Marsden

- The biggest natural capital investment opportunity in Queensland right now is in nature repair markets.
- Queensland possesses significant and iconic natural assets, including the Great Barrier Reef, making it crucial to protect and repair our natural capital. As such, there is a unique opportunity for Queensland to lead in crafting investment programs beneficial for nature, business, and society.
- While there is a lot of work which needs to be undertaken to support terrestrial ecosystems, the Great Barrier Reef Foundation is focused on coastal ecosystems – which includes ‘blue carbon’ initiatives, and protecting mangroves, sea grass and wetlands – and marine ecosystems particularly in combating coral bleaching events.
- The goal is to create a circular, conservation economy where nature repair and conservation initiatives are funded by nature capital investors rather than relying solely on government support. This would see Traditional Owners, tourism operators and regional communities supporting activities which protect the reef and generate marine biodiversity credits.
- Barriers to supporting and scaling these initiatives include the lack of critical technology, methodologies and capabilities needed to build a robust and deep market and attract the investment required.
- Additionally, developing these initiatives and markets will require partnership and collaboration across various sectors. NGOs and environmental conservation groups will play a critical role in bringing valuable local knowledge and expertise to facilitate and scale these natural capital investment programs.



Professor Mark Brown

- The biggest natural capital investment opportunity in Queensland, from a forestry perspective, lies in managing the significant amounts of land currently utilised for agriculture, timber production, forest management, and grazing.
- Land managers are interested in diversifying land use for both commercial outcomes and long-term sustainability, and already have a very strong base of knowledge around the opportunities to diversify land uses and protect natural capital.
- Convincing land managers to adopt new practices to protect natural capital will require building on existing knowledge of communities and First Nations by empowering them with new information, skills, and technology. This collaborative approach to land management will support dual outcomes in both primary use and well as carbon reduction or biodiversity.
- A key barrier to this is the challenge of ensuring the stability of legislation and policy required to facilitate long-term investment. This is particularly relevant for forestry given the multi-decade commitment of land managers.
- As such, providing stability and confidence through future policy is essential to unlock these investment opportunities.

Panel Comments



Katrina King

- QIC manages \$100bn for our clients, with a significant footprint in Queensland assets. This includes \$13bn in infrastructure and \$5bn in real estate, as well as private debt and equity and recently, natural capital.
- We consider that natural capital investments are critical for solving energy transition and biodiversity challenges at scale. This is why we have established the Queensland Natural Capital Fund in partnership with the Queensland Government.
- The fund aims to stack returns, ensuring investors receive appropriate risk-adjusted returns by including agricultural commodity returns, which comprises a significant component of the fund given the strength and complementarity of this asset class with natural capital investments.
- Agriculture is considered a robust asset class, and its value proposition is bolstered by a growing global population and protein demand, but with finite arable land. These strong supply and demand factors will continue to underpin the prices of agricultural commodities.
- Through the fund's stewardship, we ensure investments are managed to deliver sustainable outcomes, including biodiversity benefits, carbon offsets, water quality, and soil quality improvements.
- The markets and opportunities around these outcomes are still nascent and cannot currently be comprehensively measured. As such, the fund offers a risk-adjusted return reflective of these conditions, which may eventually grow toward larger returns.
- Queensland is favoured for natural capital investments due to supportive political landscape, from both State and Federal Governments. This is particularly important for technology investments – which is exemplified through our investments into AgTech.
- It is also blessed with a vast land area, of which 88% is pastoral land. This presents significant propensity and opportunities for generating carbon credits. For scale, the size of the opportunity in this area is six times larger than New South Wales or Victoria, and five times larger than Western Australia. This is driven by the state's biodiversity, diverse ecosystems, climate, and rainfall, which all contribute to its potential for natural capital investment.



Nicole Bradford

- As a superannuation fund, our primary goal is to help our members retire well with confidence, with approximately 65% of our more than 2.3 million members located in Queensland. ART works with approximately 120,000 employers across Queensland to help their employees with superannuation obligations.
- We manage over \$280bn in assets globally, with over half of these funds invested in Australia and several billion dollars invested in public and private markets in Queensland.
- While we invest in various asset classes – including private equity and credit, listed equities, fixed income, infrastructure and property – natural capital is not currently included as one of our defined asset classes, given the need to seek risk-adjusted returns for our members.
- We balance ESG considerations with our obligation to invest in accordance with members' best financial interests. As such, our Sustainable Investment Policy and Net Zero 2050 Roadmap guide our current approach. In practice, this sees ART focusing on stewardship and ESG integration throughout the investment process.

Panel Comments

- We engage with companies and assets to seek to promote environmental, social, and governance outcomes, and assess fund managers based on their integration of ESG factors into investment decisions. This process sets the expectation that fund managers consider the different parameters of ESG which are financially material.
- Queensland Treasury's recently released sustainability report shows ambition and targets for climate change and natural capital, but implementation will be crucial to realising these ambitions. Investors require certainty and opportunities with appropriate risk-adjusted returns to effectively deploy capital, highlighting the importance of implementation for realising these sustainability targets.

What drives the supply and demand of the reef credits market? How can the government best support these markets? How important is the credibility and measurability of these credits from an investment perspective?



Maree Adshead

- Credibility and measurability are vital for the reef credit water quality market to attract investors. Investors require confidence in the realness, permanence, and scientific validity of the outcomes they are buying. Additionally, participants such as landholders or wastewater treatment plants need assurance of returns on their investments and potential impacts on their operations in generating reef credits.
- A strong investor pipeline is critical to generate both supply and demand for reef credits. To achieve this, independent oversight is needed to ensure the integrity of the market and credibility of outcomes and maintained investor confidence.
- Market finance mechanisms augment existing, or traditional government support through grant funding, or setting appropriate regulatory intervention.

What is the role of the Great Barrier Reef Foundation in supporting investment in natural capital in Queensland. What are some projects or examples of investment in natural capital, or financing climate adaptation and mitigation?



Anna Marsden

- The Great Barrier Reef Foundation supports investment in natural capital in Queensland by validating and authenticating co-benefits to biodiversity and nature repair. This work supports the development of the market and helps to firm up the methodologies of investment products and opportunities for investors such as ART and QIC through its Natural Capital Fund.
- We are currently working across several coastal restoration projects, including a seagrass nursery in Glasgow which will eventually support the establishment of six similar projects across the Great Barrier Reef. These nurseries have the potential to sequester four tonnes of carbon each year but require development of improved techniques to collect and plant seagrass seeds.
- These projects are well received as high-quality blue carbon projects given their potential to involve traditional owners and local communities. This work also lends itself well to conservation economy start-ups.
- The GBRF is also piloting and approving programs to address gaps in the market and attract future investment. This includes corporate philanthropy, including support from companies like Coles, L'Oréal, and Airbnb. These investment partners help to underwrite these initiatives.
- These opportunities highlight the importance of catalytic investment in the natural capital space which signals to investors and corporations that they can deploy capital from their green funds with the intention of earning returns, rather than investing philanthropically from CSR funds.

Panel Comments

What are some current examples of investment in the forestry sector?



Professor Mark Brown

- Forestry sector has a long history with sustainability certification globally, having dealt with two global standards for over two decades. The industry therefore understands the commercial implications and impacts on operation of these certification standards.
- There is clearly a growing interest in understanding the impact of natural capital investments, which is driving corporations and investors to seek tangible outcomes for the projects they invest in.
- We are currently working on a project in the Philippines which is focused on natural forest restoration and conservation. This is a result of 23 years of research around the social, environmental, and commercial implications, as well as a strong commercial understanding to deliver the project.
- There are also significant opportunities for similar projects in Queensland and across Australia, with over 1.7mn hectares of plantations across the country. Companies and investors are seeking to leverage this opportunity and diversify their portfolios to include carbon management, with a focus on carbon accounting and the biogenic carbon cycle that can be delivered through forestry initiatives.
- Development around understanding the biogenic carbon cycle is critical, especially in the context of utilising timber for construction, where carbon sequestration can occur for hundreds of years with the right carbon accounting of the entire process, from forestry through to timber utilisation which considers the embodied carbon in buildings and resource recycling.
- An example from Western Australia involved introducing trees to combat dryland salinity issues in cooperation with the agriculture industry, showcasing success in natural capital initiatives in forestry. This project highlighted the importance of managing expectations and building confidence in investment outcomes, particularly given the time investment of multiple decades required by landholders.

How are investment teams exploring biodiversity opportunities given the significant board and stakeholder pressure? What is the investment proposition for investors, and how you are addressing concerns?



Katrina King

- Ensuring robust valuation and quantification methodologies through the correct market design and regulatory mechanisms is key to the opportunities we have discussed. As such, it is critical to ensure the right reporting, measurement and transparency frameworks for the biodiversity and reef credit schemes.
- When this is successfully achieved, the demand for these initiatives can significantly influence the business plan of companies, as equity holders can be confident that they will deliver tangible outcomes.
- Another challenge is the relative lack of expertise of Australian institutional investors in agricultural investment and the initiatives we have discussed, as compared to international investors such as Canadian pension funds. To overcome this, investment teams must collaborate with agricultural consultants to help develop their knowledge of these investment products, as well as to help in assessing yield forecasts. The use of these third parties helps to provide confidence to investment committees internally when investing in these products.

Panel Comments

- A key challenge is that of superannuation investment regulation, given there is no specific bucket for ESG investments. This gives rise to tracking error given natural capital investments are assessed against performance benchmarks of existing asset classes such as infrastructure, real estate or private equity. For the purposes of these comparisons, these investments are best compared to real estate, given the significant component of return derived from capital gains from land.
- Government advocacy and support is critical to address the issues around performance benchmarks and help to unlock investment in natural capital opportunities.

What role is the Australian Government playing in supporting investment in natural capital through actions such as the sustainable finance strategy and the sustainable finance taxonomy?



Nicole Bradford

- The Australian Government's Sustainable Finance Strategy marks a significant shift toward directing capital into a net-zero emissions economy. This comprises three pillars: transparency, finance capability – including policy and regulation, and government leadership.
- The taxonomy proposed within the strategy defines climate transition and climate solutions, aiding investors in making informed decisions by categorising activities as either transitioning or green solutions.
- This will also regulate the disclosures that will be required across both public and private organisations. This reporting will also be required to include their strategy, their risks, and how they produce services and activities for the economy. Together, these outline the impacts of the company on climate change as well as their contribution to the trajectory towards a net-zero economy. This will clarify and standardise the definitions and approaches towards investing in the climate transition.
- Additionally, the taxonomy will introduce a “do no significant harm” consideration to investment decision-making. This will ensure investments in climate solutions do not negatively impact other important areas, such as biodiversity. This concept is important and will mandate that investment decision-makers appropriately balance positive and negative outcomes, mitigating negative impacts.
- Queensland's Climate Action Plan aligns with the taxonomy's focus areas, including energy, mining, metals, materials, and the built environment, positioning the state to benefit from the strategy's implementation. In energy, this will place the state on track for 2035 emissions reduction targets.
- The state is well positioned to benefit from the taxonomy proposed by the Australian Government and the strategy more broadly.

Audience Questions

Given the broad client base of superannuation funds and your fiduciary duty to act in the members' best financial interest, how can we make investments which benefit members and wider society in the long term?



Nicole Bradford

- Superannuation funds cater to a diverse membership base, from young to older members, each at different stages of their retirement journey. From an investment perspective, the varying needs and risk profiles of our members is reflected through a range of asset classes, such as fixed income and infrastructure. Through these, we can consider how to best support projects that deliver climate outcomes.
- We are also guided by our Net Zero 2050 Roadmap, through which we have set our target for achieving net zero greenhouse gas emissions in our investment portfolio by 2050, in addition to interim targets including 43% emissions reduction by 2030 across various asset classes. A climate investment target across our portfolio will also be set in line with our Roadmap, later this year.
- Other superannuation funds are also actively setting climate investment targets and engaging in transition strategies to align with their net zero emissions objectives.
- To ensure credibility and avoid greenwashing, investments will be made based on evidence-supported targets which guide our overall stewardship efforts of our investments. This will see us engaging with companies and assets to facilitate the transition.
- The Australian Government's introduction of the taxonomy, specifically incorporating the concept of the transition, is seen as beneficial as it provides a framework for evaluating investments in this context.

What are the barriers for natural capital becoming its own asset class, and how can we overcome them?



Katrina King

- There is a diversity in natural capital investment opportunities overseas, each with various return streams and risk profiles. This spans what might be considered traditional natural capital investments, to AgTech, to infrastructure projects.
- Through the Australian Government's current consultation paper, we have an opportunity to outline solutions and new areas, building on traditional definitions of natural capital to encourage investment while ensuring transparency. This presents a prime opportunity to establish natural capital as a distinct asset class in Australia, leveraging the initiatives currently underway.

What is one action that would create a compelling commercial imperative and drive interest in the opportunities, products and services discussed today?



Maree Adshead

- Businesses are awakening to the realisation that nature must not be considered as free and are consequently shifting their perspectives.
- The reef credit scheme is a nascent market, and there is a clear need to better understand and value reef credits. To do this, and drive interest in such opportunities, it is critical to have faith in these pioneering initiatives, encourage participation and investment in schemes like the reef credit market in order to drive traction and develop deeper understanding.

Audience Questions



Anna Marsden

- Consumer demand is a key driver for creating a compelling commercial imperative and building markets of the future.
- Currently, environmental concerns often take a backseat to other pressing issues like cost of living. But unless environmental issues become a top priority for consumers, investing in nature repair programs will remain a secondary concern.



Professor Mark Brown

- Properly recognising and valuing sustainable forestry practices in the market is critical to continual improvement of these initiatives.
- While there may be pressure to remove native forests from timber production, this does not eliminate their natural capital potential. Changing the way these assets are managed is a result of a changing business model.
- Currently, sustainable forest management efforts are undervalued in the market. As such, appropriate incentives will be required in order to drive sustainable natural capital outcomes. For example, to shift from timber production would require an understanding of how to monetise outcomes such as biodiversity and carbon abatement.
- A counter example is the value created by timber production management in fire risk mitigation. The value created by this must be balanced against all other elements of natural resource management, and appropriately valued in markets.



Katrina King

- While regulatory incentives or penalties may encourage participation – creating deep and liquid markets with the right incentives is critical to creating a compelling commercial imperative to invest in the initiatives and opportunities we have discussed.
- This requires standardisation to achieve; it is essential for the industry to avoid overcomplicating the definition of biodiversity and carbon credit units. This also requires alignment among states and governments.



Nicole Bradford

- Disclosure will be a critical component to unlocking the opportunities we have discussed. Investors require reliable information and certainty to make informed investment decisions.
- The Australian Government's legislated sustainability disclosures will be crucial to achieving the required level of disclosure. These are already proposed to include climate change and may soon also include biodiversity impacts. These will introduce standards which are equivalent to accounting standards, requiring director's declarations and auditing. These disclosures will be released alongside annual reports and financial statements.
- Together, this will give rise to the disclosure of information needed to facilitate investment in these markets.

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