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AI GROUP RESPONSE TO THE NATIONAL ADAPTATION PLAN ISSUES PAPER

The Australian Industry Group (Ai Group) welcomes the chance to make a submission on the National Adaptation Plan Issues Paper (the Paper).

Ai Group is a peak national employer organisation representing traditional, innovative and emerging industry sectors. We have been acting on behalf of businesses across Australia for over 150 years. Ai Group is genuinely representative of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, waste services, the defence industry, retail, aged care, civil airlines and ICT.

Overarching points

In addition to responding to some of the specific questions raised in the issues paper, Ai Group has some additional points to offer.

Ai Group's members are very diverse in size, location and sector. We have observed that physical climate risk and adaptation needs are not yet widely understood; the greatest awareness tends to be among very large businesses with major new coastally-located infrastructure projects. There is a very major task ahead in expanding and deepening awareness.

The Issues Paper and the First Pass Climate Risk Assessment are necessarily quite abstract. It is important that the final strategy be as specific and concrete as it can be to communicate the nature and scale of risks we face. A remote and abstract document will not meaningfully advance the task of mainstreaming climate adaptation.

It is also important to assess the match between the scale of adaptation action expected to be achieved under current policy, the severity and probability of risks involved, and the scale of what would be needed to reduce expected impacts to acceptable levels. A laundry list of response actions is not necessarily helpful – quantifiable and credible outcomes matter. In particular, it seems likely there is a major gap between the expected rate of improvement of the residential building stock (even allowing for recent substantially improved standards for new construction) and the escalating impacts of extreme heat events. A comparison of need to currently expected action will be sobering but very useful.

Future climate scenarios remain uncertain and considerable efforts are underway in Australia and globally to limit the extent of climate change. However it seems necessary to plan adaptation against a much higher temperature outcome than we intend to achieve through mitigation. This is because:

- global mitigation, while significant, is currently well below what would be needed to stay within 1.5 degrees of rise, at least without a period of overshoot where temperatures exceed the goal before coming back down through a (challenging and expensive) period of net negative global emissions; and
- There is still a range of uncertainty on climate sensitivity – how much warming we should expect for a given level of greenhouse gas concentrations. If high end estimates of climate sensitivity turned out to be correct, even staying within a global carbon budget that looks consistent with warming of 1.5C or less could expose us to much higher temperature rises in practice.

Planning for high warming is therefore a sensible precaution, though it is also challenging and expensive, and even with well-planned adaptation the negative effects of 3C or more warming would be tremendously serious. Precautionary preparation should not lead us to reduce necessary mitigation efforts.

A final point is that while distinguishing between systems of concern is useful for clarity, we should never forget that these systems are interconnected and interdependent in all kinds of ways. Worker health matters to the economy. Water security matters for agriculture. Trade matters for defence. Problems can propagate.

Responses to selected questions

(1) What do you think a well-adapted and resilient Australia looks like? Does the draft vision capture this? Why, why not? Do you agree with the key objectives of the plan? What other suggestions do you have?

Ai Group is broadly supportive of the draft vision and key objectives outlined in the issues paper. We would like the government to clarify how outcomes towards objectives will be measured, particularly in regard to the "mainstreaming" of adaptation action. This has the potential to significantly increase the reporting burden on businesses, if the data being sought is not currently extant or easily gathered from other processes, such as carbon emissions or sustainability reporting or investment data.

(2) The plan will respond to the priority nationally significant risks identified in the National Climate Risk Assessment. Within those, what areas should be the Commonwealth's priority for this National Adaptation Plan and why?

All the risks identified in the issues paper as priority risks matter nationally to all sectors. Clear interdependencies exist between numerous sectors, for example health issues from extreme climate events such as heatwaves or bushfires impact the economy, trade and finance system and communities and settlements system as well as the health and social support system.

Of greatest direct interest to Ai Group members are (in order of the table in the issues paper):

- Risks to primary industries that decrease productivity, quality and profitability and increase biosecurity pressures; these will have flow-on effects across the economy including to our members in food processing;
- Risks to health and well-being from slow onset and extreme climate impacts; among many other significant effects, these will alter worker availability, productivity and safe working conditions in many industries, particularly those involving outdoors labour;
- Risks to critical infrastructure that impacts access to essential services; these have obvious implications for industrial activity in all sectors;
- Risks to supply and service chains from climate change impacts that disrupt goods, services, labour, capital and trade; the vulnerability of supply chains has been an elevated concern for industry since the pandemic; and
- Risks to the real economy from acute and chronic climate change impacts, including from climate-related financial system shocks or volatility; flow on effects from climate events on insurance premiums and availability have been a significant worry for many businesses in recent years.

We also note that the First Pass Risk Assessment is not very clear on the specific calculations or evidence behind each judgment on the priority list (nor on the many listed risks that it does not prioritise). It would be useful for the Government ultimately to publish a more detailed appendix summarising the state of knowledge and vulnerability on each risk.

(4) How should adaptation success be measured?

Adaptation is often discussed in very abstract ways that may fail to command public and political attention commensurate with the seriousness of the issues. Australia should set success metrics that are concrete, communicative and challenging. Some suggestions are:

- Heat-related mortality and morbidity should fall over time. Conditions will grow substantially more challenging, but with better housing stock, improved work practices, designation and maintenance of appropriate cool gathering location, and education, the frequency of heat-related deaths should

- be able to be cut.
- The share of GDP lost to extreme weather events should not rise. The absolute value of lost GDP surely will rise given economic growth, but the denominator should be able to outpace the numerator if investments in adaptation, resilience and recovery are well made. A complementary alternate form of metric that could also be considered would focus on managing welfare-weighted income lost to extreme weather events; welfare-weighting by the marginal utility of income would provide a useful guardrail to a pure GDP focus.
- Given the expectation of increased water stresses, metrics for water consumption and efficiency would be sensible. Several different kinds of metric would be needed to account for different contexts: per capita consumption; consumption per unit of GDP or output value; and consumption per tonne of output of specific products or crops.

(5) What time horizon should the National Adaptation Plan cover?

Ai Group suggests the initial plan should run through 2030, with a major review in that year and every five years thereafter. This would allow the plan to align with other significant work in the climate change space such as updates to Australia’s commitments to the Paris Agreement (Nationally Determined Contributions), national commitments under the Kunming-Montreal Global Biodiversity Framework, and renewable electricity generation targets.

Sectors: Health and Social Support

There is wide agreement that Australia’s housing stock has very poor thermal performance – homes are too hot in summer and too cold in winter. Heating and air conditioning can cover for poor building fabric and a lack of appropriate shading, ventilation and insulation; but they do so at a cost that poorer and older Australians can ill afford. The health consequences of this low-quality housing stock are already serious and can be expected to increase dramatically with more frequent and intense hot days.

Those consequences include both the impacts on individuals’ quality of life, health and lifespan; and the impacts on the health system and public budgets from increased treatments and interventions. [Analysis of the results of the Victorian Healthy Homes Programs](#) found that small investments in energy efficiency and thermal comfort produced health system savings much larger than the value of energy savings. Highlighting the connection between residential performance on thermal comfort and budget pressures is important to sustain adaptation focus in government funding processes.

Improving the thermal comfort of Australian homes should be a major theme of adaptation planning and policy. The approach should combine strong targets for outcomes, such as the “no rise in the rate of heat-related mortality and morbidity” goal suggested above, with close attention to the match between the potential rate of rise in underlying heat stresses and the rate of improvement in the total dwelling stock expected under current policy.

Sectors: Infrastructure and Built Environment

Major electricity system disruptions have been caused by extreme weather events in recent years, such as the February 13 2024 heatwave and storm that saw Victorian transmission towers crumpled by high winds and hundreds of thousands of homes cut off from electricity supply by problems at the transmission level and, even more so, damage to electricity distribution networks.

These kinds of incidents could well become more common, and certainly could become higher-consequence as the energy services that households and business require are increasingly delivered through electricity rather than gas and liquid fuels. Without appropriate attention to systemic and individual resilience, failure of a single system could see a business or household suffer the loss of transport, heating, cooling, cooking, hot water, lighting and communications all at once.

That level of vulnerability should be avoidable, but attention to resilience is needed. Reinforcement or even undergrounding of electricity infrastructure is possible, but comes at a cost. The spread of energy storage, both behind and in front of customer electricity meters, should help considerably – though the more that these resources can be concerted to help with daily flexibility needs as well as rare events, the more value they will create.

Sectors: Defence and National Security

Regional security, and stability, throughout the Pacific is important to our overall national security. There has been positive progress by the Australian Government towards assisting our Pacific Island neighbours adapt and plan for climate change under current scenarios, a key example of which is the Australia-Tuvalu Falepili Union Treaty.

As incorporated into this agreement, orderly people movements will be an important issue. The peoples that will be displaced by climate change will need to be assisted and population flows into Australia will need to be managed with care and dignity.

Given the climate modelling currently available, other Pacific Island nations will likely need similar agreements.

Sectors: Supply Chains

Post pandemic work by the Australian Government to create supply chain resilience has uncovered limitations in the ability to enhance on-shoring and sovereign capability. It is hard for locally made goods to compete with least cost internationally produced goods in most product categories.

To date government policies on local supply chains have been fairly cautious – understandably, given strong concern over inflation and the cost of living. As a result, despite the diversification agenda that has been propelled post-COVID, supply chains have changed less than many had expected.

Supply chains, while primarily sitting with Economy, Trade and Finance have strong interdependencies with Infrastructure and Built Environment. Recent events have shown extreme weather events can cause supply chains to slow and, in some cases, temporarily cease. Roads impacted by flooding events over recent years have highlighted the risk to infrastructure, not just in closures while covered in water, but the damage that is left after the water recedes. Infrastructure adapted to be more climate-resilient into the future will reduce disruption to supply chains and the movement of, and access to, essential goods and services.

Sectors: Economy, Trade and Finance

The issues paper mentions the idea of adding climate adaptation finance to the responsibilities of the Clean Energy Finance Corporation (CEFC). This is worth considering. However, given the very large scale of adaptation finance needed, CEFC may not be able to make much difference within its current resources – and would risk diluting its efforts on climate mitigation finance, which also requires very large sums. If CEFC were to broaden its scope, it would need large additional capital to deploy.

The paper also mentions the Sustainable Investment Taxonomy now under development as a means for raising the quality of adaptation practice and climate readiness in new Australian investment. This is possible. However, there is a tension, yet to be resolved in work on the Taxonomy, between two quite different models for its content and use. One model is for the Taxonomy as a driver of increased and easier voluntary investment flows to a relatively narrow set of clearly and simply green opportunities. This model would set aside difficult questions and edge cases on the basis that they don't need to be resolved if the Taxonomy does not need to be applied to every investment. This narrow approach would have benefits, but it would not deliver an uplift in adaptation-readiness of wider investment. By contrast a harder-edged Taxonomy against which all investments could be assessed would have to deal with very difficult questions about the sustainability of controversial investments, such as backup electricity generation with high operating emissions but low expected hours of operation.

Finally, we raise the issue of insurance. Increasing climate-related extreme events are already impacting insurance markets; [a 2020 Ai Group report](#) highlighted challenges facing business in securing affordable insurance products, attributed in significant part to local and global climate events. More areas and risks will become uninsurable, at least through private products and markets. This raises very difficult issues. Leaving regions, individuals and businesses in extremely vulnerable financial positions would be unattractive. However, there is also a need to avoid perverse incentives. Public insurance guarantees or products need to be considered and reviewed with close scrutiny to ensure they do not encourage people and businesses into harm's way.

For any questions in relation to this submission, please contact Ai Group Director of Climate Change and

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Sincerely yours,

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