Leanne:

Next up, we have a stellar panel moderated by Adam Coxhead who is our sustainability lead for corporate finances at NAB. And he and his panel will be looking at the emerging trends in actually financing the transition. Once again, we welcome your questions via our Q&A function. Introducing Adam.

Adam Coxhead:

Thanks Leanne. Look, I'm delighted to be here today hosting this discussion on financing the transition, and specifically what's happening to catalyze private sector investment into parts of the economy where it's really required. I'm joined by a terrific group of panelists, each of whom I'm sure will provide unique perspectives and insights on the emerging trends and opportunities for investment that they're seeing across the economy. In particular around energy, agribusiness, commercial property, and manufacturing. Firstly, to introduce my guests, to my left, I have Ian Learmonth, Chief Executive Officer for the Clean Energy Finance Corporation. Ian has more than 30 years experience as a financier and investor. Having worked in Australia, Asia, and Europe, across asset finance, clean energy and major infrastructure projects, as well as pioneering Australian social impacting investing, including launching Australia's first social impact bond in 2013. Previously Ian established and led various businesses from Macquarie Group, notably European renewable energy and carbon credit investments, cross border asset and structured finance and securitization in Asia and Europe. As the CEO of CFC, Ian is overseeing the organization's growth where cumulative investment commitments now exceed $10 billion. Welcome, Ian.

Ian Learmonth:

Thank you, Adam.

Adam Coxhead:

Next we have Bel Quince who's NAB's National Agribusiness Strategy Executive. Bel has over 25 years experience in the Australian legal, government and banking sectors across various roles covering executive leadership, risk management and strategy. She joined NAB in 2020 to lead the strategic direction of NAB's agribusiness, which is the market leader in the Australian business banking market. Welcome, Bel.

Bel Quince:

Thank you for having me.

Adam Coxhead:

And finally we have Casey Morecroft who is NAB's executive responsible for the corporate banking division. She leads the team of bankers servicing NAB's corporate national client base, including family offices, commercial real estate, private businesses, and listed corporates. Casey has 18 years of experience across banking, working in roles spanning relationship management, trade and supply chain finance and structured finance across Australia and Asia. Welcome Casey.

Bel Quince:

Great to be here, Adam.

Adam Coxhead:

Before we dive into the questions, I just wanted to reiterate that we will be making time for questions from the audience towards the end of the session. please drop them into the Q&A function as we work through the discussion and we'll be able to pick them up at the end. Firstly, I'd like to turn to you Ian and ask you to give the audience an overview of the CFC's mission, the evolution of the business and its mandate and the focus over the near to medium term horizon.

Ian Learmonth:

Thanks, Adam. And great to be here in this session. Yes, the CFC is now 10 years old, established all those years ago under a Labor government, and we have $10 billion to invest in the clean energy sector. We are a lender and so we do debt, we do equity. We invest very broadly across the economy. Under our act, we're able to invest in renewable energy or any enabling technologies related to that, energy efficiency and low emissions technologies. Over that period of time and as Adam said, we have cumulatively invested in $10 billion worth of transactions. Over 250 different sorts of deals right across energy generation, as well as other sectors such as real estate, infrastructure, agriculture and transportation, and where we sit today, we currently on ... If you look at our balance sheet, we have about $6 billion out the door and we have commitments, something like 7 billion.

Ian Learmonth:

Because we are about 75% debt relative to our equity investments, we get back these days as we've kind of matured over the years about a billion dollars a year. We're sort of recycling our capital and putting it out there into the broader clean energy sector to drive impact. The CFC is about facilitating the flows under our act. The object of the act is facilitating the flows of capital into the clean energy sector. We're always, I guess, trying to fill a gap with our dollars, but we're also trying to bring in the private sector and look, it's great to have vast amounts of capital provided by the Commonwealth government, but at the end of the day the clean energy transition is multi hundred billion dollar kind of task.

Ian Learmonth:

We are trying to draw capital in alongside us into various transactions and we do that by taking risks that other investors might not want to do, committing to transactions early, providing a longer dated tenor, providing concessionality, so lower interest rates that might help catalyze the transaction and bring in other debt and equity investors. Since our establishment, we have for every dollar that we put out the door, there's about two and a half dollars of private sector capital alongside it. We have been successful in achieving that. In terms of where we have been and where we're heading, when we were established all those years ago, Australia was at a very nascent stage in the clean energy transition. There was very little wind and solar. Our energy mix was largely coal and gas, of course, with some hydro, particularly in places like Tasmania.

Ian Learmonth:

Throughout the sort of first five or so years of our life, we really put a lot of capital, a lot of our focus was on addressing decarbonizing the electricity sector. A lot of that early stage of wind and solar being built out across the country and the government at that point had the renewable energy target. That helped drive the economics of it. But there was still a lot of ... We were sort of getting in there early when projects didn't necessarily have contracting for their energy. There were new players coming. There were technologies that a lot of the existing banks and equity houses were not necessarily as comfortable with. Now that, of course, we've had a great run with that. As we know today, there's nearly 30%, some days of our power across the country generated by renewable energy.

Ian Learmonth:

But we're now at that next stage where, and we've got a government that's looking to put 82% of the energy mix as renewables by 2030. Very, very ambitious targets. How do we get there? We need to address issues like the grid, particularly because, I mean, as you probably heard in other sessions, particularly from Tony Wood, the grid is a huge challenge in us having this high penetration of renewables. More recently we've turned our attention to investing in things like the poles and wires, and we've provided financing to the newly announced project, Energy Connect, linking New South Wales to South Australia, unlocking nearly two gigawatts of renewables. But alongside those sorts of investments, we also need to focus on storage, which is sort of complementary, of course, to the renewable energy that's being built out.

Ian Learmonth:

There's addressing the next evolution of energy, as I say, storage and transmission, and then there's other technologies and other harder to abate sectors that we're focusing on. Green hydrogen, no doubt we'll talk a bit more about, and then these other sectors like industry, agriculture, transport, and the property sector that we also need to look at. It's never a dull moment at the CFC, but maybe I'll pause there and allow some of our other guests to [inaudible].

Adam Coxhead:

No, that's terrific. Thank you, Ian. A very comprehensive overview. And look, you used the word catalyze and the role of the CFC and sort of crowning an investment. It has a pretty well defined remit across sectors in the economy, and a lot of flexibility as you described in terms of the types of capital it can provide. Can you give us a few examples of where you've been involved in more emerging sectors or nascent technologies and really playing that catalytic role?

Ian Learmonth:

Certainly. So on the technology side, we actually have an innovation fund, really a venture capital fund that we established about five years ago, that's been investing in an incredibly broad range of interesting early stage technologies in the clean energy sector. And some of the examples of that, we'll say, for example, in the hydrogen sector, a high efficiency electrolyzer that's been developed at Wollongong University, Hysata, which we are now a shareholder of. We've put some early stage capital and that has incredible potential. I mean, the amount of the need for electrolyzers as we build out globally the green hydrogen market will be extraordinary. That's Australian ingenuity that I'm sure we will hear more about. There's the next generation of solar panels coming from a company like Sunman, which we are now a very significant investor in. I think we're something like a 12% shareholder. Again, through our innovation fund. The Sunman panel is one that is an ultra light panel, highly flexible. It's been developed through some of the incredible alumni from the University of New South Wales, very legendary solar university. And Dr. Zhengrong Shi who is really the the entrepreneur and founder of Sunman is behind it, but what it does, it allows, because it's far lighter than the conventional glass panels you can put that on industrial rooftops and warehouses and all those other highly advantageous locations, which don't have necessarily the foundations.

Ian Learmonth:

But there are investments in e-bikes that a company called Zuma, which is going absolutely great guns, both here and internationally, tapping into this incredible growth of the last mile delivery that's going on. An electric bike, which is incredible, there are investments in soil carbon. There are investments in agricultural technologies such as AgriWebb, which is a software technology that helps farmers across Australia drive efficiencies with their properties. There is a very broad range. We've done something like 24 different investments through the innovation fund, usually equity investments between two to $10 million. There's quite a range of stories in there.

Adam Coxhead:

Terrific. That's really interesting to hear how you're backing truly innovative Australian companies to scale up in the clean energy space. That's super exciting. Look, another question, slightly different angle on this one. We've heard from the previous speaker, Tony Wood, we've heard from Mark Carney about the overall level of capital that is required to fund the transition. One of the requirements of attracting that capital will be an attractive risk/reward profile for investors. At the same time, it'll be important to see the cost of capital come down in important segments to ensure that the cost of transition is as low cost as possible, and it's as speedy as possible. How does CFC think about investment returns in the context of its mandate and the impact that it has on the broader market?

Ian Learmonth:

Yeah, it's a good question.

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Adam Coxhead:

... it has on the broader market.

Ian Learmonth:

Yeah, it's a good question. Just from our perspective, we look at, really, each deal on its... or each transaction on its merits. And if we're lending, the interest rate that we would provide can range. If it's subordinated debt, mezzanine finance, it'll have the appropriate rate, if it's senior secure debt, it'll have another rate. So we look at what's the appropriate return for the investment, what impact will it make, who else is it bringing alongside? In some cases we will provide below market interest rates or have a below market expectation of return, because we think that concession will drive some sort of behavior.

Ian Learmonth:

As an overall portfolio, it's interesting. The government, or historically the government, has asked us to seek out a return that's 3% to 4% above the five year government bond rate, which is quite high. And today, if you look across our portfolio, we are probably at about two and a half percent over the five year government bond rate, so we are below that target. This new government may well revise that.

Ian Learmonth:

As I say, it's a target, we look... It's a combination of all those deals sort of bubbling up to one consolidated figure. So we don't chase a particular return, we look at each thing on its merits. But there's a huge amount of capital out there, your Mark Carney, as I'm sure he maybe reminded everybody, the private sector made a commitment of something like $130 trillion worth of dollars to help drive towards net zero, and try and achieve a global warming cap at 1.5 degrees. So I never worry about whether there's capital out there to invest in the transition, it's that today that capital, the private sector capital, still wants an appropriate or the right return for them. So I don't think there are any free kicks necessarily out there, so it's probably up to people like ourselves to take the risk out of a lot of sectors or technologies or projects and so on, so that then that huge wave of private capital can come in, because they're seeking out ESG and sustainability like investments, and get the appropriate return that they're looking for.

Adam Coxhead:

Very good, thank you for that. One more question, perhaps, for you Ian, before I move on to the other panelists. So focusing back specifically on the energy sector, which is very important for the transition, obviously, what do you see as the biggest challenges in financing the energy transition, given the amount of capital required and also some of the evolving commercial propositions? So you did talk about the importance of storage and grid investments to de-risk investments in renewables, but there's factors around merchant risk and evolving offtake arrangements as well. What can you tell us about the challenges?

Ian Learmonth:

Certainly with that energy transition, as I guess I said a little earlier, there's challenges with the grid itself, keeping up with keeping up with, because it's very easy to build out, or much quicker, to build out wind and solar than it is to put transmission in place. So that's one particular issue. So we've got to make the investment in the grid, as we would expect in accordance with the integrated system plan from the grid operator or EMO, and that's something that we'll be working with the government on delivering. So there's the grid, there's then's, as I say, there's the storage to balance that and other technologies. Again, the storage can be built out quicker than the grid.

Ian Learmonth:

There are a few headwinds at the moment with building out renewables, construction and EPC contracts are up with within inflation, interest rates are higher, so the actual economics of a classic renewable project is challenged in a way. We've got supply chain issues that trace their way back to the early days of COVID, and that's only got kind of worse. So we have to kind of get through some of these medium term challenges. We would like to, and that's where we can play a role. If there are projects that might need some concessional support, may not have contracting for their power, we can still provide finance, we can still invest. In many cases, the first wave of investments that we made in wind and solar, a lot of them were merchant projects. They were selling into the spot market, and then they sought out contracting over time, and de-risked and then we were kind of refinanced out of the project.

Ian Learmonth:

So there's some challenges out there. The goal is to kind of get to 80 plus percent over the next seven or eight years, so we'll have to just tackle those challenges head on.

Adam Coxhead:

Okay. It sounds like an array of challenges, but ones we can face into. Perhaps is a good segue to Casey, given the discussion around the importance of energy transition to the transition of other companies across the economy. So Casey, what are the trends you are seeing across NAB's private sector customer base, including commercial real estate and manufacturing companies, in terms of their approach to transition?

Casey:

Yeah, sure, Adam, I think if we'd look about 12, 18 months ago, and we talked to clients on this topic, it was very much there was a portion of clients that were interested in it for their own social good, and a lot of people thought it wasn't something they had to deal with. I think where we are now is there wouldn't be a customer conversation we have in commercial real estate or manufacturing, or any other sector for that matter, where this topic doesn't come up. So there's been an enormous speed of transition, in terms of the conversation in the last 12, 18 months, but there's still an element of customers that are just unsure how to do it. So when we talk to a number of customers, particularly in commercial real estate's a good case in point, whether it's an office building, whether it's a residential building, the new buildings that are coming onto the market are actually really straightforward.

Casey:

So there's most buildings now have six star ratings, they need to have a certain rating to attract new tenants, et cetera. But it's the back book, and when we look at the existing portfolio, there's an enormous transition that has to happen around upgrading some of our buildings across the entire economy. And whether that's C, B, D regionally, et cetera, there is an enormous CapEx spend that comes with that, and there's a role for CFC that we've partnered on a number of things. There's an enormous role that banks can play around providing that capital that allows buildings to upgrade, to improve their energy efficiency, and make sure that they're positioning themselves. That they're doing the right thing for their own business, but also their own customers. And increasingly we're seeing not only the debt piece is important, around attracting capital, but the overall equity value of these buildings is being impacted by their energy rating and how they're transitioning their portfolios.

Casey:

So we've got a role to play around how we do that. On the manufacturing side, again, it's been led by energy efficiency and cost, primarily, so how do we... And everyone's seen it recently in what's happening with energy prices and electricity in recent weeks. It's become pretty essential now that businesses have a plan around how to manage their energy. But again, there is a capital need that banks and equity, et cetera, have a role to play in how do we actually assist these customers with transition?

Casey:

And we're talking around a whole range of initiatives around renewables, but also our own product development, and how technology comes along for the journey as well in making it affordable, so that we don't make this transition overly cumbersome for customers, in terms of the cost piece. We actually need to make sure that we are creating businesses on a sustainable footing going forward.

Adam Coxhead:

Thanks. Thanks, Casey. You mentioned not making things cumbersome for customers. Where do you see your customers struggling to get to grips with transition, and what areas do you see them making real progress?

Casey:

I think the biggest challenge when we talk about things like sustainability linked loans, green loans, is the data that backs up and supports these businesses. So a lot, particularly in small businesses in the private sector, they don't often have the reporting capability, the teams, et cetera, to be able to monitor adequately their emissions, how they keep records of things, how they track their emissions. There's an enormous piece around the audit trail, and there's a role for whether it's accounting firms, legal, banks, how do we actually assist companies to be able to better manage that so that they're doing the right thing, but not being accused, along with ourselves, around greenwashing, or anything along those lines. So the audit piece and the data piece is something that I think the whole industry is struggling with a little bit.

Casey:

There's no lack of interest or goodwill around wanting to do the transition. I think we've well and truly moved beyond the discussion of if to do the transition, it's more the how, and there is a piece around how they just put the risk management framework around it. Where it's working well though, I think, as Ian mentioned, there's an enormous amount of goodwill around actually assisting customers now with this transition. So we have a very strong desire to assist clients in this journey, as do a number of other partners that we work with, and we are seeing a lot of traction around customers when they talk to us around their capital stack. It's not just a straight refinance, it's the refinance plus the CapEx piece to do the transition, and we just need to make sure that we make that process really streamlined for customers, going forward.

Adam Coxhead:

Great, thank you. And when you look down the road a little way, how do you see NAB and other commercial funders like us evolving the approach that we are taking to financing transition with those private companies? And how might organizations like CFC, with a bit of a different investment remit, support that?

Casey:

Yeah, it's a good question. I think we talk a lot internally about how do we actually transition our loan books? So NAB itself can be carbon neutral, but how do we actually make that the case for our loan book? And agriculture, which Belle will talk to, commercial real estate, which I cover along with the mortgage book, are really three big areas we need to sort of lean in and look towards. With that, I think increasingly we will look at it from a risk management lens of the sustainability of businesses, how they're managing that transition. And with every sector, there's first movers that get on board really quickly, there's a middle section that we need to help along that journey, and then there's a smaller portion that will take a little bit longer, depending on their circumstances.

Casey:

But this won't happen overnight, there's going to be a number of years, really, where we work with customers to transition, and how we actually price debt off the back of customers will be a factor. The equity piece I spoke to there, there will be the price of equity and how you attract investors to your business, how businesses go through a sale process. There'll be increasingly a number of people that look at what you are doing in this space, and it will feed through to the cost of capital, a cost of spectrum. So it will become pretty important that you've got a plan around this. So we're working pretty actively with customers on that.

Casey:

I think ,in terms of what Ian was saying, he plays a role where banks have a role to play. There's a certain part of the market that banks struggle with, whether it's [inaudible], whether it's the stage of the project, whether it's... There's a whole number of reasons where someone like a Clean Energy Finance Corp will come in and support, and come in before a bank or alongside-

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Casey:

... will come in and support and come in before a bank or alongside a bank to support that transition. Then also the equity piece, and Ian spoke about it as well. Do they come in on the equity or do we actually partner and then attract the equity capital? When you look at the overall capital stack, there's a role for everyone, because it is such a big number that we need to all lean and support.

Adam Coxhead:

Yep. Thanks, Casey. Great insights. Maybe if I turn to Belle now, similar line of questioning, what are the trends you're seeing across the agribusiness customer base in terms of their approach to transition?

Bell:

It's not unsimilar to what Casey just walked through for commercial real estate in that the conversation 18 months ago is fundamentally different today. So farmers are exceptional at adapting. They've done this for decades and centuries when you think about climatic change, but the new challenge today is decarbonization. That's a new conversation and the sector has a unique opportunity to solve its own challenge in using land mass to decarbonize or to offset. So looking at increased sequestration to offset their own emissions profile and then be part of the solution for some of the other industries as well. So I was at a conference yesterday, a Marino conference, and I was really surprised and delighted by the robust conversation around carbon as a productivity benefit where you understand your land mass and how to use that as an asset to increase productivity, increase profitability, increase resilience, but also look to insert your own emissions profile, decarbonize yourself, decarbonize your supply chain, and then potentially be part of the solution for some of the other industries that won't get there in their own right and will need some offsetting to help them get there as well.

Adam Coxhead:

That sounds like there's a lot going on across the agri segment and a lot of opportunity as well as challenge. What do you see as the challenge for the funders? So the commercial funders of funding transition in the agri segment and, equally, how do you see the role of CFC and organizations like it and [inaudible].

Bell:

Well, I think Ian touched on it, the economics need to stack up and I think one of the biggest challenges is we look at the market forces now in terms of some of the institutional global market commitments and that pressure point that will come back to the producers in terms of decarbonizing the agricultural production. If all of that time, effort and cost gets pushed back through the supply chain and lands on the farmer's shoulders and the economics don't stack up, the commercial benefits don't stack up for them to be able to invest in the way that they need to decarbonize their activities, because there is a cost involved, so the economics need to stack up right through that value chain, right through that supply chain. So it needs to make sense for investors. It needs to make sense for consumers or retailers, and it needs to make sense right back through to the farmer to invest in the activities that'll drive those net benefit outcomes that we need to see.

Bell:

I think there is a collective opportunity here for us all to kind of pull on that rope collectively. So we will do that in terms of our commercial solutions and how do we provide access to capital at the best available price? How do we do that through sustainable financing and pass some pricing benefits through those sorts of instruments. Certainly some of the investment that we're seeing CFC do, particularly in the agricultural space, is about supporting the scaling up and the commercialization of some of the solutions that will be applied on farm and making sure that technology is affordable and scalable and commercialized onshore for our farmers to be able to apply that. But I think yes, scale is really critical here and the economics that sit behind all of those types of investments or adaptation, it just has to stack up at every point.

Adam Coxhead:

Terrific. Thanks, Belle. That's perhaps a good segue back to you, Ian. The CFC has been quite active and as you mentioned, a couple of these venture style investments into agri tech companies, what else can you tell us about CFC's involvement in the agribusiness sector?

Ian Learmonth:

Yeah, thanks, Adam. Well, we're hugely focused on it. It's such an important sector as Belle quite rightly identifies. I mean, I think there's something like 18% of Australia's emissions relate to the agriculture sector and a lot of that, of course, relates to methane emissions from livestock. As well as, yes, some of the technology investments around soil carbon and the efficiency or software relating to the efficiency of managing properties, as I mentioned, we also have invested in a number of large scale agricultural fund., for example, a Macquarie cropping fund, the Gunn Agri funds, which were also pastoral as well as cropping. The reason we invest in funds like that, and we invest in funds right across all sorts of sectors is where we think our involvement in the fund will drive changes in behavior and those properties can be demonstration models in a way for the broader ag sector.

Ian Learmonth:

We've seen that with those investments. There's been precision ag, there have been replacement of diesel with solar. There's been the implementation of technologies, lower emissions fertilizers, there's been seed technologies retaining carbon, retaining water are all helping with the overall emissions challenge. I guess one of the big things is addressing methane and we are seeing a number of technologies in this baragopsis and-

Bell:

3-NOP.

Ian Learmonth:

3-NOP, yeah, exactly. So there's a number of those that we are looking at around the country, Australia has got some extraordinary technology. Some of it's even related to the ... the support that has come out of the CSIRO. You'll no doubt be hearing more about that, but yes, an incredibly important sector, not only for its abatement potential in its own capacity, but of course, as you quite rightfully mentioned, Belle, the ability to create offsets for all those other industries that will never get to net zero, because that last five, 10, 15% is just prohibitively expensive.

Ian Learmonth:

We're working with our ag partners to generate Australian carbon credit units, ACCUs, which of course are higher than they've ever been with the net zero undertakings from corporate Australia and beyond. So hopefully we'll be able to tell you a bit more about those transactions as well. So it's very broad based, Adam. Yes.

Adam Coxhead:

Terrific. Thank you. One of the things that's really struck me, Ian, is just the adaptive nature of the capital that you can provide in different formats. How do you build awareness of CFC's offering? I guess how do you originate those different types of investment opportunities and make these companies that might need capital they don't normally source in a format they don't normally source. How do you build that awareness around that?

Ian Learmonth:

Yeah, it's interesting. I mean, there are sectors where we are very well known, particularly the renewable energy sector. So all the players around wind, solar, battery and increasingly transmission, they pick up the phone and we see them as well. There are other sectors that we're probably not as well known in the flexible and innovative nature of our capital is something that we'd like to be better known. It's interesting. We have about 140 people at the CFC and about half of those people are out there looking for transactions, looking for places that we can put our capital to drive the decarbonization of the Australian economy.

Ian Learmonth:

We organize ourselves predominantly along sectors. So we've got a kind of a grid team, hydrogen team, wind, solar, storage, real estate, natural capital. We've hired some terrific people recently, [inaudible] who leads our natural capital work, only just started. So we have people with deep sector expertise are out there talking to the key players in the market and around our venture capital business, we have people who are dedicated in the venture capital space. So they're out there. Universities, incubator hubs out there speaking at conferences, sessions not unlike these ones, getting the word out. We're in the debt markets and that's where we've, of course, worked with National Australia Bank providing wholesale finance to banks, securitization houses, auto finances at below market and tapping into people like NAB'S origination capability right across the country.

Ian Learmonth:

We've got 75 transaction originators. NAB's probably got, I don't know-

Adam Coxhead:

A couple more.

Ian Learmonth:

A few more than those. So when we are trying to provide super low cost finance to a farmer in country, New South Wales, there's a business banker out there in Dubbo that's going to talk to that person, not the CFC. So we also leverage off partners like the major banks, people like NAB, as I say, as well as peer-to-peer lending platform, securitization houses and others that we can get our capital out there if we are never going to get to an end user like that.

Adam Coxhead:

Terrific. So a lot of activity to drive that origination.

Casey:

I think the other point, just picking up on the people side, Ian, I'm interested in your view, this topic is so important around attracting talent, whether it's to your organization, ours, or when we talk to customers. Particularly some of the younger generation, they are actually selecting which companies they want to deal with based on what they're doing in this space. So increasingly customers are ... if they're on the war for talent, and this is a very real topic in the market, if you don't have a plan around transitioning your business, it's very difficult to attract staff and that's across all sectors, not just the obvious professional services, but whether it is manufacturing or commercial real estate, it's an increasingly big theme coming through and, Ian, I'm sure you're seeing the same thing.

Ian Learmonth:

It's so true. Yeah. Young people, they want to feel that their employer has got the right kind of sustainability, ambitions that aligns with their values around ESG. Not something that I could have imagined when I first joined the workplace, but you're absolutely right then. So there's a bit of a war for talent at the moment and that's a very important factor in attracting talented young people.

Bell:

Adam, I just want to close the loop on how this is playing out in real terms, in terms of the investments that CFC's making and how that's connecting through to the conversations we're having with our customers. We see this in the corporate ag space, very live conversations today in that CFC has made an investment in a company, and then they will engage with NAB and say, "CFC is one of our investors. These are the expectations in terms of sustainability outcomes. How do you help us achieve that?" So there is a real kind of meeting of minds at the table and are sitting around the table to solve it collectively. So that sort of investment and those sort of expectations are really starting to drive the right conversation and the right baselining, measuring, reporting, accountability to achieve that within those investment structures and those operations. So we're seeing that play out in very active weekly conversations with customers now.

Adam Coxhead:

Terrific to see that partnering going on like that in different forms of capital. One of the other questions I had for you, Ian, was perhaps moving away from energy into other opportunities for decarbonization. I noted at a recent investment, the CFC-

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Adam Coxhead:

... opportunities for decarbonization. I noted a recent investment the CFC made in a recycling business. Can you talk a little bit beyond energy, perhaps and some of the work that you've done there?

Ian Learmonth:

Certainly, yeah, we do, as well as our project finance, particularly in energy related deals, we've been involved in corporate finance with industrial companies and in some equity investments, in some cases, to sort of growth capital. And the transaction you are alluding to is in the e-waste sector. So we made an investment recently alongside the Australian Business Growth Fund, who've been established recently with the... And now we're a shareholder in the ABGF to drive expansion of Australian smaller businesses and industry and creating jobs particularly. But the e-waste sector. So we came in there alongside those guys. We've kind of 15 million between us of equity to help this business grow. Cipher Technologies based in Dandenong, there in Melbourne. And it's recycling hundreds of thousands of tons of... It has ambitions too, certainly, of e-waste each year.

Ian Learmonth:

And by avoiding the e-waste, or being recycled, avoiding it going into landfill, there's huge emission savings. And there's something, I think there's 300,000 or 400,000 tons of e-waste and it's going up of course, being going into landfill currently in Australia. So that's an interesting company. And it's sort of growing and, as I say, the recycling of course is driving carbon abatement.

Ian Learmonth:

But yes, we've done a few things in the recycling sector because that sort of fits under our energy efficiency banner. The government also, or the previous government directors to put $100 million into the recycling sector. And we're kind of getting close to having done that. Not that would mean we wouldn't do any more, but that's a particular example.

Ian Learmonth:

And another good example is Orica who, of course very big industrial company and a very big emitter here in Australia. We provided some financing, particularly sort of a form of structured corporate financing to them to allow them to change the way of corrugating iron. The way that they're processing and producing ammonia night trade. And as a result of when they kind of implement which they're doing at the minute, will have an incredible reduction in emissions. They're many kind of hundreds of thousands of tons per annum, because one of the byproducts is nitrogen oxide, which of course is spectacularly more... Has a even greater impact by many multiples than CO2. So industrial Australia, very big emitter, second biggest emitter after the energy sector, but much harder to sort of drive abatement.

Ian Learmonth:

So we're sort of increasingly working with those big emitters to seeing if we can help them electrify or switch to electricity if they can get off methane, go across to electricity. And as we decarbonize the electricity sector, then by definition, they will reduce their emissions. In some cases that's hard. And that the end game is to go from burning fossil fuels, which they're doing today to ultimately to green hydrogen. And we heard Tony Wood talk about that. If we can electrify Australian industry where we can and the balance of those companies can use green hydrogen instead of natural gas, methane, then that's how we'll get to kind of net zero in that sector. So we are working with quite a few industrial companies.

Adam Coxhead:

Terrific examples. Thanks, Ian. We've got a few questions from the audience and a bit over five minutes to go in the session. So we'll see if we can get through one or two. The first one is about the renewable energy storage target. So would a renewable energy storage target that issues traceable certificates be a policy option worth exploring to help incentivize more storage in Australia? Maybe one for Ian, perhaps.

Ian Learmonth:

I'm happy to have say something on that. I mean, we're obviously part of the Commonwealth. So we don't tend to kind of critique or overly-

Adam Coxhead:

I mean on policy.

Ian Learmonth:

On policy. But maybe just to say, I mean, the government are openly talking about a capacity market and changing the way that the current market operates to potentially create some kind of price signal that would allow dispatchable energy to be rewarded, particularly clean dispatchable energy, which would come from storage, being one of those.

Ian Learmonth:

Because one of the challenges with the storage sector is if you put a big battery out there in the country, and we've been involved in financing a couple of them, Hornsdales, the famous big battery down there in south Australia, for example. The way that you make money is you provide system strength or FCAS services as they call them, ancillary services to the energy sector to sort of keep it in balance.

Ian Learmonth:

So you can get rewarded through that side of things, but you can also... You're arbitration energy, you're kind of filling up your battery when prices are low or even negative, and you're pumping it out at the sort of shoulders of the day when everyone's kind of home and turning on the air conditioning. But they're hard ones to predict. They're difficult for people to finance, for equity investors to kind of work out, are they getting the right returns? So if there was a capacity market that was providing underpinning cash flows for that capital expenditure, because it's sitting there, a big battery ready to dispatch at any time, which is what you'll hear Chris Bowen talking about, I think that'll go some way to addressing some of those issues.

Adam Coxhead:

Okay. Yeah, all right. There's another one here about ACUs but I think that's probably along the policy lines as well. So I'll ask you one about the 1 billion tree plan. Has the CFC taken any action to aid in accelerating the federal government's 1 billion tree plan, particularly since the 2020 fires?

Ian Learmonth:

Yeah, we haven't been directly involved in it. We're involved in agricultural projects that are about reconfiguring the way that the herd kind of approach or there's potentially elements of tree planting and so on to generate ACUs. And we've looked at forestry over the years, this great potential of course, carbon abating or sequestration potential with forestry. It's been a challenging sector in Australia. So we haven't kind of made any investments in recent time. But we'll keep kind of working in that sector. But no, we haven't specifically been involved in that.

Adam Coxhead:

What about you Bell, have you seen any impacts of that program across your client base?

Bell:

Again, to Ian's point, similarly in the agricultural space, we're certainly seeing a shift towards regenerative farming. So going back to healthy levels of coverage for tree plantation, forestry's different again. But certainly from an agribusiness perspective, there's certainly farmers looking at their own assets and how do they improve, sort of coverage and plantation and wind breaks. And all of the benefits, all of the natural capital benefits that come with sort of rebuilding parts of land that has historically been cleared.

Bell:

And there's certainly a lot of investment going in. And regen itself is a definition that's not sort of agreed by all, but certainly that practice of looking at the whole of system and the natural capital and the biodiversity rather than just sort of mass production is certainly a big swing moving back towards that sort of investment back on farm as well. So sometimes that might be reducing your carriage rates for stocking because you're changing your land management practices, but there's a lot of investment going into shifting back to that sort of model.

Adam Coxhead:

Indeed.

Bell:

I think the other part of that is just how the private sector partners with ag and the sector better. So where there are certain industries that it is very difficult to offset and they will need to be offsetting through other mechanisms and how the private sector actually partners with the agricultural sector. I think there's a huge commercial opportunity there on both sides. And we're starting to see some of that coming through where there's a natural drive on the private sector to generate offsets. And how do they do that. And how to partner with some of Bell's clients? I think that's an emerging trend that we'll keep seeing come through.

Adam Coxhead:

And certainly banks have an important role to play in that. We'll be hearing more about carbon later on in the day. Perhaps one last question, before we wrap up the session, again, focused on CFC Ian. Has the CFC invested or focused on sustainable aviation fuels at all? And given the timeframe for battery powered flight, is this an area that you'd like to focus on?

Ian Learmonth:

It is certainly an area we'd like to focus on? We have looking at the... It's been a challenging one, the biofuels sector here in Australia, just for lots of historic kind of reasons. There are some early opportunities that we're looking at. Hydrogen powered aircraft or technologies that we are seeing. I think the generally accepted thinking is lithium ion batteries in aircrafts would just be too heavy. And that's not a path that we'll end up heading down. However either biofuels or ultimately hydrogen could well be the answer. I mean, the aviation industry obviously responsible for a vast amount of a CO2 equivalent out there. So we have to do something. We are seeing early stage technologies. So I think hopefully that's investments of tomorrow, if not today.

Adam Coxhead:

Very good. All right. Well, look, it's been a terrific discussion. Thanks very much to all of our panelists, Ian, Bell and Casey. I hope everyone enjoyed it. There's some really great sessions to come. We're going to break for lunch for an hour or so now, and we'll be back after that with the next session. So please do tune in again. Thank you.

PART 4 OF 4 ENDS [00:50:41]