Personal Submission to Senate Inquiry into Carbon Risk Disclosure

Gareth Johnston, Sydney, March 30 2016

General Commentary

Summary Points

a) Carbon risk disclosure is a critical first step for quantifying scale and reach of problem that then leads to management options
b) Governments have a role to set out and enforce good regulations that shape public and private awareness and ultimately support changes in behaviour
c) Government's own footprint could be better managed, reducing costs driving innovation, investment and creating jobs
d) Private sector is ready with investment for clear strong policies
e) Other jurisdictions have embraced bipartisan policy responses without controversy
f) Coverage should increase from most exposed carbon sectors to cover all listed companies, private companies over an emissions or financial threshold and government agencies
g) Reporting standards are evolving to become more integrated including all climate change risks and even extending to multi-hazard risks
h) Carbon reporting costs are low and already accepted by many multinationals as a beneficial activity.
i) Visibility of carbon risks, liabilities and management responses helps improve investor confidence
j) Delaying implementation and expansion leaves us out of step with major trading partners and increases costs of inevitable future alignment /compliance – Australia ends up taking rather than making policy that suits
k) A finely balanced Carrots and Sticks approach is likely to work best as neither prescriptive nor proscriptive measures seem adequate
l) Government have ample reports, data and policy examples at hand to help shape better policy responses
m) Scope of both emissions coverage and boundaries are becoming important issues – NGERS is inadequate for global interoperability
n) Emission factors should be included so that impacts (social costs, economic impacts, environmental dis-benefits etc can be measured and attributed
o) Current ASX rules are weak, lack detail and aren't driving change.
p) Regulated triennial revisions with a mandate for increasing coverage and quality is recommended

As an experienced corporate climate change consultant currently employed in a leadership role working with large listed countries across Asia Pacific, I welcome this Inquiry. It is my informed view, based on both published applied climate risk research, my relevant post grad qualifications in Applied Science (Sustainability) and Enterprise Resilience, and through over 18 years experience with large listed enterprises (> US$10 billion in value), cities, sub national governments, stock exchanges, sovereign investment funds, multi-laterals and large private companies, that carbon and climate risk disclosure are critical material risk issues of rising importance to investors, regulators, companies and society in general.

In a post COP21 environment, even in the absence of widespread mandated reporting policy coverage, many hundreds of cities, investment funds and larger companies are increasingly focused on both their own and their supply chain's carbon exposure and opportunities to mitigate risk. See here http://www.cdp.net/ Over 350 globally significant companies called for action in Paris at COP21 see here http://www.wemeanbusinesscoalition.org/and provided text and momentum for the agreement.

However Science Based Targets informs us that even significant levels of voluntary reporting is inadequate to drive the scale or rate of change required if the Paris agreement is to be complied with. Lack of broad enough coverage may also expose investors, companies, society and directors/officers to future liabilities and Governrnent policy makers are at best ill-informed. The absence of mandatory reporting standards creates a cost burden to investors and corporates, increasing discovery costs and introduces an often unseen risk for less sophisticated investors, equity owners and company operators. I have witnessed a recent rapid increase in corporate interest evidenced by increased demands, improving reporting sophistication within the biggest firms plus the improvements in reporting of climate change and carbon risk to GRI, CDP and other platforms and frameworks. I still feel however that even the best companies still offer incomplete and often misleading data coverage due to underinvestment in reporting staff, poor software availability and low prioritization by executive leadership. The recent positive shift has been unprecedented in nearly 18 years of my professional practice. Globally significant energy companies operating here and elsewhere with millions of tonnes CO_2e annual emissions have also started to decarbonise through disposal and decommissioning of plant, coal leases etc whilst others are seeking alternative investments and spurring innovation in carbon and climate services. Carbon risk and commercial exposure are the prime drivers of change.

Social, economic, environmental and legal issues may also arise for organisations not measuring, managing and disclosing carbon (and climate) risk. Early adopters and self reporters see anticipatory planning and stress testing benefits for quantifying carbon liabilities. Many develop new business models that in turn drive investment, new jobs and technology development as a result of awareness then action on carbon risk.

I also wish draw attention to this Inquiry's narrow terms of reference being limited to carbon risk and suggest that it would be prudent for any inquiry to recognise interconnected climate change risks and pay regard to international trends in reporting that are heading towards an integrated "resilience" view. With the emergence of a new organisational resilience ISO standard (*ISO/DIS 22316 Security and resilience -- Guidelines for organizational resilience* targeted for publication 2017-04-11) reporting will become more integrated, wider in scope and breadth and cover many more markets and sectors. Growing knowledge, investor concern, policy development, INDC commitments, public awareness, the implementation of carbon and software based climate accounting may drive increased scrutiny and improve coverage, completeness and materiality of disclosures. Previous Commonwealth reports should be referenced by this Inquiry including The Role of Regulation in Facilitating or Constraining Adaptation to Climate Change for Australian Infrastructure *Report for the Department of Climate Change and Energy Efficiency Maddocks 2012 see* *http://www.environment.gov.au/system/files/resources/7ea13787-628d-477a-8230-66dc96296dfd/files/maddocks-report.pdf*

Research by myself and others suggests that Australian companies are currently lagging behind competitors and trading partners in their treatment and response to carbon and climate risk. For Australian large companies reporting gaps include scale, coverage, completeness, materiality, relevancy and currency with less than a quarter of those currently reporting having limited assurance. Increasingly for foreign investors, I'm noticing chatter about Australian "sovereign carbon risk" and some limited suggestions about capital flight. There have also been suggestions from European governments and others that Australia's lack of carbon reporting, weak data and limited coverage constitutes an unfair trading advantage over those that do report and manage carbon liabilities, raising future environmental liabilities and potential legal risks for Australian export markets. Tariffs as deterrents to high carbon market entrants against Australian companies are possible but in my view highly unlikely.

Benefits of Reporting and Disclosure

According to research (see https://www.cdp.net/Documents/Brochures/CDP-Business-Booklet.pdf) by CDP, the worlds largest carbon reporting platform, benefits of reporting by companies include

1) **Accessing lower-cost capital and attracting investment** On average businesses save US$1.2m annually in interest when they disclose their carbon emissions. Furthermore, CDP data is increasingly being used to create financial products, including the STOXX Low Carbon Indices and New York State pension fund's US$2 billion low-carbon investment fund.
2) **Improved business valuations** Investors are seeking ESG data like never before. This has business benefits too. An award-winning study by the Swiss Finance Institute shows that companies that are transparent about their carbon risks experience a positive impact on their valuation. Analysis by BlackRock shows that the companies who reduce their carbon intensity the most, outperform the market.
3) **Reaching global decision-makers** In reporting via CDP, companies are able to report once and reach global investment decision-makers across multiple platforms, including Bloomberg and DJSI.

4) **New revenue streams**, with product and service innovations and new market access The global market for low-carbon goods and services stands at US$5.5 trillion and continues to grow.
5) Disclosing companies are building increasingly **sustainable** businesses and **actively managing risk** by: Building resilient supply chains Climate management is increasingly factored into procurement decisions.
6) The wider business benefits of increased disclosure and committed climate action are far-reaching, with positive impacts on corporate reputations and wider stakeholder engagement.

62% of 20-30 year olds want to work for a company that makes a positive impact. Source: Guardian

Governments

The UK Conservative Government also recognised the benefits of emissions reporting in their 2011 report https://www.gov.uk/government/publications/benefits-of-reporting-greenhouse-gas-emissions

Measuring emissions is an important first step to managing them, giving companies an understanding of their where their main emissions are. Emissions reporting can act as an import communications tool within companies, helping to gain senior management and Board support for emissions management. Companies also report benefits in terms of reputation and brand value.

UK Government 2011

Stock Exchanges

Many of the world's leading Stock Exchanges excluding the ASX have joined the Sustainable Stock Exchange Initiative See http://www.sseinitiative.org/.

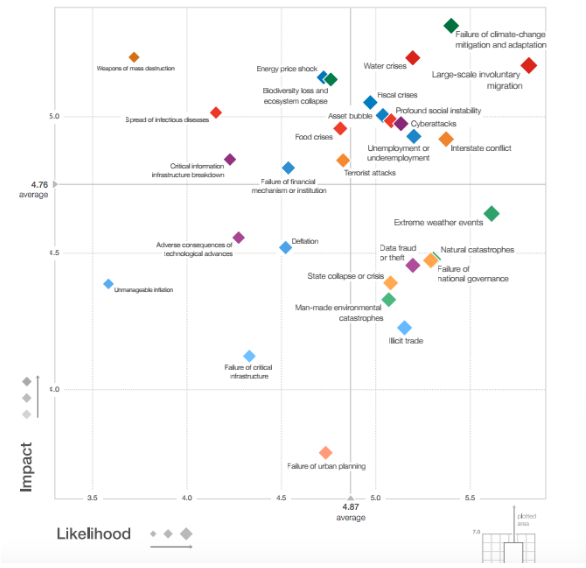
"This initiative provides a unique, high-level platform to explore how the world's exchanges can work together with investors, regulators and companies to create more sustainable capital markets. Held every two years, SSE Global Dialogues are ongoing and designed to analyze, promote and foster communication on stock exchanges' sustainability-related activities. They are designed to demonstrate stock exchanges' progress, while highlighting challenges and opportunities ahead. A core purpose is to facilitate the sharing of experiences that encourage exchanges and their regulators to enhance listing rules and/or regulatory initiatives to include the disclosure of sustainability strategies by listed companies. These events are co-convened by UNCTAD, UN Global Compact, PRI and UNEP-FI."

The following exchanges are working towards high standards of reporting integrity, transparency;

Belgium – Euronext Brussels, Brazil – BM&FBOVESPA S.A., Canada – NEO Aequitas, Chile – Bolsa de Comercio de Santiago , Colombia – Bolsa de Valores de Colombia, Denmark – Nasdaq Copenhagen,Egypt – Egyptian Exchange, Estonia – Nasdaq Tallinn, Finland – Nasdaq Helsinki France – Euronext Paris, Germany – Deutsche Börse AG, Iceland – Nasdaq Iceland, India – BSE India Ltd. India – National Stock Exchange of India (NSE), Italy – Borsa Italiana, Jamaica – Jamaica Stock Exchange, Jordan – Amman Stock Exchange, Kazakhstan – Kazakhstan Stock Exchange (KASE), Kenya – Nairobi Securities Exchange, Korea (Republic of) - Korea Exchange Latvia – Nasdaq Riga, Lithuania – Nasdaq Vilnius, Luxembourg – Bourse de Luxembourg Malaysia - Bursa Malaysia, Mauritius – Stock Exchange of Mauritius (SEM), Mexico - Bolsa Mexicana de Valores , Morocco – Casablanca Exchange, Netherlands – Euronext Amsterdam, Nigeria – Nigerian Stock Exchange, Norway - Oslo Børs, Peru – Bolsa de Valores de Lima, Poland – Warsaw Stock Exchange, Portugal – Euronext Lisbon, Qatar – Qatar Stock Exchange, Romania – Bucharest Stock Exchange,Rwanda – Rwanda Stock Exchange, South Africa – Johannesburg Stock Exchange Spain – Bolsas y Mercados Españoles (BME), Sri Lanka – Colombo Stock Exchange Sweden – Nasdaq Stockholm,Thailand – Stock Exchange of Thailand, Tunisia – Bourse des Valeurs Mobilières de Tunis (BVMT), Turkey – Borsa Istanbul, United Kingdom – Euronext London, United Kingdom – London Stock Exchange, USA - Nasdaq, USA – NYSE, Vietnam – Hanoi Stock Exchange, Vietnam – HoChiMinh Stock Exchange, Western Africa – BVRM Zimbabwe – Zimbabwe Stock Exchange.

Business

Opinions of emission reporting have also transformed remarkably in the last few years. The World Economic Forum, convener of the Davos meeting of leaders from the worlds largest businesses, produces an annual risk report. *Global Risks Report 2016*, the 11th annual report, identifies the leading risks ranked by likelihood and impact. The failure of climate change mitigation and adaptation is seen as the highest impact risk issue for business with a very high likelihood of occuring.



Collaboration across countries, areas of expertise and stakeholder groups is necessary to effectively address global risks and deliver on the resilience imperative. Yet across every sector of society, decision-makers are struggling to find common ground as they are faced with heightened volatility, uncertainty, interconnectedness and pace of change.

Klaus Schwab Founder and Executive Chairman World Economic Forum 2016

"One important building block is a greenhouse gas reporting program, which a growing number of countries are working on. Mexico, for example, is gathering information from its newly established emissions reporting program to support its mitigation policies. The European Union's and California's reporting programs are essential to their emissions trading systems, and China's reporting program will underpin its national trading system, planned for launch in late 2016." WEF Dec 2015

Multi-laterals

"Measurement leads to understanding, which in turn informs and spurs action. This is why a growing number of countries and subnational regions have created programs that require facilities and companies to measure and report their greenhouse gas (GHG) emissions. With these insights in hand, policymakers are better equipped to set strategies for scaled up greenhouse gas reductions. Today, over 40 countries already mandate emitters to provide GHG emissions-related data."
World Bank December 2015

Role of Government in tackling carbon risk as a "wicked problem"

There is ample literature and reference points for the Senate Inquiry to review how other governments, learned academics and others have formulated different approaches to carbon and climate risk. Climate change has been identified by many informed experts and social commentators as an example of a "wicked problem" meaning one of great complexity, fuzzy boundaries and indeterminate systemic effects. (*See Rittel and Webber Dilemmas in a General Theory of Planning 1973* http://www.uctc.net/mwebber/Rittel+Webber+Dilemmas+General_Theory_of_Planning.pdf)

The Australian Public Service Commissioner Lynelle Briggs's 2007 report *Tackling Wicked Problems A Public Policy Perspective* See (http://www.apsc.gov.au/__data/assets/pdf_file/0005/6386/wickedproblems.pdf for more) sets out some good perspectives on how government should paradigmatically respond to climate change with others, the interconnectedness of the issues and need for engagement across traditional boundaries.

> ***Climate change is a pressing and highly complex policy issue involving multiple causal factors and high levels of disagreement about the nature of the problem and the best way to tackle it. The motivation and behaviour of individuals is a key part of the solution as is the involvement of all levels of government and a wide range of non-government organisations (NGOs).*** Lynelle Briggs Australian Public Service Commissioner 2007

For a more developed case study see Lazarus, Richard (July 2009). "Super Wicked Problems and Climate Change: Restraining the Present to Liberate the Future".*Cornell Law Review* **94** (5): 1153–1233. See http://www.lawschool.cornell.edu/research/cornell-law-review/upload/Lazarus.pdf

Climate and carbon risk disclosure by organisations across society, beginning with large companies and government agencies also helps governments develop policies and stress test systems. The US Government in 2009 took measures based on carbon footprint measurement and reporting that has saved considerable energy costs and shifted both research priorities and operating behaviours. For example, US Department of Defense through adopting carbon reporting has dramatically altered its procurement, research and fighting capabilities. The US Navy has a mandated biofuel policy "Great Green Fleet" that reduces carbon and supply dependency.

Electric federal police vehicles have improved security and reduced maintenance costs in part driven by data from carbon accounting.

Australia's National Carbon National Carbon Accounting System is also inaccurate given the limits of modelling and lack of adequate cross and multi sector accounting. This means that the true or most likely scale and opportunities of reductions aren't fully understood. This creates distortions in equity, policy risks, technology and solution mis-selection, cost increases and potential market failures as policy and markets aren't focused on least cost abatements.

Lack of wide and deep enough carbon accounting also distorts markets and is counter culture to Productivity Commission recommendations, better practices and small government bigger market opportunities. Unmasking the scale and extent of emissions allows for prioritization, targeted "sticky" interventions, progressive planned incremental trajectories and deeper entrenchment of support.

> *" Climate change is an issue that presents great scientific and economic complexities, some very deep uncertainties, profound ethical issues, and even lack of agreement on what the problem is.* "
> **Mike Toman**
> Research Manager, Research Department, World Bank

Australia faces significant economic challenges in transforming our economic and tax base from heavy extractive industry dominance to a low carbon future ready resilient economy. Our national response to the end of multi-decadal economic growth, driven significantly on the back of China's resource demands, is challenged not only by external forces such as China's recent 5 year plan but also by Australia's internal culture, experience and record.

It is my view formed through personal experience having worked in over 22 countries and through knowledge of corporate and company cultures that Australia's business leaders are unused to rapid change, volatility or even market contractions. Our risk management experience is relatively low relative to other markets despite our standards being world leading. This lack of experience also extends to government policy makers who haven't benefitted from the experience of turbulence that other countries' governments have had to deal with including the global financial crises, the Asian Financial Crisis of 1997, the European Monetary System (EMS) of 1992-93 and the Mexican peso crisis of 1994-95. We have limited stress testing and less scenario planning in my experience than UK, EU or US enterprises and our lack of local multinationals is also a constraint on both risk governance and risk culture. Other's too have expressed concern at the relatively poor risk culture and risk governance short fallings are on public record. See Stay Ahead of the Risk: Risk Governance and Risk Culture Ian Laughlin Member, Australian Prudential Regulation Authority address to Institute of Actuaries of Australia Sydney 20 May

2013 http://www.apra.gov.au/Speeches/Documents/Ian-Laughlin-IAA-20-May-2013.pdf

Geopolitical Issues

In my work with Asian corporations I detect rising distrust and skepticism towards Australia when climate issues are raised. The continuous policy flip flop has created increasing uncertainty within our trading partners and this is certainly amplified in the South Pacific. There are regional security and political implications for Australia if climate change is not addressed in a more robust and mature way.

Response Ability

The accounting professions and climate change consulting community is relatively advanced in Australia and in my view would be well placed to assist with widespread implementation of a mandatory carbon reporting scheme. Some of the global accounting practices have climate services leaders based in Australia and the legal profession is also well represented with growing expertise.

Executive education both formal and informal has been shown to be lacking in its treatment of carbon and climate risk when compared with other OECD countries. Corporate culture will also need to change from an avoidance or denial culture prevalent in many companies to proactive opportunity seeking.

I am happy to provide more detail on request.

Many thanks

Gareth Johnston

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