

Sustainable Business Practices is pleased to present a review of recent activities from government, business and research centres on issues relating to business sustainability.

Australia's Climate Change Policy, our economy, our environment, our future

The Federal Government released this policy statement in mid-July following the report of the "Prime Ministerial Task Group on Emissions Trading" in May.

The policy statement acknowledges the global scientific consensus on climate change and the anthropogenic (human) contribution to this from greenhouse gas emissions as concluded by the Intergovernmental Panel on Climate Change (IPCC). The statement notes Australia's vulnerability to climate change in that "projected changes in rainfall, sea level rises and more extreme weather affect the security of our water resources, agricultural systems, energy infrastructure and settlements, natural ecosystems and public health".ⁱ

In order to prepare the Australian economy for a carbon constrained future, structural adjustments will be necessary across a wide range of industries and an extended time frame.

The Australian Government's policy objectives are:

- To contribute to global emission reductions to avoid dangerous climate change
- To maintain the strength of the Australian economy by the provision of competitive, cheap and clean energy to domestic users, by continuing to be a major supplier of energy and resources to international markets and adapting to the impacts of unavoidable climate change

By

- Introducing an emission trading scheme
- Public reporting of GHG emissions
- Reducing domestic emissions at least cost
- Improving energy efficiency and developing low emissions technologies to support efforts by all sectors of the economy to reduce emissions
- Support for world class climate science, and
- Supporting international responses that involve all major emitters (provided the responses reflect Australia's policies)

In a fact sheet "Setting a long-term aspirational emissions goal" issued by the Department of Prime Minister and Cabinet, the Government has indicated how it will set (in 2008) a long term (at least 30-40 years) aspirational goal for reducing emissions. The emissions goal "will give households and business certainty about the need to change their behaviours and will also help markets to establish prices for carbon emissions well into the future."ⁱⁱ

An Australian Emissions Trading System (AETS) will be established under the leadership of the Department of Prime Minister and Cabinet (PMC) although longer term the responsibility for emissions trading will rest with the Australian Treasury.

What does this mean for business?

As an initial step the Government will introduce legislation in 2007 to provide for comprehensive mandatory emissions reporting. As reported in the Financial Review, companies with emissions of more than 125,000 tonnes of CO₂E* will be required to report in 2008. This figure will reduce to 87,000 tonnes in 2009 and 50,000 tonnes in 2010.ⁱⁱⁱ

With the introduction of mandatory reporting coming in as early as 2008, it will be critical for large businesses to begin to put in place strategies to establish their carbon footprint and be alert to policy announcements in relation to long term goals and the details of the emissions trading scheme.

Under the AETS a system of permit allocation and issue will be established that:

- provides an up-front, once only, free allocation of permits to compensate existing businesses likely to suffer a disproportionate loss of value due to the introduction of a carbon price
- ameliorates, through free allocation, the carbon-related exposures of existing and new investments in trade-exposed, emissions-intensive industries
- provides abatement incentives in the lead up to the commencement of emissions trading, and ensures that early abatement actions do not disadvantage firms
- allows for the periodic auctioning of the remaining permits
- provides a 'safety valve' emissions fee designed to limit unanticipated costs to the economy and to business, particularly in the early years of the scheme, while ensuring a continuing incentive to abate
- recognises credible domestic and international carbon offsets

Sustainable Business Update

...continued

International developments will also need to be monitored as a clear objective of the Australian scheme is the ability to link with other schemes so that offshore emissions reductions can be claimed by Australian businesses.

The Government has indicated that it may make the proposed single robust standard available to the private sector for use in the voluntary carbon market.

The Government has warned that "in the meantime, purchasers of carbon neutral products and other offsets should be wary of products that are not accredited by a reputable agency"^{iv}

The Opposition's policy

With the decision of the Government to mandate the introduction of an emissions trading scheme, the essential difference between the coalition and labour policies is an announced long term target (labour targets a 60% reduction in emissions by 2050) and ratification of the Kyoto Protocol.

For business, preparing for an emissions trading scheme is a critical issue, regardless of the outcome of the forthcoming Federal election.

CPA Australia calls for standards on emissions reporting

CPA Australia has written to the Australian Accounting Standard Board urging AASB to include in its work program issues relating to the accounting for emissions particularly in an environment of emissions trading. Issues highlighted by CPA Australia include:

- The risk of divergent financial reporting practices developing
- The risk of an accounting mismatch of assets and liabilities occurring
- The lack of an assurance framework for these types of engagements

With regard to assurance, CPA Australia CEO Geoff Rankin noted, "Before an emissions trading scheme can become operational in Australia, a workable assurance framework must be established. Given the impending timeline, action must be taken now, as time also has to be allowed for practitioners to be appropriately trained"^v

The release issued by CPA Australia is available at: www.cpaaustralia.com.au/cps/rde/xchg/cpa/hs.xsl/1019_23458_ENA_HTML.htm

UN principles for responsible investment

On 4th July 2007, the United Nations' Principles for Responsible Investment (PRI) initiative released its first PRI Report on Progress to mark the one year anniversary of the initiative's inception.

The PRI is a set of voluntary, best-practice guidelines for institutional investors to integrate environmental, social and corporate governance (ESG) issues into investment management and ownership practices. Since beginning in April 2006, the PRI has gained the support of over 200 signatories – asset owners, investment managers and professional service partners, managing over US\$9 trillion in assets.

The report reveals that while signatories are committing to serious implementation of the PRI, much more needs to be done. Results include:

- 88% of PRI investment manager signatories and 82% of asset owners are conducting at least some shareholder engagement on ESG issues
- More than half of signatories have asked investee companies for standardised environmental, social and governance (ESG) reporting, while 10% plan to start in 2007. The Carbon Disclosure Project attracted the greatest participation
- 83% of investment manager signatories dedicate specialist staff to responsible investment issues
- 60% of asset owner signatories are involved in at least some form of collaborative engagement, with another 12% planning to become involved in the coming year
- 66% of asset owner signatories currently consider responsible investment issues to some extent in their investment manager selection processes, with another 13% planning to do so in 2007.

"These findings demonstrate that a sea change in global investing is underway... More and more mainstream investors understand that ESG issues can be material to long-term results and therefore must be factored into investment processes", said James Gifford, Executive Director of the PRI Initiative.

View the PRI Principles at: www.unpri.org/principles
The full report is available at: www.unpri.org/report07

References

- i Australia's Climate Change Policy, p 2, July 2007
- ii "Setting a long-term aspirational emissions goal", Australian Government, July 2007
- iii Australian Financial Review, p 6, 9 July 2007

- iv Australia's Climate Change Policy, p 11, July 2007
- v CPA Australia Media Release, 17 July 2007
- * CO2 equivalent