Investor Group on Climate Change

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27 August 2007

Mr Ian Holland
Committee Secretary
Senate Environment, Communications,
Information Technology and the Arts Committee
Department of the Senate
PO Box 6100
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Canberra ACT 2600

Mr Holland

The Investor Group on Climate Change Australia/New Zealand ("IGCC") would like to thank the Senate Committee for the opportunity to provide comment on the National Greenhouse and Energy Reporting Bill 2007 ("the Bill").

Background to the Investor Group on Climate Change

The IGCC represents Australian investors, with total funds under management of over **$375 billion**, and others in the investment community interested in the impact of climate change on investments. The IGCC aims to ensure that the risks and opportunities associated with climate change are incorporated into investment decisions for the ultimate benefit of individual investors through:

- Raising awareness of the potential impacts, both positive and negative, resulting from climate change to the investment industry, corporate, government and community sectors;
- Encouraging best practice approaches to facilitate the inclusion of the impacts of climate change into investment analysis by the investment industry; and
- Providing information to assist the investment industry to understand and incorporate climate change into investment decisions.

More information on the IGCC can be found at www.igcc.org.au.

The importance of Disclosure of Greenhouse Gas Emission Data to Investors

Investors seek to make accurate and appropriate investment decisions based on their risk-return profile. To do so, investors need access to a range of information on the various factors that impact the risks and returns of the companies and assets in which they invest.

To understand how climate change will impact on the value of their investments investors need access to information from companies on their climate change risks and opportunities and data on their emissions and energy. At present, to facilitate access to information from companies, the IGCC supports two international disclosure initiatives:

(i) Global Framework for Climate Risk Disclosure

A group of leading institutional investors from around the world has released the Global Framework for Climate Risk Disclosure. This statement outlines the expectation of investors in regard to climate risk disclosure from companies.

(ii) Carbon Disclosure Project

The Carbon Disclosure Project (CDP) is the world's largest collaboration of institutional investors on the business implications of climate change.[1] The CDP requests investment relevant climate change information, on behalf of these investors, with over 3,000 companies globally.

[1] The CDP represents 284 institutional investors with funds under management of over US$41 trillion.

As part of the CDP, companies listed on the ASX100 are currently asked to provide information on climate change risks and opportunities, strategy and greenhouse gas emissions and energy. Expansion of the coverage of mandatory reporting to at least the ASX100 would ensure consistency for companies reporting under such international disclosure initiatives and provide investors with relevant information on their investments.

According to one ASX100 listed company "participation in the CDP has emerged as a global standard for corporate disclosure of climate risk" (Property Development and Management Company).

The National Greenhouse and Energy Reporting Bill

The IGCC is very supportive of many aspects of the Bill and its objectives and sees it as one of the important steps in the introduction of an effective emissions trading scheme.

In particular, the IGCC supports mandatory reporting on climate change, greenhouse gas and energy by companies where it is:

1. national, flexible and transparent; and
2. allows companies to streamline the reporting of this information consistent with mandatory and voluntary initiatives in Australia, and with international initiatives such as the Global Framework for Climate Risk Disclosure and CDP.

To ensure any mandatory reporting legislation provides relevant and complete climate change information for investors (so as to remove the need for investors to make their own information request and thereby streamlining reporting for companies) the IGCC make the following recommendations:

- The introduction to reporting should be accelerated such that all facilities are reporting in the second financial year;
- The information publicly available should be significantly expanded to include:
    a) Separate detailing of total Scope 1 and Scope 2 emissions;
    b) Scope 1 emissions disaggregated into category, e.g. combustion, industrial process, fugitive, etc; and type, e.g. N_2O, CH_4, etc. of emission;
    c) List of facilities covered by the emissions inventory;
    d) Scope 1 and Scope 2 emissions for all facilities above the facility threshold of 25 kilotonnes CO_2-e, along with the details outlined in point (b) above; and
- Further clarification of the definition of operational control

Section 13: Thresholds for reporting

The IGCC submits that the phasing in of reporting under the Bill should be accelerated.

It is vital that prior to the start of the Emissions Trading Scheme companies have well developed emissions inventories, and have resolved any data collection and methodological issues. The importance of this is no more evident than in the experience of the EU Emissions Trading Scheme, where the lack of accurate emissions inventories resulted, in part, to an over allocation of permits and led to a very dramatic and public plunge in permit prices[2].

To this end, IGCC is of the view that all companies with:

- emissions greater than 87.5 kilotonnes or 350 terajoules should report in the first financial year (starting 1 July 2008); and
- emissions greater than 50 kilotonnes or 200 terajoules should report in the second financial year (starting 1 July 2009) and onwards.

Section 24: Publishing of information

The IGCC submits that significantly more information should be publicly disclosed than what is currently proposed.

[2] ABC 7.30 Report, Monday 18 June 2007

The Bill currently only requires the mandatory public disclosure of total greenhouse gas emissions, energy production and energy consumption for a company.[3] The total sum of greenhouse emissions does not provide investors with sufficient information to make accurate and appropriate decisions on the nature of the greenhouse risk or opportunities associated with a particular company. This is particularly the case given the existing uncertainty about both the rules for the emissions trading scheme and the need for investors to understand potential equity exposure of companies.

There is still significant uncertainty in the scope and details of an Australian emissions trading scheme ("ETS"), including uncertainty around:

- the category and type of emissions to be covered by the scheme;
- the timing of when different category or type of emissions will be covered by the scheme; &
- the permit allocation approach for different types of emissions.

Given these uncertainties, it is critical that publicly available data is disaggregated to enable investors (and others) to match the emissions and any residual liability as a result of the permit allocation approach in the ETS.

In particular, the permit allocation approach is likely to lead to significantly different financial liabilities between emissions types and especially between Scope 1 and Scope 2 emissions.

Therefore, the publicly available data should include:

- separate detailing of total Scope 1 and Scope 2 emissions;
- scope 1 emissions disaggregated into category, e.g. combustion, industrial, fugitive, etc; and type, e.g. N2O, CH4, etc. of emission

Investors are fundamentally interested in equity exposure of companies to greenhouse gas emissions. Accordingly, the IGCC submits that the information publicly available should enable investors to estimate equity exposure, noting that this can be significantly different from operational exposure.

To facilitate estimation of equity exposure by investors, emissions from 'large emitters' (i.e. those above the facility threshold) should be provided to the same level of detail as company emissions. In addition, a list of operations and facilities covered by a company's inventory should also be publicly available.

The IGCC submits that it is only under exception circumstances that the additional information listed above is commercially sensitive. The IGCC submits that such a disclosure does not cover aspects which may be reasonably expected to be commercially sensitive, notably:

- the financial arrangements with fuel or energy providers; and
- operational practices/technology that leads to the emissions.

The information listed above is also consistent with the disclosure requirements of the CDP which is currently provided by over 3000 of the world's largest companies. This would indicate that such information is not commercially sensitive in the majority of cases. This fact is also reinforced by the emission disclosure requirements in other jurisdictions, see for example, the Environment Canada website.

Additionally, in the five years that companies have been providing this information to CDP there has be little evidence that such information has been used in unfair attacks on companies. In fact, many companies have provided laudable feedback regarding the CDP and the benefits that can be derived for participating companies. The following comments are, for example, from ASX100 listed companies:

[3] Section 24(1) of the Bill

“Participating in the CDP helps us focus on continually improving our data collection and verification, enabling us to develop more effective emissions reduction strategies” (Melissa Clarkson Corporate Social Responsibility Manager, Transurban Group).

“The CDP5 questionnaire presents an important reflection on what we foreshadow as the strategic implications of climate change on our businesses.” (Property Development & Management Company)

Section 11 Operational Control

For climate change information to be relevant to investors it needs to be provided on an equity basis. Using ‘operational control’ alone, investors lose the opportunity to assess the greenhouse liability resulting from the equity share a company has in other (non-controlled) entities. Accordingly, investors will not be able to accurately calculate the greenhouse liability or other climate change risks and opportunities associated with their investments.

Requesting information on an equity basis also avoids the needs for an ‘operational control’ test, which as it stands, may be difficult to administer. The Bill currently requires entities to make a comparison of their authority over various operational and other policies with other entities. As such, the test leaves open the possibility that members of a group unwittingly breach their obligations under the Bill by assuming operational control does not exist.

The IGCC also believes that the Bill should be amended to include entities such as local and foreign fixed and discretionary trusts and other similar foreign hybrid and flow through vehicles.

As highlighted previously, if the information is not provided on an equity basis, at least the disaggregation of the emissions data and the provision of data on a site basis will allow investors to determine for themselves the equity exposure of a company.

The IGCC believes that there needs to be further clarification with respect to the reporting of emissions from buildings – emissions from tenant i.e. light and power, versus base building i.e. heating and cooling and lift systems. It needs to be made clear who, and under what situations, needs to report emissions from tenant and base building activities. There is a risk of either omissions or double counting of emissions if this is not clarified.

This boundary issue is particularly important for the measurement and reporting of emissions by commercial property companies. Given the complex nature of property, and increasingly infrastructure, ownership and management, there is a need to clarify who the liable party is with regard to reporting emissions from these sectors.

Section 10: Emissions, energy production and energy consumption

While IGCC understands that detail regarding the methodology for measurement of greenhouse gas emissions will be incorporated within subsequent regulations, IGCC submit that the regulations should adopt or be consistent with the current international standard *Greenhouse Gas Protocol: Corporate Accounting and Reporting Standard (revised edition)* developed by the World Business Council for Sustainable Development and the World Resources Institute.

Evidence of the general acceptance of the Greenhouse Gas Protocol as the international standard has been provided by the Global Framework for Climate Risk Disclosure mentioned previously, which states:

“Investors strongly encourage companies to report absolute emissions using the most widely agreed upon international accounting standard—Corporate Accounting and Reporting Standard (revised edition) of the Greenhouse Gas Protocol, developed by the World Business Council for Sustainable Development and the World Resources Institute. If companies use a different accounting standard, they should specify the standard and the rationale for using it.”

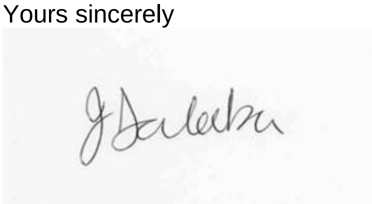
The Global Framework for Climate Risk Disclosure was developed by a Steering Committee representing a large proportion of the world's investors including:

- California Public Employees' Retirement System
- California State Controller's Office
- California State Teachers' Retirement System
- Carbon Disclosure Project (representing funds under management of US$41 trillion)
- Ceres and the Investor Network on Climate Risk (INCR) (representing funds under management of US$3 trillion)
- Connecticut State Treasurer's Office
- Global Reporting Initiative
- Institutional Investors Group on Climate Change (representing funds under management of €$3 trillion)
- Investor Group on Climate Change (representing funds under management of AUD$375 billion)
- United Nations Environment Programme Finance Initiative
- United Nations Foundation
- United Nations Fund for International Partnerships
- Universities Superannuation Scheme

The use of the Greenhouse Gas Protocol will facilitate the international harmonisation of greenhouse gas accounting and reporting standards and ensure that any future international trading schemes and other climate related initiatives are based on globally consistent approaches to greenhouse gas accounting.

The IGCC would be happy to further discuss the issues raised in this submission. Please do not hesitate to contact Ms Joanne Saleeba, Executive Director, IGCC on (03) 9018 2215, 0422 101 715 or by email secretariat@igcc.org.au.

Yours sincerely



for

Bob Welsh
Chair
Investor Group on Climate Change Australia/New Zealand