



## Investor Group on Climate Change Australia/New Zealand (IGCC)

4 December 2006

Ms Julie Gaglia  
Greenhouse and Environment Quality Section  
Industry, Infrastructure and Environment Division  
Prime Minister and Cabinet  
3-5 National Circuit, Barton, ACT

Dear Ms Gaglia

The Investor Group on Climate Change (IGCC) (Australia/NZ) thanks the Council of Australian Governments (COAG) for the opportunity to provide comment on the Draft Regulatory Impact Statement for A National System for Streamlined Greenhouse and Energy Reporting by Business. I apologise that our comments are being submitted after the close of the comment period but hope you will be able to take them into consideration nonetheless.

### **Background to the Investor Group on Climate Change Australia/New Zealand (IGCC)**

The IGCC represents Australian investors, with total funds under management of close to \$200 billion, and others in the investment community interested in the impact of climate change on investments. More information on the IGCC can be found at [www.igcc.org.au](http://www.igcc.org.au).

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 the investment decision.

### **The importance of Disclosure of Greenhouse Gas Emission Data to Investors**

Access to information from companies on their climate change risks and opportunities is of key importance in ensuring that the business risks and opportunities associated with climate change are incorporated into investment decisions. To facilitate access to such information from entities, the IGCC is involved in two international disclosure initiatives:

#### ***Carbon Disclosure Project (CDP)***

The Carbon Disclosure Project (CDP) is the world's largest collaboration of institutional investors on the business implications of climate change. CDP represents an efficient process whereby over 220 institutional investors with funds under management of over US\$31 trillion collectively sign a single global request for disclosure of information on Greenhouse Gas Emissions. CDP has historically sent this request to the FT500 largest companies in the world however in 2006 it was expanded our reach to over 2100 companies globally. This included the ASX100 and NZX50. A copy of the Australian/NZ CDP report is available on the IGCC website. The CDP questions are contained in appendix A. Of specific relevance to the issue of greenhouse gas disclosure is question 5 that asks:

*"Please standardise your response data to be consistent with the accounting approach employed by the GHG Protocol ([www.ghgprotocol.org](http://www.ghgprotocol.org)). Please list GHG Protocol scope 1, 2 and 3 emissions equivalent showing full details of the sources. How has this data been audited and/or externally verified?"*



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### **Global Framework for Climate Risk Disclosure (CRDF)**

A group of leading institutional investors from around the world has released the Global Framework for Climate Risk Disclosure, which is a new statement on climate risk disclosure that investors expect from companies. Investors require this information in order to analyse a company's business risks and opportunities resulting from climate change, as well as the company's efforts to address those risks and opportunities. The Framework encourages standardised climate risk disclosure to make it easy for companies to provide and for investors to analyse and compare companies.

The CRDF can be applied through existing reporting mechanism including the Carbon Disclosure Project and the Global Reporting Initiative. CRDF questions are contained in appendix B. A key aspect of the Framework is:

*"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."*

In order for the Council of Australian Governments to streamline reporting requirements in Australia it is important that the CDP and the CRDF initiatives are taken into consideration. Failure to establish mandatory reporting requirements that take these international disclosure initiatives into consideration will result in additional, rather than streamlined, reporting requirements for Australian companies.

### **IGCC's Comments on the Regulatory Impact Statement**

IGCC supports mandatory reporting of energy and greenhouse by business, however IGCC also supports legislation that is flexible and allows companies to report their climate change risks and opportunities consistent with international disclosure initiatives such as the CRDF, CDP, as well as the Global Reporting Initiative.

As mentioned above, for investors to incorporate climate change liabilities, risks and opportunities into investment decisions, access to information from companies on their climate change risks and opportunities is necessary. To ensure relevant and complete information is available to investors, the IGCC makes the following recommendations:

#### **1. Thresholds for reporting**

The phasing in of reporting should be accelerated so that companies will have clearly developed and disclosed inventories, and have resolved any methodological issues, prior to the potential introduction of an emissions trading scheme in 2010, as currently proposed by National Emissions Trading Taskforce.

To this end, IGCC is of the view that all companies with emissions greater than 87.5 kt CO<sub>2</sub>-e or 350 TJ should report in Year 1 and those with emissions greater than 50 kt CO<sub>2</sub>-e or 200 TJ should report in Year 2 and onwards.

As investors in companies listed on the Australian Stock Exchange (ASX) we currently seek energy and greenhouse information from the ASX100 as part of the CDP. To ensure consistency for companies reporting under such international disclosure initiatives and provide investors with relevant information on their investments, it would be desirable for all companies in the ASX100 to be required to report regardless of their emissions level.

#### **2. Emissions/energy factors and methodologies**

The IGCC is of the view that the Greenhouse Gas Protocol – Corporate Accounting and Reporting Standard (revised edition) developed by the World Business Council for Sustainable Development and the World Resources Institute should be the basis for reporting. This would ensure consistency with existing company energy and greenhouse reporting under global initiatives such as the CDP, CRDF and the Global Reporting Initiative.

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

#### **3. Data collection**

The data and information to be reported by companies in Australia should be consistent with data and information reported by companies globally. The CDP data and information set has been tried and tested over a period of 4 years. During the past year the CDP data and information set was completed by close to 1000 companies globally.

In addition, companies should clearly indicate what facilities/operations are covered by the emissions inventory and specifically the treatment of non-electricity Scope 2 emissions. Please see comments on the following page under 5 Definition of Company Boundaries.



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### **4. Public disclosure**

With the exception of commercially sensitive information, all information provided by companies should be publicly available. Access to the complete set of energy and greenhouse information from companies is likely to increase the efficiency of the market in incorporating this information into investment decisions. There seems no purpose in keeping information from the public domain unless it is commercially sensitive.

At a minimum the public disclosure should be consistent with current disclosure guidelines given by investors. This would require disclosure of Gross Direct/Scope 1, Gross Indirect/Scope 2 and Indirect/Scope 3 Greenhouse Gas Emissions for each of the greenhouse gas emission types, i.e. combustion, industrial process, transport, fugitive, waste, etc. For Scope 2 emissions, electricity and other Scope 2 emissions should be itemised.

In addition, companies should publicly disclose what facilities/operations are covered by the emissions inventory and specifically the treatment of non-electricity Scope 2 emissions.

### **5. Definition of company boundaries**

For climate change related information to be relevant to investors it needs to also be provided on an equity ownership basis. For instance, investors need to know greenhouse liability resulting from the equity share a parent company may have in other entities. As such, defining company boundaries using operational control only, as proposed, will not provide sufficient information for investors. We also need the information on an equity ownership basis.

The IGCC is of the view that there is an additional boundary issue that needs to be clarified and that is with respect to 'tenanted' and 'base building' energy use and greenhouse gas emissions. Companies need to clearly indicate whether energy use and emissions are only for tenanted use i.e. light and power or whether they include base building use i.e. HVAC and lift systems. The separate disclosure of 'tenanted' and 'base building' energy use and greenhouse gas emissions may be relatively simple in NSW, ACT and Victoria where building owners and tenants have separate accounts. However it is likely to be more complex in WA, SA and QLD where reselling occurs. This boundary issue also applies to HFC and PFC emissions from refrigeration and air conditioning equipment. There is a risk of some double counting of emissions if this is not clarified.

This boundary issue particularly applies to energy and greenhouse disclosures from commercial property companies.

Given the complex nature of property, and increasingly infrastructure, ownership and management, there may be a need to clarify who the responsible party is with regard to reporting energy use and greenhouse gas emissions from these sectors. This is especially the case for property and infrastructure under joint ownership.

The IGCC would be happy to further discuss the issues raised in this submission. Please do not hesitate to contact Ms Joanne Saleeba, IGCC Secretariat on (03) 9415 7071, 0422 101 715 or by email [secretariat@igcc.org.au](mailto:secretariat@igcc.org.au).

Yours sincerely

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



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### Appendix A: CDP Questionnaire

This is the fourth CDP information request (CDP4). Please state the dates of reporting periods, and if reporting emissions for the first time, please provide data for the last four measurement periods, where available. For previous respondents, please highlight developments and trends since CDP3. The following pages provide guidance on answering the questionnaire and further information about CDP4.

#### **Carbon Disclosure Project (CDP) Greenhouse Gas Emissions Questionnaire**

1. General: How does climate change represent commercial risks and/or opportunities for your company?
2. Regulation: What are the financial and strategic impacts on your company of existing regulation of GHG emissions, and what do you estimate to be the impact of proposed future regulation?
3. Physical risks: How are your operations affected by extreme weather events, changes in weather patterns, rising temperatures, sea level rise and other related phenomena both now and in the future? What actions are you taking to adapt to these risks, and what are the associated financial implications?
4. Innovation: What technologies, products, processes or services has your company developed, or is developing, in response to climate change?
5. Responsibility: Who at board level has specific responsibility for climate change related issues and who manages your company's climate change strategies? How do you communicate the risks and opportunities from GHG emissions and climate change in your annual report and other communications channels?
6. Emissions: What is the quantity in tonnes CO<sub>2</sub>e of annual emissions of the six main GHG's produced by your owned and controlled facilities in the following areas, listing data by country?
  - Globally.
  - Annex B countries of the Kyoto Protocol.
  - EU Emissions Trading Scheme.

To assist in comparing responses please state which methodology you are using for calculating emissions and the boundaries selected for emissions reporting. Please standardise your response data to be consistent with the accounting approach employed by the GHG Protocol ([www.ghgprotocol.org](http://www.ghgprotocol.org)). Please list GHG Protocol scope 1, 2 and 3 emissions equivalent showing full details of the sources. How has this data been audited and/or externally verified?

7. Products and services: What are your estimated emissions in tonnes CO<sub>2</sub>e associated with the following areas and please explain the calculation methodology employed.
    - Use and disposal of your products and services?
    - Your supply chain?
  8. Emissions reduction: What is your firm's current emissions reduction strategy? How much investment have you committed to its implementation, what are the costs/profits, what are your emissions reduction targets and time-frames to achieve them?
  9. Emissions trading: What is your firm's strategy for, and expected cost/profit from trading in the EU Emissions Trading Scheme, CDM/JI projects and other trading systems, where relevant?
  10. Energy costs: What are the total costs of your energy consumption, e.g. fossil fuels and electric power? Please quantify the potential impact on profitability from changes in energy prices and consumption.
- N.B. For electric utilities ONLY: Explain to what extent current and future emissions reductions involve a change of use in existing assets (i.e. fuel switching at existing facilities) or a need for new investment? What percentage of your revenue is derived from renewable generation in a government sponsored price support mechanism?



## Appendix B: Global Framework for Climate Risk Disclosure

### 1. Emissions

As an important first step in addressing climate risk, companies should disclose their total greenhouse gas emissions. Investors can use this emissions data to help approximate the risk companies may face from future climate change regulations.

Specifically, investors strongly encourage companies to disclose:

- Actual historical direct and indirect emissions since 1990;
- Current direct and indirect emissions; and
- Estimated future direct and indirect emissions of greenhouse gases from their operations, purchased electricity, and products/services<sup>1</sup>.

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<sup>2</sup>. If companies use a different accounting standard, they should specify the standard and the rationale for using it.

### 2. Strategic Analysis of Climate Risk and Emissions Management

Investors are looking for analysis that identifies companies' future challenges and opportunities associated with climate change. Investors therefore seek management's strategic analysis of climate risk, including a clear and straightforward statement about implications for competitiveness. Where relevant, the following issues should also be addressed: access to resources, the timeframe that applies to the risk, and the firm's plan for meeting any strategic challenges posed by climate risk.

Specifically, investors urge companies to disclose a strategic analysis that includes:

**Climate Change Statement**—A statement of the company's current position on climate change, its responsibility to address climate change, and its engagement with governments and advocacy organizations to affect climate change policy.

**Emissions Management**—Explanation of all significant actions the company is taking to minimize its climate risk and to identify opportunities. Specifically, this should include the actions the company is taking to reduce, offset, or limit greenhouse gas emissions. Actions could include establishment of emissions reduction targets, participation in emissions trading schemes, investment in clean energy technologies, and development and design of new products. Descriptions of greenhouse gas reduction activities and mitigation projects should include estimated emission reductions and timelines.

**Corporate Governance of Climate Change**—A description of the company's corporate governance actions, including whether the Board has been engaged on climate change and the executives in charge of addressing climate risk. In addition, companies should disclose whether executive compensation is tied to meeting corporate climate objectives, and if so, a description of how they are linked.

### 3 Assessment of Physical Risks of Climate Change

Climate change is beginning to cause an array of physical effects, many of which can have significant implications for companies and their investors. To help investors analyse these risks, investors encourage companies to analyse and disclose material, physical effects that climate change may have on the company's business and its operations, including their supply chain.

Specifically, investors urge companies to begin by disclosing how climate and weather generally affect their business and its operations, including their supply chain. These effects may include the impact of changed weather patterns, such as increased number and intensity of storms; sea-level rise; water availability and other hydrological effects; changes in temperature; and impacts of health effects, such as heat-related illness or disease, on their workforce. After identifying these risk exposures, companies should describe how they could adapt to the physical risks of climate change and estimate the potential costs of adaptation.

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<sup>1</sup> These emissions disclosures correspond with the three "scopes" identified in the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition) developed by the World Business Council for Sustainable Development and the World Resources Institute. Scope 1 includes a company's direct greenhouse gas emissions; Scope 2 includes emissions associated with the generation of electricity, heating/cooling, or steam purchased for a company's own consumption; and Scope 3 includes indirect emissions not covered by Scope 2. More information is available at <http://www.ghgprotocol.org>.

<sup>2</sup> Available at <http://www.ghgprotocol.org>



#### **4 Analysis of Regulatory Risks**

As governments begin to address climate change by adopting new regulations that limit greenhouse gas emissions, companies with direct or indirect emissions may face regulatory risks that could have significant implications. Investors seek to understand these risks and to assess the potential financial impacts of climate change regulations on the company.

Specifically, investors strongly urge companies to disclose:

Any known trends, events, demands, commitments, and uncertainties stemming from climate change that are reasonably likely to have a material effect on financial condition or operating performance. This analysis should include consideration of secondary effects of regulation such as increased energy and transportation costs. The analysis should incorporate the possibility that consumer demand may shift sharply due to changes in domestic and international energy markets.

A list of all greenhouse gas regulations that have been imposed in the countries in which the company operates and an assessment of the potential financial impact of those rules.

The company's expectations concerning the future cost of carbon resulting from emissions reductions of five, ten, and twenty percent below 2000 levels by 2015. Alternatively, companies could analyse and quantify the effect on the firm and shareowner value of a limited number of plausible greenhouse gas regulatory scenarios. These scenarios should include plausible greenhouse gas regulations that are under discussion by governments in countries where they operate. Companies should use the approach that provides the most meaningful disclosure, while also applying, where possible, a common analytic framework in order to facilitate comparative analyses across companies. Companies should clearly state the methods and assumptions used in their analyses for either alternative.