

SUPPORTING AUSTRALIAN BUSINESSES TO ADDRESS CLIMATE CHANGE: FOUR KEY FEDERAL POLICY RECOMMENDATIONS

NOV 2021

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EXECUTIVE SUMMARY



This report proposes a key role for business in Australia's goal of reaching net zero carbon emissions and makes a suite of recommendations about how government can support, regulate and incentivise business to reach this target.

This report is targeted primarily at the federal Australian government, but also provides useful tools and proposals for state governments and businesses who share our concern for future generations.

There is general scientific consensus that even if the world meets net zero by 2050, we will still remain in a dire environmental position, with modelling showing global temperatures rising to unacceptable and dangerous levels (IPCC, 2021).¹ Over 70% of Australia's emissions come from the business sector (Kumarasiri & Gunasekarage, 2017).²

Given the proportion of emissions from the business sector, there exists an urgent and

pressing need to develop domestic policies to support and guide business, to align with the 2015 Paris Agreement.

This report discusses proposals and international models for regulating and incentivising business to reach net zero, and recommends specific proposals in relation to:

1. A NATIONAL TARGET OF NET ZERO BY 2035

Given that Australia's carbon budget has been largely 'spent' over recent years, an effective target that would accurately adhere to international obligations of the Paris Agreement has become more urgent. A national emissions target which is internationally accepted to be in accordance with the Agreement is one that aims for net zero by 2035 (see Hewson et al., 2021).³ In the absence of a formal target, business should be encouraged to transition to zero carbon emissions as soon as possible.

¹ IPCC (2021). Climate Change 2021: The Physical Science Basis. Working Group I contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, Intergovernmental Panel on Climate Change.

² Kumarasiri, J. and A. Gunasekarage (2017). "Risk regulation, community pressure and the use of management accounting in managing climate change risk: Australian evidence." The British Accounting Review 49(1): 25-38.

³ Hewson, J., Steffen, W., Hughes, L & Meinshausen, M (2021). Australia's Paris Agreement Pathways: Updating the Climate Change Authority's 2014 emissions reduction targets. Melbourne, Australia, Climate Targets Panel.

In order to meet the national target, a carbon price is agreed as the most effective mechanism. A carbon price will allow Australian exports to avoid attraction of international carbon duties...



2. REINTRODUCTION OF A CARBON PRICE MECHANISM

In order to meet the national target, a carbon price is agreed as the most effective mechanism. A carbon price will allow Australian exports to avoid attraction of international carbon duties, which would significantly impact the competitiveness of Australian exports.

3. MANDATED CORPORATE CARBON REPORTING MECHANISMS INCLUDING:

- a. Reporting on absolute emissions
- b. Mandatory reporting of Scope 3 emissions
- c. Audit and assurance of emissions reporting

Regulations should mandate a standard for all Australian reporting entities to use mechanisms for carbon management and reporting of

emissions. This would mean reporting on absolute emissions calculated with the GHG Protocol as the basis.

Scope 3 emissions should be included in management and reporting of total emissions, which should be externally audited by independent parties to ensure completeness and confidence.

4. REFORM OF CARBON CREDIT SYSTEMS

a. Robust oversight by independent body

b. Inclusion of Indigenous land management practices as a carbon crediting method

Developing a more robust oversight mechanism of carbon credit systems is needed, and one that puts Indigenous land management practices as a legitimate form of carbon credit calculation, based on Indigenous wisdoms and research, at its centre. Carbon credit systems should be assured by credible independent parties, and based on scientific evidence of overall reduction or absorption of carbon, in addition to existing levels (i.e. additionality).

This assurance should be updated regularly according to advances in climate science. Traditional land management practices provide an effective and equitable process for reducing and absorbing carbon, and represent some of the best practice in carbon credit systems. Indigenous-led knowledges should be referred to in the first instance.

FOREWORD

It would not be an overstatement to say that Australia is poised at a critical turning point in its economic future, let alone environmental and social wellbeing. The decades long climate wars have left us bereft of national ambition as our political class seeks out bear minimum solutions aimed at resolving perceived conflicting interests amongst constituencies.

As this has evolved Australia potentially becomes more isolated and disengaged in global efforts to address the challenges ahead. Even as we move to some potentially illusory net zero emissions pathway, what still remains absent in the public discourse in true leadership. Whilst our States, regulators and many corporations have stepped up, the timeframes for action are becoming increasingly compressed. The WEF in its 2020 risks review aptly titled its chapter on climate change as 'A decade left'.

The threat of, and solutions to, runaway global warming are here and now. This is well understood by Australia's major trading partners and comparable economies in the G20. We have travelled painfully slowly, and many would observe still ineffectually, to the current stage of climate-related policy. Such luxury may soon no longer be with us.

**Dr John Purcell, Senior Policy Advisor
ESG, CPA Australia**



It is no exaggeration to state, that like the rest of the world, Australia is on the precipice of near total ecological collapse. Year on year, we see our climate heating and the destructive manifestations of this as mega-bushfires, floods, and land degradation.

The longer we wait for action on carbon emissions, the greater the risk, and cost of doing so. All is not lost however, as Australia is in a unique position having access to the oldest and most effective land and carbon management practices in the world. These practices led by the many First Nations Peoples across the continent have maintained our biome for tens of thousands of years through decades long mega-droughts and great Ice Age climate disruptions. Underpinning these practices is a profound understanding that as people need Country, Country needs people.

We know, that despite the ongoing colonisation of Australia, we have the knowledge, wisdom, and will to support Australia's journey to net zero; we are just waiting for a government who has the political will to let us lead, before it is too late.

**Dr. Al Fricker, Dja Dja Wurrung,
Lecturer Indigenous Education,
RMIT University**

INTRODUCTION

Business needs support, guidance, incremental targets, incentives and regulation.

The world is warming because of emissions caused by humans (IPCC, 2021).³ The evidence is clear that carbon emissions are the driver of this warming, predominantly emitted through the process of burning fossil fuels (IPCC, 2021).⁴

Extreme weather events linked to climate change – including heatwaves, floods, and bush fires – are intensifying. The past decade was the warmest on record, and most governments, businesses and civil society organisations agree urgent collective action is needed. The abatement of such climactic changes is only possible through a tremendous reduction in carbon emissions (IPCC, 2021).⁵

Given that business produces 70% of Australia’s emissions (Kumarasiri, & Gunasekarage, 2017),⁶ we cannot reach net zero carbon emissions without significant changes in business conduct. To do so, business needs support, guidance, incremental targets, incentives and regulation. Technologies will help, but business needs support developing and adopting them. The task ahead is colossal, and business needs all the help it can get, if we are to maintain a liveable climate.

Polling shows that most Australians are in support of reaching net zero as soon as possible (Quicke, 2021),⁷ and businesses agree (BCA, 2021).⁸ The will is certainly there.



For most businesses the task ahead is so immense that they will require a high level of direction and support. Medium and small businesses that lack the resources to independently assess and adopt new technologies and practices, in particular, require guidance and incentives.

Ironically, being behind OECD norms has its advantages: Australia can look to what has already been adopted overseas to see what is effective and what is a waste of time and resources. It can also adopt standards that are already accepted by its economic partners, allowing Australian business to trade and operate seamlessly in other jurisdictions.

In this report, we consider the main standards and regulatory practices adopted overseas, or currently in draft form, and recommend measures that can be adopted in Australia to support businesses to contribute to national targets.

³ IPCC (2021). Climate Change 2021: The Physical Science Basis. Working Group I contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, Intergovernmental Panel on Climate Change.

⁴ IPCC (2021)

⁵ IPCC (2021)

⁶ Kumarasiri, J. and A. Gunasekarage (2017). “Risk regulation, community pressure and the use of management accounting in managing climate change risk: Australian evidence.” The British Accounting Review 49(1): 25-38.

⁷ Quicke, A (2021), “Climate of the Nation 2021: Tracking Australia’s attitudes towards climate change and energy”, Canberra, The Australia Institute.

⁸ Business Council of Australia (2021), “Achieving net-zero with more jobs and stronger regions”, Business Council of Australia https://www.bca.com.au/achieving_net_zero_with_more_jobs_and_stronger_regions

METHODOLOGY

This report is the culmination of a career of researching methods to reduce business impact on climate change. The key author on this report is Dr Leanne Morrison, the RMIT Business and Human Rights Centres' lead on Climate Change and the Environment. Dr Morrison's research career has been driven by a motivation to help improve the social and environmental impacts and reporting of large Australian companies. In this report, she draws together ideas collected and tested from her previous research including the 'Changing the Climate on Corporate Emissions' report, recently released by CPA Australia (Morrison, 2021),⁹ and other forthcoming research funded by the Chartered Institute for Management Accountants. The aim of the report is to outline a set of recommendations designed to support the government in guiding and incentivising the business sector to achieve national climate change goals.

It also draws on robust discussion and debate that occurred in October 2021, when the RMIT Business and Human Rights Centre (BHRIGHT) brought together a panel of climate

change and business experts to discuss how the Australian Federal Government's climate change policy should respond to the need for business to address climate change. Moderated by Dr Leanne Morrison (Climate Change & Environment Lead, BHRIGHT), speakers included Dr John Purcell (Senior Policy Advisor, ESG, CPA Australia), Daniel Gocher (Director of Climate & Environment, The Australasian Centre for Corporate Responsibility), Polly Hemming (Climate Change and Energy advisor, The Australia Institute) and Dr Al Fricker (Indigenous Educator, RMIT University).

This report outlines the discussion and the policy recommendations which resulted from the event, bringing this discussion together with the broader literature. We are very grateful to John, Daniel, Polly and Al for sharing their insights and expertise.

Report research and writing was guided by Associate Professor Shelley Marshall, Director of the RMIT Business and Human Rights Centre. Initial drafting and final editing were conducted by Dr Eloise Florence.



⁹ Morrison, L (2021), "Changing the Climate on Corporate Reporting" CPA Australia.

THE CURRENT STATE OF AUSTRALIAN CLIMATE & BUSINESS POLICY

The 2015 Paris Agreement aims to limit the global average temperature increase to either 1.5 or 2 degrees above pre-industrial temperatures (United Nations, 2015).¹⁰ 200 countries are being asked for their plans to cut emissions by 2030 at the Glasgow Conference of the Parties 26 (COP 26). They all agreed in 2015 to make changes to keep global warming “well below” 2C above pre-industrial levels – and to try aim for 1.5C – so that we can avoid a climate catastrophe.

There is general scientific consensus that even if the world meets net zero by 2050, we will still remain in a dire environmental position, and not have a significant enough impact on rising global temperatures and the associated impacts on human life (IPCC, 2021).¹¹ Since the 2015 Paris Agreement, the Australian government has aimed for net zero emissions “as soon as possible”, and “preferably” by 2050 (Australian Government, 2020).¹² The Coalition government has recently agreed to a net zero by 2050 target. This report therefore discusses policy steps that can be adopted which will move business to net zero carbon emissions as soon as possible. While 2050 may remain the formal target, we urge the government to put in place measures that mean we reach net zero earlier.

In particular, we recommend the adoption of policy measures that reward businesses for their efforts to reduce their emissions.

Over 70% of Australia’s emissions come from the business sector (Kumarasiri, & Gunasekarage, 2017),¹³ and any changes from the business sector to reduce emissions is heavily shaped by federal government policy (Morrison, 2021).¹⁴ Therefore, the relationship between governments and business in regard to emissions is increasingly salient. There is increasing recognition that it will be untenable for most business to survive climate catastrophe. Governments have the capacity to influence business’ emissions through the regulation of auditing, reporting, carbon pricing, and other policy means. Indeed, we are seeing an increasing tendency of businesses to lobby governments to take climate change and its impacts on their operations more seriously.

While many businesses are leading the policy environment around climate change in the absence of a certain and robust regulatory framework in Australia (see Australian Government, 2020; Hewson et al., 2021),¹⁵ others will follow the government’s lead.

Over 70% of Australia’s emissions come from the business sector.

¹⁰ United Nations (2015), “The Paris Agreement”, United Nations Framework Convention on Climate Change, Paris, United Nations.

¹¹ IPCC (2021). Climate Change 2021: The Physical Science Basis. Working Group I contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, Intergovernmental Panel on Climate Change.

¹² Australian Government (2020), “Australia’s emissions projections”, Canberra, Department of Industry, Science, Energy and Resources <https://www.industry.gov.au/data-and-publications/australias-emissions-projections-2020>.

¹³ Kumarasiri, J. and A. Gunasekarage (2017). “Risk regulation, community pressure and the use of management accounting in managing climate change risk: Australian evidence.” The British Accounting Review 49(1): 25-38.

¹⁴ Morrison, L (2021), “Changing the Climate on Corporate Reporting” CPA Australia.

¹⁵ Hewson, J., Steffen, W., Hughes, L & Meinshausen, M (2021). Australia’s Paris Agreement Pathways: Updating the Climate Change Authority’s 2014 emissions reduction targets. Melbourne, Australia, Climate Targets Panel.

Research suggests that the Australian government's focus on 2050 as a target date for reducing emissions has meant that many businesses similarly focus on this date, and cite it in their own climate change policy documents (Morrison, 2021).¹⁶ The risk with this situation is that the business sector has competing demands between effective emissions reductions and the profit motive, including financial responsibilities towards shareholders. This leaves Australia in a precarious position in the move towards a carbon neutral future in line with the timelines of the Paris Agreement (Morrison, 2021).¹⁷ We therefore focus in this report on ways that business motives can be steered towards emissions reductions, and shareholders can reward them for meeting targets.

There is no need for this to be a highly politicised process, given the extent of business consensus around the need to move to net zero as quickly as possible. Indeed, the politicisation of business regulations with regard to emissions and climate change remains a significant barrier to change.

In the absence of government guidance, significant direction has been provided by non-government industry bodies.

For example, the International Organization of Securities Commissions (IOSCO), the Australian Securities and Investments Commission (ASIC), the International Financial Reporting Standards (IFRS) and the Financial Stability Board (FSB) are driving significant change in this area, particularly with regards to corporate responsibilities and reporting of climate change issues. We draw from, and discuss, these important policy documents in this report.

The IOSCO is assisting the business sector to build resilience to the climate crisis into their business models, particularly around the physical risk posed by climate change. The IOSCO is overseeing changes to how the ASIC engages in markets with regard to disclosures. FRS will launch an International Sustainability Standards Board (ISSB) at COP26, signalling a significant uptick in regulatory expectations around climate change, in particular around how it impacts markets.

In addition, the FSB has launched its Task Force for Climate related Financial Disclosures (TCFD), which provides guidance on how reporting entities should report on climate related issues, particularly those which relate to financial risk, and consequently to director duties.



¹⁶ Morrison, L (2021), "Changing the Climate on Corporate Reporting" CPA Australia.

¹⁷ Morrison, L (2021)

The evolution of these non-government and industry bodies developing a quasi-regulatory environment for business in dealing with climate change issues speaks to the need that is currently outstripping supply.

“We are on the cusp of significant change”: John Purcell

The current policy environment poses challenges for businesses to operate safely and effectively in the face of the rising financial, transition and physical threats of climate change. Economically, Australia runs the risk of falling behind in the global market with forthcoming ‘carbon duties’ being applied to imports into jurisdictions such as the EU and US from countries without their own carbon pricing mechanisms.

As well as creating an inhospitable environment for many businesses in Australia, an ongoing prioritisation and even favouring of the fossil fuel industry with regards to the application of subsidies has created an uneven playing field for business affected by climate change. Transition risk remains high on the basis of uncertain policy development, with businesses attempting to predict future direction, and physical risks such as severe weather impacts increasing each year. In the face of these challenges, Australian businesses risk being globally disadvantaged.

The recommendations we make in this report are not in opposition to a technology-driven change. Rather, they support a technology-lead transition.



There are existing technologies which remain under-utilised in Australia's climate change response, for example renewable energy and electric vehicles. Many sectors outside the fossil fuel industry have the capacity to de-carbonise their operations immediately through renewables and technologies designed to specifically reduce emissions, however non-fossil fuel businesses are not sufficiently considered in this vision for a de-carbonised future. Greater guidance, regulation and investment from the government, is required to incentivise faster and greater adoption of these important technologies.

The recommendations we make in this report are not in opposition to a technology-driven change. Rather, they support a technology-lead transition.

PROPOSALS FOR A WAY FORWARD

The economic benefits of a net zero target (sooner rather than later) outweigh any potential costs incurred in doing so...

NET ZERO

On 24th October 2021 the Federal Coalition Government agreed to reduce carbon emissions to net zero by 2050. This is a laudable and important milestone for Australia. However, existing research argues that in order for Australia to meet its international obligations (2015 Paris Agreement), net zero should be achieved by 2035 (see Hewson et al., 2021).¹⁸

Even within the remit of a 2050 target, businesses will require steering and support to reduce their emissions. A large proportion of Australian business is willing to try to reduce emissions to zero well before 2050 and should be supported to do so. The economic benefits of a net zero target (sooner rather than later) outweigh any potential costs incurred in doing so, a position supported by the Business Council of Australia (Martin, 2021¹⁹; BCA, 2021).²⁰ The regulatory recommendations outlined in this report would assist Australia to convincingly meet the 2050 target, or to do better. Either way, Australia must implement policies that target business practice.

Recommendation:

In line with Hewson et al., (2021),²¹ given that Australia's carbon budget has been largely 'spent' over recent years of inaction, an effective target which would accurately adhere to international obligations of the Paris

Agreement has become more urgent. A national target which is internationally accepted to be in accordance with the Agreement is one that aims for net zero by 2035 (see Hewson et al., 2021).²² In the absence of a formal target for 2035, it is recommended that the government still adopt policy measures to result in net zero emissions by Australian business as early as possible.

A CARBON PRICE

While pricing carbon has suffered a rocky history in Australia, it is now an international norm, and Australia must adopt carbon pricing or risk revenue loss. This section discusses international practices and the best option for Australia.

A carbon price (or tax) is widely agreed as the most effective mechanism for reducing emissions (Martin, 2021).²³ Carbon is currently priced in international markets, which means it will effectively be applied to Australian-produced carbon via our exports. A key issue with this system is that without a domestic price on carbon, the revenue of such pricing will not stay in Australia, but be paid via 'carbon duties' applied by other countries. The EU will soon introduce carbon border adjustment mechanisms, and other nations are considering their own forms of tariffs and adjustment mechanisms.

¹⁸ Hewson, J., Steffen, W., Hughes, L & Meinshausen, M (2021). Australia's Paris Agreement Pathways: Updating the Climate Change Authority's 2014 emissions reduction targets. Melbourne, Australia, Climate Targets Panel.

¹⁹ Martin, P (2021), "Australia's top economists back carbon price, say benefits of net-zero outweigh cost" The Conversation <https://theconversation.com/australias-top-economists-back-carbon-price-say-benefits-of-net-zero-outweigh-cost-169939>

²⁰ BCA (2021), "Achieving net-zero with more jobs and stronger regions", Business Council of Australia https://www.bca.com.au/achieving_net_zero_with_more_jobs_and_stronger_regions

²¹ Hewson, 2021

²³ Martin, P (2021)

Countries across the world are instituting various forms of carbon pricing, and the IMF has recommended the G20 install a unified price on carbon to combat diversification of the global market. In 2019 alone, carbon prices raised US\$45 billion in revenue for governments across the world (World Bank Group, 2020).²⁴ Australia risks significant loss in revenue and missed opportunity if it doesn't adopt a carbon price like the rest of the world.

“...we are paying taxes already... in the form of emissions reduction fund, and we're paying taxes in the form of subsidies to the coal and gas industries.”: Dan Gocher

Australia's brief instigation of a carbon price under the Gillard government of 2012 demonstrated a reduction in emissions by 2%, while the economy grew by 5% and employment grew by around 200,000 jobs (Grudnoff, 2020).²⁵ The program was short lived, and after being scrapped in 2013 emissions began to rise once again, but has demonstrated the potential for effective carbon prices in Australia. While the public and business community were not well informed about a carbon price in 2012, there has since been a great deal of discussion carbon pricing in international forums.

With sufficient education about benefits of such a mechanism for business, it is likely to be better received now.

An Emissions Trading Scheme (ETS) of the type introduced in 2012 provides government with the level of control optimal for reaching a national target. Prices on carbon can be set and adjusted according to outcomes and goals, and many low emitting businesses will have the added benefit of being able to trade excess allowances. ETS systems have evolved through usage in many jurisdictions, including Germany, where emissions are projected to be cut by 55% (on 1990 levels) by 2030 (ICAP, 2021).²⁶ In Germany, excess revenue generated by the system is used to reduce the cost of electricity for consumers, thus avoiding the political debates about increased cost to citizens. The Australian Business Council has estimated that under a carbon pricing system, Australians would be better off by \$5,000 each year (BCA, 2021).²⁷

Recommendation:

In order to reach a new ambitious target, a national ETS is recommended as the most effective mechanism. A carbon price in the form of an ETS will allow Australian exports to avoid attraction of international carbon duties, which would significantly impact the competitiveness of Australian exports.



²⁴ World Bank Group (2020), “State and Trends of Carbon Pricing 2020”, World Bank & International Climate Action Partnership <https://openknowledge.worldbank.org/bitstream/handle/10986/33809/9781464815867.pdf?sequence=4&isAllowed=y>

²⁵ Grudnoff, M (2020), “The Carbon Pricing Mechanism under the Gillard Government”, Canberra, The Australia Institute.

²⁶ International Carbon Action Partnership (2021), “German National Emissions Trading System” [https://icapcarbonaction.com/en/?option=com_etmap&task=export&format=pdf&layout=list&systems\[\]=108](https://icapcarbonaction.com/en/?option=com_etmap&task=export&format=pdf&layout=list&systems[]=108)

²⁷ BCA (2021), “Achieving net-zero with more jobs and stronger regions”, Business Council of Australia https://www.bca.com.au/achieving_net_zero_with_more_jobs_and_stronger_regions

Rather than paying carbon duties to export target countries, ETS generated revenue can be captured domestically. Pricing is set domestically and may be started at internationally comparable rates (approximately USD 28.55 in 2021) and increase significantly year on year as the system is embedded and accepted in Australia. An ETS provides the added advantage of allowing additional control in the form of setting caps and pricing.

REFORM OF CARBON CREDIT SYSTEMS

Carbon credits are an important way to incentivise change through markets, but loopholes must be closed to ensure they do not become a business rort. Carbon crediting is the process of issuing tradable units to actors that are implementing emission reduction activities. These reductions (carbon credits) represent avoided or sequestered emissions that are meant to be in addition to normal operations (World Bank Group, 2020).²⁸ The credits are then purchased by companies to offset their own emissions, thus allowing companies to reach net zero.

Carbon credits are often considered as a necessary mechanism to reach net zero emissions, however current offsetting practices in Australia are not robust. Rather than being used to transition to carbon neutral operations or to 'decarbonise' the economy, there is a risk that carbon offsetting is used by big emitters to continue with 'business as usual'.

Current carbon offsetting mechanisms are not regulated with sufficient rigour or science (Australian Conservation Foundation, 2021),²⁹ and are potentially being used to reach net zero targets on paper, whilst simultaneously enabling expansion of the gas and oil industries. Polly Hemming argues that:

“[the] concept of offsetting is being abused and creatively interpreted”

The Australian carbon crediting system suffers from significant integrity issues, which need to be addressed in order to ensure that 2050 targets are properly met. It has recently been found that approximately 20% of Australia's carbon credits are not 'additional', meaning that although the credits were purchased and used to offset emissions, there was no change in actual overall emissions. On the surface, credits are purchased in exchange for a guarantee, such as that land clearing will not occur on particular tracts of land. However often in reality land clearing would not have occurred anyway, rendering the credit, and the subsequent offsets, meaningless.

Given that such credits represent 20% of all carbon credits issued in Australia, the system requires further tightening (Australian Conservation Foundation, 2021).³⁰ Although there is no current mechanism for ensuring the integrity of carbon credits, the International Carbon Reduction and Offsetting Alliance (ICROA) provides a code of best practice principles that could be adopted domestically (see ICROA, 2021).³¹

Carbon credits are an important way to incentivise change through markets, but loopholes must be closed to ensure they do not become a business rort.

²⁸ World Bank Group (2020), "State and Trends of Carbon Pricing 2020", World Bank & International Climate Action Partnership <https://openknowledge.worldbank.org/bitstream/handle/10986/33809/9781464815867.pdf?sequence=4&isAllowed=y>

²⁹ Australian Conservation Foundation (2021), "Questionable integrity: Non-additionality in the Emissions Reduction Fund's Avoided Deforestation Method", Canberra, Australian Conservation Foundation and The Australia Institute https://australiainstitute.org.au/wp-content/uploads/2021/09/ACF-Aust-Institute_integrity-avoided_deforestation_report_FINAL_WEB.pdf.

³⁰ Australian Conservation Foundation (2021)

³¹ International Carbon Reduction and Offset Alliance (2021), "Code of Best Practice For Carbon Management Services" https://www.icroa.org/resources/Documents/The%20Code/ICROA_cobp_tech_specs_2021.pdf

Utilising Indigenous knowledges and practice

Carbon credits have the potential to be a useful mechanism for reaching net zero, particularly under an ETS. Rather than framing climate action as ‘cost’, a carbon credit system provides organisations with revenue streams based on carbon sequestration. This is a natural step towards a zero-carbon future. This mechanism can be structured in such a way that it can provide benefits outside of strictly climate change issues. For example, supporting Indigenous organisations and co-operations to maintain traditional land practices provides carbon sequestration, and also supports cultural practice.

Indigenous land practices are proven to retain carbon from being released into the atmosphere, and support natural systems to absorb a greater level of greenhouse gases. Research has found that the calculability of such practices is possible, and highly effective (For examples, see Russell-Smith et al. (2013)³² and McKemey et al. (2020),³³ which outline how traditional fire management processes successfully sequester significant amounts of carbon). Incorporating Indigenous wisdoms would allow for effective carbon retention as well as support the perpetuation of important

cultural practice. Currently 90% of carbon credits purchased by Australian businesses are imported, and demand for Australian based credits is low (due primarily to the low level of domestic climate policy) (Readfearn, 2021).³⁴

“[Indigenous Australians] have knowledge and skills that directly relate to supporting the world's constantly evolving ecosystems far more than Western science gives us credit for and far more than Western science even knows about.”: Al Fricker

Any policy or regulatory recommendation on climate change and emissions would benefit from a reflection on the perspectives, knowledge, and expertise of First Nations Australians. Indigenous science, technology, and knowledge of sustainable land practices, carbon capture, and ways of doing business have the potential to reduce and abate the effects of climate change (McKemey et al., 2020).³⁵ Indigenous understandings of the meaning of Country are ones of reciprocity, whilst more colonised understandings of Country – one of ownership, commodity, and social stratification – underpins many of the current barriers to climate change policy with regards to business in Australia.



³² Russell-Smith, J. Cook, G. Cooke, P. Edwards, A. Lendrum, M. Meyer, C & Whitehead, P (2013), “Managing fire regimes in north Australian savannas: applying Aboriginal approaches to contemporary global problems” *Frontiers in Ecology and the Environment*, 11(s1) e55. doi.org/10.1890/120251.

³³ McKemey, M., Ens, E., Yugul Mangi Rangers, Costello, O., & Reid, N. (2020). Indigenous knowledge and seasonal calendar inform adaptive savanna burning in northern Australia. *Sustainability*, 12(3), 995.

³⁴ Readfearn, G (2021), “Cash for carbon offsets heading offshore due to Australian climate policy uncertainty” *The Guardian* <https://www.theguardian.com/environment/2021/jul/08/cash-for-carbon-offsets-escaping-offshore-due-to-australian-climate-policy-uncertainty>

³⁵ McKemey, M., Ens, E., Yugul Mangi Rangers, Costello, O., & Reid, N. (2020)

There are currently missed opportunities to practically integrate Indigenous wisdoms into climate policy.

There are currently missed opportunities to practically integrate Indigenous wisdoms into climate policy, including knowledges of First Nations land and climate scientists, business owners, and rangers.

Recommendation:

We recommend that carbon credit systems are assured by credible independent parties, and based on scientific evidence of overall reduction or absorption of carbon, in addition to existing levels (i.e. additionality). This assurance should be updated regularly according to advances in climate science, as per the code of best practice outlined by ICROA (see ICROA 2021).³⁶ Traditional Indigenous land management practices provide an effective and equitable process for reducing and absorbing carbon, and represent some of the best practice in carbon credit systems (Russell-Smith et al., 2012).³⁷

MANDATED CARBON REPORTING SYSTEMS

Providing accurate accounts of carbon emissions is essential to corporate governing and decision making. In order to overcome some of the fundamental problems described in relation to carbon credit systems that stem from flexible accounting methods, a mandatory system of carbon accounting is proposed. Mandatory reporting and standardised accounting ensure that market pressures are placed on companies in relation to their

emissions and can act as alternatives or complementary mechanisms to market-based policies (Hahn et al., 2015³⁸; Morrison, 2021).³⁹ Transparently reporting a companies' emissions can provide accurate data to climate-related investment which form a kind of de-facto tax or pricing on carbon.

The Greenhouse Gas Protocol (GHG Protocol) is the most commonly used carbon accounting framework and is internationally accepted as among best practice (see GHG Protocol, 2015⁴⁰; Hahn et al., 2015).⁴¹ The GHG Protocol is regularly updated and flexible enough to accommodate differing emissions factors (e.g. emissions associated with electricity use varies in different countries, and therefore the emissions resulting in electricity use need to be calculated accordingly). The following discussions on carbon accounting are based on the use of the GHG Protocol for calculations.

Absolute emissions

The evidence shows that without strong legislation mandating reporting, companies tend to report only on scenarios which depict them in a favourable light (Andrew & Cortese, 2011).⁴² 58% of ASX 200 companies disclose their emissions (ACSI, 2017),⁴³ however such emissions are accounted for by a variety of methods. For example, current practice doesn't dictate whether 'relative' or 'absolute' emissions is reported.

³⁶ International Carbon Action Partnership (2021), "German National Emissions Trading System" [https://icapcarbonaction.com/en/?option=com_etsmap&task=export&format=pdf&layout=list&systems\[\]=108](https://icapcarbonaction.com/en/?option=com_etsmap&task=export&format=pdf&layout=list&systems[]=108)

³⁷ Russell-Smith, J. Cook, G. Cooke, P. Edwards, A. Lendrum, M. Meyer, C & Whitehead, P (2013), "Managing fire regimes in north Australian savannas: applying Aboriginal approaches to contemporary global problems" *Frontiers in Ecology and the Environment*, 11(s1) e55. doi.org/10.1890/120251.

³⁸ Hahn, R., Reimsbach, D & Schiemann, F (2015). "Organizations, Climate Change, and Transparency: Reviewing the Literature on Carbon Disclosure." *Organization & Environment* 28(1): 80-102.

³⁹ Morrison, L (2021), "Changing the Climate on Corporate Reporting" CPA Australia.

⁴⁰ GHG Protocol (2015), "A Corporate Accounting and Reporting Standard", Greenhouse Gas Protocol, World Resources Institute & World Business Council for Sustainable Development <https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf>

⁴¹ Hahn, R., (2015)

⁴² Andrew, J. and C. Cortese (2011). "Accounting for climate change and the self-regulation of carbon disclosures." *Accounting Forum* 35: 130-138.

⁴³ Australian Council of Superannuation Investors (2017), "ESG Reporting Trends in the ASX200", Melbourne, Australian Council of Superannuation Investors <https://acsi.org.au/wp-content/uploads/2020/12/ESG-Reporting-Trends-in-the-ASX200.Sep20.pdf>



Relative emissions depend on a variable, for instance, ‘carbon per dollar of sales’, or ‘carbon per square metre of floor space’ (Ascui & Lovell, 2011;⁴⁴ Morrison, 2021).⁴⁵

Such numbers are often not useful to an external stakeholder, and not easily compared with absolute emissions (total emissions from direct and indirect activities) (Morrison, 2021).⁴⁶

Accounting for Scope 3 emissions

Companies also largely only disclose emissions from Scope 1 and Scope 2 operations, often omitting Scope 3 emissions (see Glossary for definition), which can account for up to 98% of total emissions associated with corporate activity (Morrison, 2021).⁴⁷ A more robust regulatory environment would ensure that reporting would account for more emissions and allow the market to apply downward pressure on overall emissions. Since there is necessarily a high degree of ‘overlap’ between businesses’ Scope 3 emissions, their reporting will not directly feed into national accounts without recalibrations.

The benefit proposed here is that by providing a transparent account of emissions, companies will be open to public pressure to reduce their emissions (GHG Protocol, 2013).⁴⁸ In addition, the practice of outsourcing Scope 3 emissions (which may become more prevalent under an ETS) can be better tracked.

Like carbon credits, questionable accounting mechanisms are being used with regards to the flexibility provided by ‘Scope 3 emissions’ (Bebbington & Larrinaga-Gonzalez, 2008).⁴⁹ Companies can sell off their fossil fuel assets, reducing their more direct exposure to carbon (Scope 1 or 2), while continuing to utilise the asset in the same manner. This effectively transfers the related emissions from Scope 1 or 2, which are reportable, to Scope 3 emissions, since they are no longer directly responsible for the emissions which now appear in their supply chain. This means that while the company may appear to have reduced its emissions, it has effectively only shifted them, while the overall emissions remain the same. The mandatory inclusion of Scope 3 emissions in corporate reporting will diminish the risk of companies adopting this practice, but it must also be overseen by an independent body.

⁴⁴ Ascui, F. and H. Lovell (2011). “As frames collide: making sense of carbon accounting.” *Accounting, Auditing & Accountability Journal* 24(8): 978-999.

⁴⁵ Morrison, L (2021), “Changing the Climate on Corporate Reporting” CPA Australia.

⁴⁶ Morrison, L (2021)

⁴⁷ Morrison, L (2021)

⁴⁸ GHG Protocol (2013), “Technical Guidance for Calculating Scope 3 Emissions”, Greenhouse Gas Protocol, World Resources Institute & World Business Council for Sustainable Development https://ghgprotocol.org/sites/default/files/standards/Scope3_Calculation_Guidance_0.pdf

⁴⁹ Bebbington, J & Larrinaga-Gonzalez, C (2008). “Carbon Trading: Accounting and Reporting Issues.” *European Accounting Review* 17(4): 697-717.



Auditing and Assurance

If mandated, a robust system of auditing and assurance of accounting systems to ensure systematic integrity would strengthen and reinforce the importance of Australia's measurement of climate change reporting and carbon accounting systems (Hahn et al., 2015).⁵⁰ Established systems which are practiced but not mandated provide an accepted basis from which to develop. For example, the TCFD recommends a range of reporting practices including reporting absolute emissions, acknowledging climate risks, and setting targets (Task Force on Climate-related Financial Disclosures, 2017).⁵¹ In addition, the TCFD is developing recommendations for the reporting of Scope 3 emissions.

The TCFD recommendations are now frequently used in corporate climate reporting, however they are not currently mandated or engaged with through regulatory mechanisms in Australia

(Morrison, 2021).⁵² While these methods of reporting are not perfect, they provide a robust starting point and are themselves evolving according to updated climate science and best practice.

Climate change is presenting a range of challenges for business, whether through extreme weather, supply chain disruptions, uncertain insurance situations, or changing trade conditions (to name only a few of the recognised risks). Mandating the reporting of these risks would add shareholder expectations as an added pressure on reducing emissions (Morrison, 2021).⁵³

Recommendation:

Regulation should mandate a standard for all Australian reporting entities to use mechanisms for carbon management and reporting of emissions (Morrison, 2021).⁵⁴ This would mean reporting on absolute emissions calculated with the GHG Protocol as the basis (see GHG Protocol, 2015).⁵⁵ Scope 3 emissions should be included in the management and reporting of emissions, following the guidelines provided in the GHG Protocol (see GHG Protocol, 2013).⁵⁶ Regulations to ensure consistent and comparable practice need to be set in place. Climate change reporting, including the accounts of emissions needs to be externally audited by independent parties to ensure accuracy, completeness and confidence (Hahn et al., 2015).⁵⁷

Climate change reporting, including the accounts of emissions needs to be externally audited by independent parties to ensure completeness and confidence.

⁵⁰ Hahn, R., Reimsbach, D & Schiemann, F (2015). "Organizations, Climate Change, and Transparency: Reviewing the Literature on Carbon Disclosure." *Organization & Environment* 28(1): 80-102.

⁵¹ Task Force on Climate-related Financial Disclosures (2017), "Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures", Switzerland, Financial Stability Board.

⁵² Morrison, L (2021), "Changing the Climate on Corporate Reporting" CPA Australia.

⁵³ Morrison, L (2021)

⁵⁴ Morrison, L (2021)

⁵⁵ GHG Protocol (2013), "Technical Guidance for Calculating Scope 3 Emissions", Greenhouse Gas Protocol, World Resources Institute & World Business Council for Sustainable Development https://ghgprotocol.org/sites/default/files/standards/Scope3_Calculation_Guidance_0.pdf

⁵⁶ GHG Protocol (2013)

⁵⁷ Hahn, R. (2015)

NEXT STEPS

To best support business, we advocate the Federal Government to undertake the recommendations set out in this report as a concrete pathway towards a national net zero emissions target. Australian businesses (BCA, 2021)⁵⁸ and voters (Quicke, 2021)⁵⁹ are calling out for policy guidance that has the capacity to bolster economic stability, demonstrate leadership, and support low carbon innovations. Given the Coalition government has only recently formally agreed to adopt a net zero target, the logical next steps will be to investigate how to

concretise this target through policy initiatives. We have presented four key recommendations and urge the Government to engage in a thorough consultative process to develop these steps.

This collaborative effort should include a strong voice for First Nations Australians (McKemey et al., 2020),⁶⁰ and draw on Indigenous methods of carbon reduction and climate change risk mitigation.

Australian businesses (BCA, 2021) and voters (Quicke, 2021) are calling out for policy guidance that has the capacity to bolster economic stability, demonstrate leadership, and support low carbon innovations.



⁵⁸ BCA (2021), "Achieving net-zero with more jobs and stronger regions", Business Council of Australia https://www.bca.com.au/achieving_net_zero_with_more_jobs_and_stronger_regions

⁵⁹ Quicke, A (2021), "Climate of the Nation 2021: Tracking Australia's attitudes towards climate change and energy", Canberra, The Australia Institute.

⁶⁰ McKemey, M., Ens, E., Yugul Mangi Rangers, Costello, O., & Reid, N. (2020). Indigenous knowledge and seasonal calendar inform adaptive savanna burning in northern Australia. *Sustainability*, 12(3), 995.

GLOSSARY

Carbon

In this report, the term 'carbon' refers to CO₂ equivalent/CO₂-e/Carbon equivalent, or Greenhouse Gases. These gases are generally agreed to be the six gases listed in the Kyoto Protocol: carbon dioxide (CO₂); methane (CH₄); nitrous oxide (N₂O); hydrofluorocarbons (HFCs); perfluorocarbons (PFCs); and sulphur hexafluoride (SF₆). Often Co₂e or GHG are colloquially described as 'carbon'.

IFRS

International Financial Reporting Standards

Scope 1 emissions

Scope 1 emissions are direct emissions from the activities of the organisation, or under their control. This includes fuel combustion such as gas boilers on site, fleet vehicles and air-conditioning leaks.

Scope 2 emissions

Scope 2 emissions are indirect emissions from electricity purchased and used by the organisation. Emissions are created during the production of the energy and eventually used by the organisation.

Scope 3 emissions

Scope 3 emissions are all other indirect emissions from activities of the organisation, occurring from sources that they do not own or control. These are usually the greatest share of the carbon footprint, covering emissions associated with business travel, procurement, waste and water.

TCFD

The Task Force on Climate-related Financial Disclosures, also known as the Task Force, or TCFD, is an industry-led task force established by the Financial Stability Board. The TCFD released their final report and recommendations in 2017, which has become one of the most frequently used frameworks for organisations to report on their climate related risk.



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