

23 August 2019

Climate Change Authority  
Canberra ACT 2600

Submission via [submissions@climatechangeauthority.gov.au](mailto:submissions@climatechangeauthority.gov.au)

Dear Sir/Madam

## Updating the Authority's previous advice on meeting the Paris Agreement

As the representatives of over 200,000 current and future professional accountants in Australia, the two major Australian accounting bodies Chartered Accountants Australia and New Zealand (Chartered Accountants ANZ) and CPA Australia (together 'the Major Accounting Bodies') thank you for the opportunity to comment on Climate Change Authority's *Updating the Authority's previous advice on meeting the Paris Agreement Consultation Paper* (Consultation Paper). We would be interested in participating in any further consultations or meetings with the Authority; contact details are included at the conclusion of this submission. More information about the Major Accounting Bodies is included in Appendix A to this submission.

The Major Accounting Bodies recognise the ongoing debate and controversy surrounding Australia's Paris Agreement emissions reduction targets including effectiveness in arresting anthropogenic global warming; equity in terms of contrasting global and per capita contribution; appropriate developed economy burden; and capacity to drive economic transformation. However, the Major Accounting Bodies recognise the statements from Government that it will not strengthen these targets and that it will continue to pursue non-market based drivers of emissions reduction. With these factors in mind, our submission focuses on how best the Australian business community might work within and towards improving outcomes from Government's stated policy preferences. Should the Government decide to ratchet up its emissions reduction targets under its Paris Agreement reporting obligations, we would be pleased to engage with the Authority to discuss how the accounting profession can contribute to meeting these revised targets. Similarly, were there to emerge any serious prospect of implementation of the National Energy Guarantee (NEG), we would contribute to that implementation within any suitable consultation forum.

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## Specific feedback on key areas of investigation:

### Previous recommendations

#### What aspects of the Authority's previous recommendations remain valid and why?

#### What has changed since the advice was given and how should the advice be updated to account for these changes?

The Major Accounting Bodies highlight the growing scientific evidence of scale and severity of the impacts of climate change, particularly for Australia. The Intergovernmental Panel on Climate Change's (IPCC) special report *Global Warming of 1.5 °C*<sup>1</sup> compares the impacts of global warming between 1.5 °C and 2 °C. The report notes:

The risks of climate-induced impacts are projected to be higher at 2°C than those at global warming of 1.5°C (*high confidence*). Coral reefs, for example, are projected to decline by a further 70–90% at 1.5°C (*high confidence*) with larger losses (>99%) at 2°C (*very high confidence*).

Deloitte Access Economics has valued the economic, social and icon value of the Great Barrier Reef at \$56 billion<sup>2</sup>. This is just one example of the potential economic and social losses Australia is likely to experience from climate change. Therefore, the Major Accounting Bodies consider Australia has a vested interest to work towards the aspirational target in the Paris Agreement to limit global warming to 1.5°C.

Two recent reports further highlight the scale and urgency of national and coordinated international efforts to address the threat of climate change. These are the IPCC *Special Report on climate change, desertification, land degradation, sustainable land management, food scarcity, and greenhouse fluxes in terrestrial systems* (August 2019)<sup>3</sup> and the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) *Regional Assessment Reports* (May 2019)<sup>4</sup>. In terms of reviewing Australia's climate change 'policy toolkit', these latest assessments from key international agencies point to the need in Australia for a substantially strengthened emissions reduction plan and suite of climate change adjustment policies, which traverse State/ Territory and Commonwealth responsibilities and which better reflect sectoral interdependencies.

One policy approach which the Major Accounting Bodies believe is worth investigating is that adopted by the New Zealand Government. This is most recently addressed in New Zealand Government response to the New Zealand Productivity Commission's report *Transitioning to a low-emissions future*.<sup>5</sup> Its approach is characterised by strong emphasis on economic transformation opportunities driven by government multi-agency responsibility and a high degree of sectoral sensitivity. The New Zealand approach does however

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<sup>1</sup> <https://www.ipcc.ch/sr15/>

<sup>2</sup> <https://www2.deloitte.com/au/en/pages/economics/articles/great-barrier-reef.html>

<sup>3</sup> <https://www.ipcc.ch/report/srccl/>

<sup>4</sup> [https://www.ipbes.net/system/tdf/ipbes\\_7\\_10\\_add-1-\\_advance\\_0.pdf?file=1&type=node&id=35245](https://www.ipbes.net/system/tdf/ipbes_7_10_add-1-_advance_0.pdf?file=1&type=node&id=35245)

<sup>5</sup> <https://www.mfe.govt.nz/sites/default/files/media/Climate%20Change/transitioning-to-a-low-emissions-future.pdf>

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favour market and carbon pricing mechanisms, not only in the energy sector but also in other high emissions activities such as waste management and agriculture.

The New Zealand Productivity Commission's report and the Government's response also consider a number of institutional matters under the heading *Law and Institutions*. In particular, the New Zealand Government notes that it has used the United Kingdom's Climate Change Act as a basis for some of its legislation:

The Climate Response (Zero Carbon) Amendment Bill [NZ] incorporates key aspects of UK framework including: a legislated target, a series of national emissions budgets, a system of adaptation planning, and an arm's-length body to advise government and report independently on progress (the Climate Change Commission).

The Major Accounting Bodies believe this approach is worthy of serious consideration as a model for Australia. It gives clear legislative intent to emissions reduction, places adaptation centre-stage and shifts reporting on progress against targets into a fully independent setting. With appropriate law reform and resourcing, the Climate Change Authority could be positioned to fulfil such roles and in doing so, could overcome much of the politicisation which has clouded business and community understanding of emissions reduction and the associated economic adjustment processes.

### **Achieving a net zero emissions economy in the long term**

#### **How can the Government assist the positioning of the Australian economy to best take advantage of opportunities associated with the global transition to net zero emissions, while managing any risks?**

We recommend the Government provide a clear direction of Australia's pathway to a net zero emissions economy between 2050 and 2100. Climate change policy should not be subject to political changes and instead should provide certainty for the future to enable business and households to transition to a low carbon economy.

It is important for the Government to ensure that it does not seek to reduce emissions in isolation from sectoral, wider economic and, social and environmental factors. This would be both costly and risk unintended negative consequences in other areas. Long-term emissions strategy, budgets and targets will provide some certainty for business and encourage investment in low-emissions technology and innovation.

#### **Should particular regions or communities and emissions-intensive trade-exposed industries be assisted in the transition, and if so how?**

In relation to coal-fired power, production is often concentrated in regional or rural areas with limited alternative significant industrial or commercial activity. Community and worker stress and upheaval, which has occurred in the past in virtually all Australian states, must be minimised in the face of inevitable asset retirements. Early and adequate dialogue between communities, companies and all levels of governments towards achieving a just and orderly transition can help, but this has been lacking in the past. A 'one size fits all' approach is unlikely to be effective given the specifics of regional conditions and needs. However, it is critical for emissions and energy policy to be developed in conjunction with other key public policy, including regional development, mental health and vocational education.

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## What is the role of prudential regulation and macroeconomic policy in assisting the economy transition?

Prudential regulation and the overarching role of central banks play a critical part in ensuring the timely and accurate pricing of climate-related risks in domestic and international financial markets, and so minimising the risk of large-scale build-up of stranded assets. The establishment of the Taskforce on Climate-related Financial Disclosures (TCFD), under the auspices of the G20's Financial Stability Board, has been vital in these regards. Numerous statements have been issued by both the Australia Prudential Regulation Authority<sup>6</sup> and the Reserve Bank of Australia<sup>7</sup> concerning financial market participant response to the risk and opportunities posed by climate change.

A less obvious, yet nevertheless significant factor in the economic transformation aspects of climate change policy is the interaction with corporate regulation. Key elements of the corporate law – particularly the directors' duty of care and diligence and fiduciary relationship – are increasingly being 'explored' with respect to climate change.<sup>8</sup> The Centre for Policy Development released a legal opinion in 2016<sup>9</sup> which stated that 'company directors certainly *can*, and in some cases *should* be considering the impact on their business of climate change risks.' ASIC has also clarified its expectations with respect to climate change through its surveillance program<sup>10</sup> and updated regulatory guides for operating and financial reviews, prospectuses and non-financial asset impairment assessments.<sup>11</sup> The Major Accounting Bodies encourage the Government to overcome the current divisive climate change debate, so that the business community can develop its own processes of shorter term preparedness and longer-term resilience. The alternative is that the change, when it does come, will be more disruptive and driven by threat of litigation amongst a range of threats.

More broadly, markets critically rely on low cost and reliable information as the basis of transparency and efficient allocation of funds. We draw the Authority's attention to the joint pronouncement by the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB) concerning the significance of climate risk in disclosure materiality assessments made by companies and their auditors.<sup>12</sup> The Major Accounting Bodies consider it important for the Government to promote and support these types of endeavours as part of regulatory oversight and ensure developments in corporate disclosure support climate change related economic transformation.

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<sup>6</sup> [https://www.apra.gov.au/sites/default/files/climate\\_change\\_awareness\\_to\\_action\\_march\\_2019.pdf](https://www.apra.gov.au/sites/default/files/climate_change_awareness_to_action_march_2019.pdf)

<sup>7</sup> <https://www.rba.gov.au/speeches/2019/sp-dg-2019-03-12.html>

<sup>8</sup> See for example work undertaken by the Commonwealth Climate Law Initiative analysing the impact on climate-related risk on corporate and director liability in Australia, the United Kingdom, Canada and South Africa: <https://ccli.ouce.ox.ac.uk/>

<sup>9</sup> <https://cpd.org.au/wp-content/uploads/2016/10/Legal-Opinion-on-Climate-Change-and-Directors-Duties.pdf>

<sup>10</sup> See for example surveillance initiatives outlined in <https://asic.gov.au/regulatory-resources/find-a-document/reports/rep-593-climate-risk-disclosure-by-australia-s-listed-companies/>

<sup>11</sup> <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2019-releases/19-208mr-asic-updates-guidance-on-climate-change-related-disclosure/>

<sup>12</sup> [https://www.auasb.gov.au/admin/file/content102/c3/AASB\\_AUASB\\_Joint\\_Bulletin\\_May2019.pdf](https://www.auasb.gov.au/admin/file/content102/c3/AASB_AUASB_Joint_Bulletin_May2019.pdf)

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## **Sectoral and economy wide-policies**

**What are the current and projected costs of, and potential for, abatement across different sectors and how does that influence the choice and timing of policy across sectors?**

**What are the barriers (regulatory and non-regulatory) to realising emissions reductions and are there any additional supporting policies, regulations or government actions that could drive emissions reductions in cost effective ways?**

**How should sectoral policies be linked to ensuring efficient economic outcomes and to minimise the cost of abatement across the economy?**

Our submission addresses these three questions collectively.

To provide context for our response, two authoritative assessments of Australia's policy position are referred to as a basis for addressing some of the matters laid out in the Department of Environment and Energy's *Australia's emissions projections 2018* (December 2018)<sup>13</sup>.

First, the UNEP *Emissions Gap Report 2018*<sup>14</sup>:

In its NDC<sup>15</sup>, Australia announced a 26-28 percent reduction below 2005 levels of GHG emissions by 2030. There has been no improvement in Australia's climate policy since 2017 and emissions levels for 2030 are projected to be well above NDC target.

Secondly, the OECD Environmental Performance Reviews Australia 2019<sup>16</sup>:

Australia has adopted a piecemeal approach to emissions reduction. - - - Since 2014, the main Commonwealth government instrument has been the ERF<sup>17</sup>, a voluntary offset programme. The government committed AUD 2.55 billion to the ERF to purchase carbon abatement through competitive auctions. The ERF is open to all sectors but the majority of deliverable carbon abatement relates to vegetation management and landfill gas abatement and capture.

We refer the Authority to the sectoral classifications and associated trend analysis presented in the Department's emissions projections reports. As a carbon abatement mechanism, the ERF is, to a large degree, decoupled from sectoral-based policy. The Major Accounting Bodies suggest this is an impediment to identification of both the potential overshoot of emissions projections and the implementation of policies that would assist transformation along with associated commercial innovation opportunity. For example, analysis conducted by groups such as the Climate Institute suggests the electricity sector is best placed to

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<sup>13</sup> <http://www.environment.gov.au/system/files/resources/128ae060-ac07-4874-857e-dced2ca22347/files/australias-emissions-projections-2018.pdf>

<sup>14</sup> <https://www.unenvironment.org/resources/emissions-gap-report-2018>

<sup>15</sup> Nationally Determined Contributions

<sup>16</sup> <https://www.oecd.org/australia/oecd-environmental-performance-reviews-australia-2019-9789264310452-en.htm>

<sup>17</sup> Emissions Reduction Fund

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reduce emissions at a lower cost than other sectors, due to a significant degree to declining costs in renewable energy and storage technology.

Further, in relation to the cost of the ERF, page 15 of the December 2018 emissions projection report, includes amongst the policies considered by the Department, the ERF funding of \$2.55 billion and its projected abatement contribution of 305 Mt CO<sub>2</sub>-e. This infers a per Mt CO<sub>2</sub>-e cost of \$8.36 million. The Major Accounting Bodies consider such calculations present a number of serious matters for review and analysis by the Authority:

- When applied to the emissions reduction tasks (respectively 328 and 395 Mt CO<sub>2</sub>-e at 26 per cent and 28 per cent below 2005 levels in 2030, inclusive of overachievement), what are the budgetary implications for refinancing of the ERF?
- Is there an upper limit to abatement opportunities arising out of carbon purchase?
- Can Australia meet its emissions reduction targets without deeper sectoral specific policies and incentives?

Our remarks above point to even deeper challenges in modelling and planning Australia's pathway to a decarbonised economy. A complete assessment would address amongst a range of contrasting issues the economic cost of loss of significant heritage assets, such as the Great Barrier Reef as noted earlier<sup>18</sup>; and the implications of possible punitive trade sanctions applied to Australia's substantial exports of fossil fuels as other nations address their own environmental challenges and ratchet up efforts to meeting Paris Agreement commitments. Going forward, we suggest these may be matters for consideration by the CCA in collaboration with groups such as the Productivity Commission and the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES).

**Should changes be made to the Emissions Reduction Fund to explicitly target multiple benefits (such as environmental outcomes) as well as abatement outcomes?**

The Major Accounting Bodies believe this consultation question raises broader issues relating to the efficacy of the ERF. These being the extent to which negative consequences arise out of a disconnect, or lack of cohesion, between emissions reduction, and more broadly climate change policy, and environmental policy. We query the rationale of splitting ministerial responsibility between energy and emissions reduction, and the environment.

The challenges ahead of Australia require a whole of government approach, along with deeper coordination and collaboration across the three tiers of government as borne out in the November 2018 CSIRO and Bureau of Meteorology fifth biennial State of the Climate Report.<sup>19</sup> This report stated that future prospects are ones of increased sea and air temperatures, further sea level rises and ocean acidification, and decreased rainfall across southern Australia with more time in drought, but an increase in intense heavy rainfall throughout Australia. Notwithstanding the examples and expressions of the business community's capacity to positively respond to many of these challenges, the profound shifts occurring in our country's and the global

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<sup>18</sup> Refer for example Deloitte Access Economics "At what price? The economic, social and icon value of the Great Barrier Reef."

<sup>19</sup> <http://www.bom.gov.au/state-of-the-climate/>

environment are forces of significant economic and social structural change, to which fragmented public policy and diffuse responsibility are ill equipped to respond.

The Major Accounting Bodies encourage the development of a basis for a national approach to these transformational challenges and opportunities, which is detached from short term political time horizons and in which the public can have greater engagement and confidence.

### **Supporting innovation, finance and new industries**

#### **What role should the Government play in enabling the development and uptake of low-emissions technologies and development of associated industries?**

Government needs to provide policy certainty to allow for investment in research, development, innovations and technology as they have a critical role in reducing Australia's emissions. Without clear direction and commitment from Government, business will be reluctant to dedicate resources in this area. This could also have a global impact. We recommend that the Government embed these policy commitments in other areas of the economy, to ensure a holistic approach to climate change. We suggest there is significant opportunity to use the R&D Tax Incentive as a lever to help create new industries and technologies in Australia that are fit for purpose in a carbon constrained world. Australia has the potential to transform its economy to one that offers innovative emissions reduction solutions and technologies, particularly to emerging markets with high energy demand such as China and India.

We recommend that consideration is given to how the R&D Tax Incentive could be enhanced to offer additional R&D tax incentives to attract world-leading innovation to Australia. Australia could become the hub or destination of choice for developing cutting-edge green technologies and associated intellectual property, from renewable energy inventions and energy efficiency, to carbon capture and storage technologies. Such an investment will also help Australia to meet the Government's pledge to double government clean energy research and development investment by 2020.

#### **What role is there for Government in developing an enabling environment to support increased flows of green finance?**

Australia has the opportunity to be a leader in the rapidly growing area of green finance by encouraging both local and global investment of ethical, green and sustainable money into our local economy. Government driven awareness raising, education for business and investors and incentives for investment (R&D tax incentives) could position Australia to be a global leader in the green economy. In the UK, the Green finance strategy provides a comprehensive approach to greening finance systems, mobilising finance for clean and resilient growth and capturing the resulting opportunities for UK firms.

We recommend Government collaborate with groups and organisations locally who already been working towards building sustainable roadmaps, such as the Australian Sustainable Finance Initiative.

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## **International context**

### **Should the Government facilitate the import of international units or export of Australian Carbon Credit Units?**

We consider that there is a role for credible international units in meeting Australia's emissions targets. Reducing carbon emissions is a global issue and therefore the best solution will be global. By allowing credible international units to be used to meet Australia's emissions targets, the Government will enable emissions reduction to take place in the most economically efficient way.

The key aspects to be considered are ensuring the international units are credible and are not also being counted in other countries' emissions reduction targets. Further, they should be used where they represent the most economically efficient emissions reduction activities and as part of Australia's emissions reduction goals.

### **What role should carryover from earlier commitment periods play?**

The Major Accounting Bodies believe there are substantial negative consequences associated with allowing overachievement in Kyoto Protocol targets to be factored into Australia's calculation of its 2030 emissions reduction task. The Paris Agreement signifies the strongest consensus position reached under the United Nations Framework Convention on Climate Change and its base-year of 2005 for measuring reduction and cumulative level of emissions should be treated as the commencement point for expressing and measuring each signatories NDC. Australia's potential 'carryover' from 2008-2012 and 2013-2020 arises in part out of cyclical economic factors, which suggest these 'gains' ought to be treated in isolation. Moreover, any carryover could distort appreciation of the magnitude of the emissions reduction task ahead of Australia.

If you require further information on our views expressed in this submission, please contact either Karen McWilliams (Chartered Accountants ANZ) [karen.mcwilliams@charteredaccountantsanz.com](mailto:karen.mcwilliams@charteredaccountantsanz.com) or Dr John Purcell (CPA Australia) at [john.purcell@cpaaustralia.com.au](mailto:john.purcell@cpaaustralia.com.au)



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## Appendix A

### About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents a network of more than 125,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live. Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world. We actively engage with governments, regulators and standard-setters on behalf of members to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 13 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

### About CPA Australia

CPA Australia is one of the world's largest accounting and finance bodies, representing over 144,000 accounting and business professionals globally.

Our aim is to enhance our members' professional knowledge and support their career development. We do this in many ways, starting with the world-class postgraduate CPA Program, recognised internationally as a benchmark of quality and employability. Thereafter, we deliver a range of continuous learning programs, utilising our international networks to source leading-edge content and presenters.

What sets us apart from other similar bodies is our focus on strategy, leadership and international business. CPA Australia is the global professional accountancy designation for strategic business leaders.

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We support our members and the profession internationally by advocating for change at the highest levels and contributing to leading networks worldwide in the finance, accounting and business arenas.

A strategic priority and commitment for CPA Australia is to not only advocate on behalf of members, but also to speak up on economic and political issues in the public interest.

CPA Australia's members are bound by a strict professional code of conduct, including an obligation to undertake continuous professional development to ensure that the highest professional standards are maintained.

Our commitment to excellence, integrity and innovative thinking means that CPAs will remain at the forefront of business and public service now and in generations to come.

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