

# POLICY STATEMENT

## BUSINESS AND THE ENVIRONMENT

### Position

CPA Australia recognises the overwhelming scientific consensus that acknowledges the growing urgency of both international and national actions towards achieving a net-zero carbon emissions position by 2050.

Whilst the focus is typically on climate change, the causes and consequences of environmental pressures interact with each other and exacerbate a range of vulnerabilities.

Planetary and Australian environmental and social wellbeing demand long-term, coherent and coordinated environmental and related economic policies which have thus far been largely absent.

Accounting is embedded in economic and market systems which cannot be treated in isolation from the natural environment and its complexities.

Accounting is an important element in shaping environmentally-sensitive business and economic policy and is essential to the positive wider market participant responses to climate change.

### Action

First, to influence the development of sound, coherent and effective public policy related directly to climate change, emissions, energy and the environment, and within ancillary areas of regulation including corporate law, governance, investor interest and market transparency.

Secondly, to ensure that accountants contribute to the economic and business response to the imperatives of environmental transformation and that, in turn, accounting's skills, methodologies and aptitudes are renewed with enhanced relevance.

Giving expression to the primary objectives of Australia's environmental policies is challenging, but should be underpinned by the following acknowledged realities:

1. Global warming is not a cyclical event, but rather sustained and enduring in nature presenting profound consequences for environmental and social sustainability and stability.
2. This creates novel challenges for existing and future policy development that must be timely and should fairly share the burden of transition and adaptation.
3. Achieving a timely, effective and equitable global responses to carbon emissions as the primary source of anthropogenic climate change, involves complex interact of international and national policy response.
4. Disregarding short term (quarterly) variations, Australia's carbon emissions have increased and projections from both international agencies and the Department of the Environment and Energy

indicate a substantial likely shortfall in meeting by 2030 the 26 - 28 per cent targeted reduction below 2005 levels.

5. The integration of energy and climate policy is acknowledged from a variety of expert sources as critical to an efficient, cost effective and equitable low-emission transition consistent with Australia's international (Paris Agreement) commitments.
6. Australia is the driest inhabited continent and is particularly vulnerable to a multiple of impacts associated with global warming.
7. Australia's current position and past performance in relation to biodiversity and sustaining ecosystems is poor, and, in many instances, deteriorating.<sup>1</sup>
8. Improvements in Australia's environmental management and governance practices is critically dependent on substantially greater collaboration between federal, state and local governments and across industrial sectors that are reliant on, or impacting on, natural assets and the environment.

The discipline of accounting in its business, market and regulatory contexts, can give significant weight to the pursuit of the following policy actions:

- Management of natural assets – The historical decoupling of environmental policy from economic policy is both dangerous and redundant. Accounting as a discipline deals with guiding resource allocation and giving meaningful measurement and disclosure of outcomes, and so has a role to play in unravelling complexities for both policy development purposes and to aid the transformation of business and the wider economy.
- Policy approaches for the management of emissions reduction – Failure to achieve an orderly transition to a low emissions future will erode business confidence causing the deferring of vitally needed investment potentially leading to a loss of international competitiveness. Market-based mechanisms specific to the energy and electricity sector are acknowledged from both international and national sources as the most effective means of driving low-emissions transformation. CPA Australia supports, and will promote, the economic and fiscal merits of such mechanisms as part of an imperative for integrating emissions and energy policy.
- Sector implications of policy approaches for the management of emissions reduction – The Australia Government through the Department of the Environment and Energy reports emissions projections for each of the following sectors; Electricity, Direct combustion, Transport, Fugitives<sup>2</sup>, Industrial processes, Agriculture, Waste and LULUCF<sup>3</sup>. CPA Australia has members employed across each of these sectors. There should be developed a holistic emissions reduction policy that addresses each sector's appropriate burden and economic opportunities arising out of both mitigation and transitioning.

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<sup>1</sup> <https://soe.environment.gov.au/>

<https://www.stateoftheenvironment.des.qld.gov.au/>

Refer also Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) 2018 Assessment Report for Asia and the Pacific: <https://www.ipbes.net/assessment-reports/asia-pacific>, in particular Chapter 3 Status, trends and future dynamics of biodiversity and economic systems underpinning nature's contribution to people.

<sup>2</sup> Emissions released during extraction, processing and delivery of fossil fuels, and excludes fuel combustion in other uses.

<sup>3</sup> Land use, land use change and forestry.

## Rationale

The World Economic Forum (WEF) has for the past fourteen years produced the most authoritative, forward-looking assessment of global risks. The 2019 Global Risks Report released in January concludes in its Executive Summary:

Environmental risks continue to dominate the results of our annual Global Risks Perception Survey (GRPS). This year, they accounted for three of the top five risks by likelihood and four by impact. Extreme weather was the risk of greatest concern, but our respondents are increasingly worried about environmental policy failure: having fallen in the rankings after Paris, “failure of climate-change mitigation and adaptation” jumped back to number two in terms of impact this year. The results of climate inaction are becoming increasingly clear. The accelerating pace of biodiversity loss is a particular concern.

The most recent analysis from the Intergovernmental Panel on Climate Change (IPCC) highlights the critical time horizons for actions that will limit global warming and the link to decarbonization, In October 2018 the IPCC released its *Global Warming of 1.5°C Summary for Policymakers*. Of particular significance are the following:

Human activities are estimated to have caused approximately 1.0°C of global warming above pre-industrial levels, with a *likely* range of 0.8°C to 1.2°C. Global warming is *likely* to reach 1.5°C between 2030 and 2052 if it continues to increase at the current rate (*high confidence*).

Climate-related risks for natural and human systems are higher for global warming of 1.5°C than at present, but lower than at 2°C (*high confidence*).

Pathways limiting global warming to 1.5°C with no or limited overshoot would require rapid and far-reaching transition in energy, land, urban and infrastructure (including transport and buildings), and industrial systems (*high confidence*). These systems transitions are unprecedented in terms of scale, but not necessarily in terms of speed, and imply deep emissions reductions in all sectors, a wide portfolio of mitigation options and significant upscaling of investments in those options (*medium confidence*).

In November 2018 the CSIRO and Bureau of Meteorology released their fifth biennial State of the Climate Report. The following are the most pertinent of a raft of conclusions:

### *The current state of things*

Australia’s climate has warmed by just over 1° C since 1910, leading to an increase in the frequency of extreme heat events.

Ocean around Australia have warmed by around 1° C since 1910, contributing to longer and more frequent marine heatwaves.

Sea levels are rising around Australia, increasing the risk of inundation.

### *And the future*

Further increases in sea and air temperatures, with more hot days and marine heat waves, and fewer cold extremes.

Further sea level rise and ocean acidification.

Decreases in rainfall across southern Australia with more time in drought, but an increase in intense heavy rainfall throughout Australia.

The consequence of global warming gives central prominence to emissions and energy policy. The interconnected character of climate change risk has obvious and direct implications for other aspects of environmental policy including water resources, land management, biodiversity and other natural assets, waste, air quality. Moreover, sound environmental policy is directly linked to social and economic wellbeing, and so climate change increasingly becomes a pervasive element across a widening spectrum of public policy including corporate law, corporate disclosure and external audit which are traditionally driven by economic ideas of market efficiency and transparency, and investor interests.

Accounting in many of its applications has a deep and symbiotic interaction with public policy and its various instruments of economic and regulatory intervention. Both positive environmental policy, and the void in effective policy, are having profound effects on the conduct of business in Australia to which accounting must respond in a constructive and facilitating manner.

Muted or confused response from government is increasingly countered by positive statements from government agencies and market oversight bodies including ASIC, ASX Corporate Governance Council, APRA, RBA and the two statutory accounting boards, that the impact of climate risk must be considered in a range of corporate practices, prominent in which is external reporting.

It is increasingly apparent that the solutions to both economic-wide mitigation and entity-based adaptation will be found in developments in artificial intelligence, blockchain, data analytics and other attributes of the Fourth Industrial Revolution<sup>4</sup>; themes seen elsewhere as the driving force transforming the accounting profession.

## MORE INFORMATION

For more information, visit the CPA Australia website [www.cpaaustralia.com.au](http://www.cpaaustralia.com.au)

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<sup>4</sup> Consideration of what is termed geo-engineering is not given in this policy position analysis, though the future may show these to be the final 'last ditch' solution to global warming. Similarly, no consideration is given to the controversy that a 'hoped for' future of geo-engineering might be giving governments and industry an excuse to 'run dead' on suitable mitigation strategies.