Carbon ready ...or not

A survey of Australian business leaders' preparedness for the carbon-constrained economy and the Carbon Pollution Reduction Scheme

June 2009

PricewaterhouseCoopers

"Together, we face two crises: climate change and the global economy. But these crises present us with a great opportunity – an opportunity to address both challenges simultaneously. Managing the global financial crisis requires massive global stimulus. A big part of that spending should be an investment – an investment in a green future. An investment that fights climate change, creates millions of green jobs and spurs green growth. We need a Green New Deal. This is a deal that works for all nations, rich as well as poor."

UN Secretary-General's address to the UN Climate Change Conference in Poznan, Poland, December 2008

As we move towards a carbon-constrained future, emissions trading has the potential to transform industry. Chief executives of global corporations understand this.

They also understand the very real risks they face as the world economy enters recession. The temptation to defer action on climate change is strong. But this economic crisis is an opportunity for politicians to set a bold course in climate negotiations, and for business to stimulate the new flows of private finance needed to fund innovative and cost-effective clean technology.

The Australian Government's proposed Carbon Pollution Reduction Scheme (CPRS) will create one of the globe's most advanced emissions trading regimes. It will generate new assets and liabilities and present new challenges for Australian corporate leaders.

Investors and financial institutions are becoming alert to climate change risk while Australian business, on the whole, has yet to connect carbon and value, or seriously consider the risks that emissions trading presents. PricewaterhouseCoopers' research shows that a minority of large emitters in Australia have a fully operational climate change strategy. Many have none at all.

To develop an effective climate change strategy, companies will need to draw on and integrate skills from the environmental, engineering, financial, tax and legal disciplines. They must be able to communicate that they have fully evaluated the Carbon Pollution Reduction Scheme's impact on their operations and can manage their compliance obligations. They must also have clear plans to create value through emissions trading. Those that cannot do these things risk being downgraded by investment analysts and credit rating agencies.

Accounting for emissions, taking action to minimise risk and leverage new opportunities must become common practice if Australian business is to fulfil its responsibility in the fight against dangerous climate change and prosper in a low carbon economy.

With the anticipated passage of the CPRS into law, the building blocks business requested to prepare for the low carbon economy will be in place:

- regulatory certainty
- time to make the transition
- encouragement to invest in low emission technologies.

What is needed now is leadership at the chief executive level; leadership that will stimulate corporate responsibility to resolve Australia's environmental and energy issues and send the right signals to allow competition to transform our economy.

Australian chief executives must be pragmatic in responding to the challenges of climate change. As our survey results show, they are still to make a shift in mindset needed to be successful in a carbon-constrained economy.

Liza Maimone

Sustainability & Climate Change Leader
PricewaterhouseCoopers Australia

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“Chevron is supportive of the move to emissions trading as Australia’s principle response to regulating greenhouse gas emissions”

Roy J. Krzywosinski
Managing Director
Chevron Australia Pty Ltd, May 2009

A new mindset: the chief executive's challenge

Australian business has an opportunity to play a leading role as our nation joins the world in moving towards a new agreement to mitigate climate change.

PwC Australia has surveyed leaders of major Australian businesses to gauge their preparedness for emissions trading under the Government's Carbon Pollution Reduction Scheme. The survey found:

1. While business is beginning to respond to the challenges of climate change, it is doing so largely because of government regulation.
2. There is now broad support for an emissions trading scheme.
3. Business is not ready for a carbon-constrained economy – and there is a lot to do.

The survey found that while climate change is on the radar of big businesses, 72.2 per cent of respondents said the need to comply with new regulations was their main motivation to prepare for an emissions trading scheme.

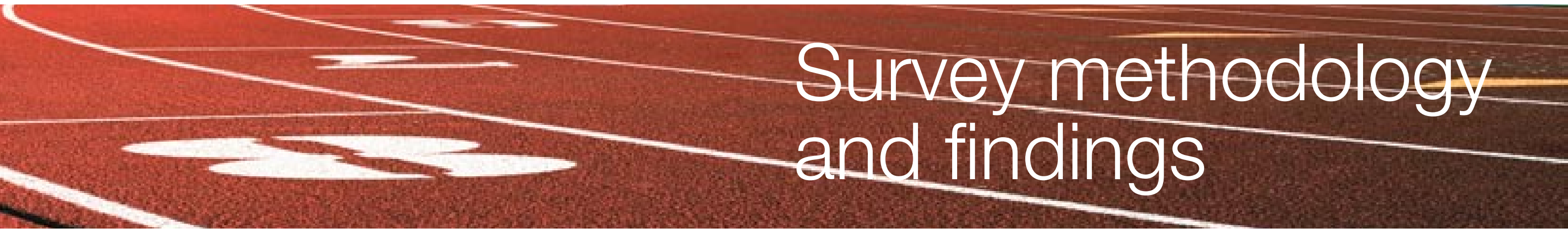
When asked about the relative effectiveness of climate change policy, 68.2 per cent of leaders said they believed the current proposed CPRS to be a more effective tool than a carbon tax or environmental regulation, a significant percentage of which expressed a strong preference for emissions trading. However, climate change has yet to become a priority at the CEO level. Chief executives of half our respondent companies could not answer survey questions themselves.

Only 23.8 per cent of businesses surveyed are comprehensively prepared for the introduction of the CPRS, while 22.5 per cent have done nothing at all to prepare. This is despite the fact that a key component, that of emissions measurement and reporting, is already a legislative requirement for big businesses under the *National Greenhouse & Energy Reporting Act 2007 (Cth)*. An alarming 15.2 per cent of those interviewed were unaware if their company was captured under this Act.

Under a CPRS, most companies indicated they plan to purchase emission permits purely to comply with the new regime and will outsource their responsibility for trading. While this will arguably create a new market for the financial sector it also has significant implications for governance, reporting and risk management.

The PwC Australia survey found 35.1 per cent of surveyed businesses have not factored the CPRS into their forward corporate strategy, which indicates they may have a poor understanding of both the potential negative earnings impact of emissions trading as well as the opportunities for carbon offset and reduction. Only 17.2 per cent of respondents said they were factoring a carbon cost into their investment decisions.

Businesses have secured breathing space to prepare for the scheme, but a significant number still have work to do to better understand their exposure. Carbon is emerging as one of the measures of corporate success in the 21st century, for markets, investors and consumers alike. Business leaders must therefore decide on a strategy that will protect and add value under the new scheme from 2011.



Survey methodology and findings

How the survey was carried out

This is the third survey that PricewaterhouseCoopers has commissioned in the past four years to track Australian business sentiment on climate change issues.

In April 2009 the Australian firm commissioned a survey of chief executives from 151 Australian businesses to gauge their preparedness for climate change and the CPRS. Most businesses (64.2 per cent) surveyed have an annual turnover of A$150-$500 million, while 35.8 per cent have a turnover of more than A$500 million (Figure 1).

The businesses surveyed operate in the five industries that will be most affected by the CPRS, either because they are large emitters or will generate revenue from trade in permits. Respondents were divided roughly equally among the manufacturing, mining and resources, construction, transport, and finance industries (Figure 2).

Chief executives were questioned on:

- their preparations for climate change, including the experience of climate change officers and whether the business must report under the *National Greenhouse & Energy Reporting Act 2007*
- the sophistication of their response, including their motivations for acting and whether they had undertaken any reviews or made operational changes
- whether they had considered the proposed scheme's impact on earnings and investment decisions, whether and how they will acquire permits, whether they think industry compensation is adequate, and their views on the review and disclosure of emissions/financial data
- alternatives to the CPRS such as a tax-based scheme.

Industries represented in the survey

The majority of businesses interviewed (74.2 per cent) were publicly listed companies, while the remainder were private companies.

Figure 1: Industry Selection: Number of enterprises

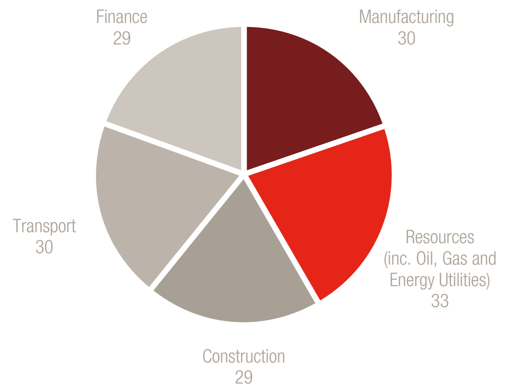
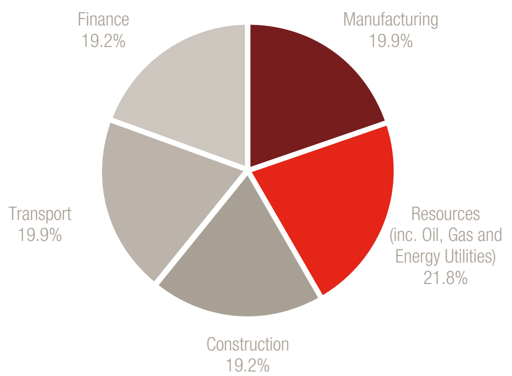


Figure 2: Industry Selection: Percentage of enterprises



Looking beyond Kyoto

There is a growing consensus that a global market-based or 'polluters pay' scheme is required to reduce greenhouse gas emissions to an acceptable level by 2050, and to spur innovation in finance and technology. Devising a scheme that shares the cost burden fairly remains a challenge, particularly during a global economic downturn in which debt and equity financing has dried up for all but the most secure investments. But with regulators, investors and the public demanding action, companies must prepare for the new carbon-constrained economy. As our summary below notes, Australian businesses are, on the whole, five years behind their European counterparts in responding to climate change and participating in a market worth an estimated US$118 billion.

The crackdown on carbon pollution

- World leaders agreed in Bali in 2007 to work towards a pact to succeed the 1997 Kyoto Protocol, which set binding targets to limit greenhouse gas emissions.
- Representatives of 192 countries will meet in Copenhagen in December 2009 to negotiate a new global agreement for reducing greenhouse gas emissions.
- Europe introduced a 'cap-and-trade' scheme to reduce emissions in 2005 and has led the way in setting targets: it has committed to cut emissions by 25 per cent, and the UK by 30 per cent.
- The push for a new global agreement from 2012 gained momentum with the 2008 election of the Obama administration in the US, which has signalled that the country will join a new accord.
- China, which has overtaken the US as the world's biggest emitter, has said it is now considering setting targets to cut emissions.

Investors demand data as carbon market grows

- The global carbon market was worth US$31 billion in 2006, US$64 billion in 2007, and an estimated US$118 billion in 2008.[1]
- With significant value at stake, carbon risk is becoming part of the investment lexicon and ratings agencies and banks are demanding companies provide data on their greenhouse gas emissions.
- Independent not-for-profit organisations such as the Carbon Disclosure Project (CDP), formed in the US in 2000, are encouraging transparent reporting of emissions data to enable investors to make more informed decisions about risk and reward. The CDP says it now counts as signatories more than 475 global institutional investors which have US$55 trillion in assets under management.[2]
- In the absence of global agreement on the price of carbon, however, investors appear not to have re-weighted portfolios to reflect carbon risk.

1 *Scaling up in a downturn?*, World Economic Forum Copenhagen Climate Initiative, January 2009, p25
2 www.cdproject.net/press.asp

Consumers go green – at the right price

- Climate change regularly makes headlines in the media and consumers are concerned about the issue – but the price of energy efficient products and services remains a barrier.
- Australians are beginning to embrace cleaner energy: the Government's March 2009 quarterly report states that more than 10 per cent of homes now buy energy from renewable sources.[3]
- Toyota reported hybrid petrol-electric car sales topped one million globally as the oil price soared in 2007[4], but sales have fallen with the global downturn.
- HSBC Group surveyed 12,000 people in 12 markets including Australia in September-October 2008 and found that consumers wanted their governments to agree on emission reduction targets despite the onset of the financial crisis.[5]
- A Climate Institute poll of 1,411 Australians in March 2009 found most still wanted action on climate change despite the economic downturn: only 35 per cent thought the Government should delay because of the state of the global economy and just 28 per cent supported delay until the US and China set targets.[6]

Europe sets the pace, but can the US be far behind ?

- In 2004, PwC surveyed global utilities and found that less than 20 per cent of European companies were prepared for the world's first emissions trading scheme – but Europe began emissions trading in 2005 and has a five-year head start on Australia.
- PwC Australia's first survey of Australian business attitudes to climate change was in 2006 for the *Carbon Conscious* report, which found that while 78 per cent of leaders considered emissions trading the most effective response, they lacked carbon numeracy and literacy.[7]
- The Australian firm surveyed Australian business leaders again in late 2007 for the *Carbon Countdown* report and found 71 per cent did not understand their company's climate change obligations and 78 per cent had yet to formally assess their climate change risks.[8]
- In 2009, with emissions trading legislation before the Australian Parliament, just 24 per cent of big Australian businesses have a climate change strategy in place, PwC Australia's latest survey found.
- In contrast, the PwC 2009 *Utilities global survey* found that 75 per cent of European respondents are investing in energy efficiency and alternatives to coal-fired power including renewable energy because they anticipate the price of carbon will at least double by 2012.[9]

3 www.greenpower.gov.au
4 www.industrysearch.com.au
5 *Climate Confidence Monitor*, HSBC, 2008
6 www.climateinstitute.org.au
7 *Carbon Conscious*, PricewaterhouseCoopers Australia, 2006, p8
8 *Carbon Countdown*, PricewaterhouseCoopers Australia, 2008, p5
9 *Utilities global survey 2009*, PricewaterhouseCoopers, p43

Australia sets an ambitious course

The pace of regulatory change has quickened since the Rudd Government ratified the Kyoto Protocol in December 2007. It aims to pass legislation this year that will make Australia one of the first countries to begin emissions trading outside of Europe. The proposed Australian CPRS will set a price for carbon. It will give companies the choices of cutting their own emissions, investing in emission reduction projects locally or internationally or trading in a new Australian carbon market. With these choices come new risks and opportunities to profit through efficiency and innovation.

Key features of the scheme

- The *National Greenhouse & Energy Reporting Act 2007* (Cth) (NGERA), which underpins the CPRS, introduces mandatory reporting of emissions, energy production and energy consumption. It came into effect in July 2008. The threshold for reporting decreases over time but initially captures companies that emit more than 125,000 tonnes of greenhouse gases (CO_2e) or produce or consume more than 500 terajoules of energy. They must report from 31 October 2009.
- Draft legislation before the Australian Parliament in May 2009 proposes that the CPRS starts in 2011. It targets a baseline five per cent cut in emissions by 2020, which could be increased to 25 per cent, matching Europe's proposed target, dependent on other countries agreeing to a deal to stabilise emissions at 450 parts per million CO_2e.
- The price of permits will be fixed at $10 a tonne before full market trading from 1 July 2012.
- Emissions-intensive and trade-exposed industries are to receive some free permits for the first five years of the scheme based on certain criteria.
- In July 2008, the Government also expanded Australia's Renewable Energy Target scheme, committing to source 20 per cent of the nation's electricity from renewables by 2020.
- In May 2009, the Government announced an Energy Efficiency Trust to be set up to encourage all Australians to participate in a low carbon economy.

> "The proposed Australian CPRS will set a price for carbon."

Carbon, a foreign language for many Australian CEOs

PwC Australia's 2009 survey confirms Australian business leaders continue to favour emissions trading as a response to climate change and that some have taken steps to prepare for it. However, the survey suggests leaders have been reactive rather than proactive and their companies are ill-prepared to manage carbon risk, let alone take opportunities to add value. Many CEOs are still getting up to speed and the issue is mainly seen as one of compliance. The strategic implications are not well understood and only a quarter of companies are fully prepared for the CPRS. Most plan to trade for compliance reasons rather than maximising any economic benefit.

Organisational responsibility still at an early stage

Climate change is an executive responsibility for almost half of the companies surveyed, but it is not yet a top priority for Australian chief executives. Many are keen to learn about the issue, however, and used the survey interview to get up to speed. More than a quarter of companies have not allocated responsibility for climate change, and those companies will find it more difficult to understand the commercial risks ahead (Table 1).

Key findings

- Only one out of two chief executives (72 out of 151 businesses) was able to personally answer survey questions about their enterprise's readiness for climate change and emissions trading.
- Of businesses with a carbon officer, 43 per cent had held the position for less than a year and 90 per cent for less than three years.
- More than half of carbon officers (57.1 per cent) have a finance/accounting background, partly because climate change has been combined with the CFO role (Table 2).

Table 1: Organisation's officer with direct responsibility for climate change

	Percentage
Dedicated senior executive, eg chief carbon officer	20.5
Senior executive combined with other responsibility, eg CFO, CRO	25.8
Middle or lower level manager, eg environmental, compliance	26.5
No clear allocation of organisational responsibility	27.2
TOTAL	100.0

Table 2: Climate change officer's professional background

	Percentage
Finance/accounting	57.1
Risk/internal audit	12.9
Regulatory/compliance/legal	15.7
Engineering operations	5.7
Environmental	2.9
OH&S	4.3
Other	1.4
TOTAL	100.0

Business sees climate change as a compliance issue …

The main motivation to take action on climate change is emerging regulation: non-compliance could have recognised a significant financial impact. Meanwhile it was acknowledged that consumer, investor and competitive pressures can also hit the bottom line.

Although mandatory energy and greenhouse gas reporting is a key regulatory requirement for large emitters, some CEOs were unaware whether the reporting obligations applied to their organisation while others indicated mandatory disclosure was excessive.

Key findings (Figure 3)

- 72.2 per cent of respondents said compliance is their main motivation to prepare for the CPRS
- 81.5 per cent of companies surveyed are captured under the NGER Act but 15.2 per cent of leaders were not sure if their company came under the Act
- 45.0 per cent of respondents saw the scheme's disclosure requirements as excessive.

… but more will report voluntarily

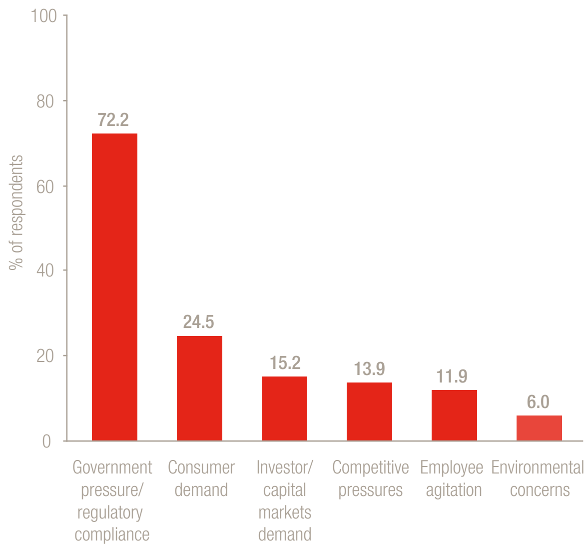
Despite concerns about disclosure there has been an encouraging response to calls for voluntary reporting through the Carbon Disclosure Project (CDP). Our survey found that nearly four times as many businesses will respond to the CDP in 2009 as in 2008, and just 3.3 per cent will not. Just 15.2 per cent of businesses in the sample have previously responded to the CDP.

Key findings (Figure 4)

- 42.4 per cent of businesses that have never responded to the CDP said they would in 2009
- 57.6 per cent of our surveyed respondents plan to respond to the CDP in 2009
- 25.8 per cent were unsure if they would respond.

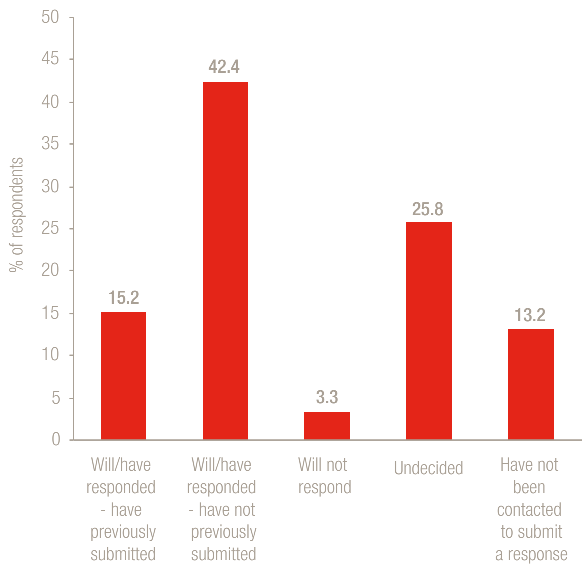
This increased response rate may be due to pressure from stakeholders prompting companies to be more proactive and transparent in considering carbon reduction opportunities, risks and exposure. Increasingly investment bank and equities analysts, ratings agencies, pension fund trustees, insurers and portfolio managers are paying more attention to climate change risks.

Figure 3: Main motivations to prepare for carbon-constrained economy



Note: Results sum to more than 100 per cent due to multiple responding

Figure 4: Business response to Carbon Disclosure Project for 2009



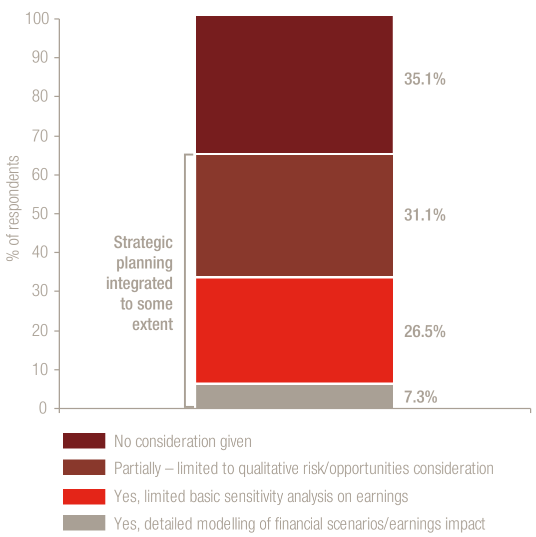
The strategic implications of emissions trading are still not well understood

Climate change will be a key driver of corporate value. The effectiveness of a company's climate change response strategy is likely to become a key metric in investor decision-making over time and early strategic planning and effective management are vital. Yet our survey found more than a third of those surveyed had failed to consider the strategic implications of the CPRS and only a quarter could estimate its impact on earnings.

Key findings (Figure 5)

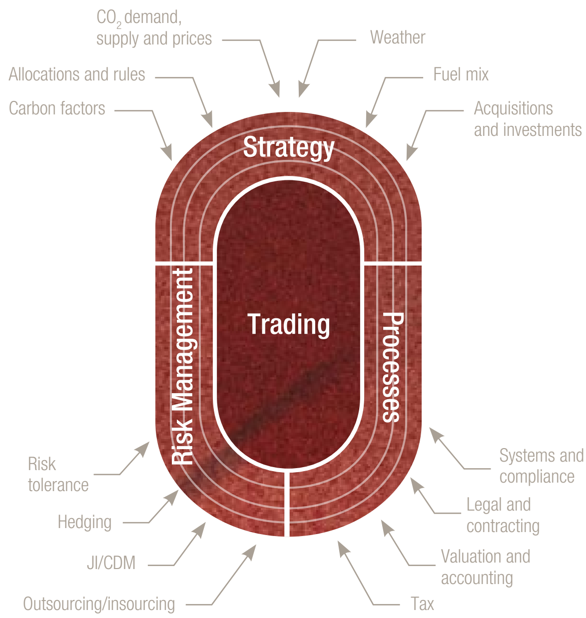
- 35.1 per cent of the total sample has failed to consider the CPRS in their strategic plan
- only 7.3 per cent have a detailed financial model of CPRS impact in their strategic plan
- almost 75.0 per cent did not know if their earnings will decrease under the scheme
- only 25.8 per cent of businesses are able to estimate the approximate impact to their EBITDA.

Figure 5: Consideration in strategic planning to impact of CPRS



The final rules on allocation of emission rights will be important in determining the net financial impact on companies and shaping strategy and tactics. Meanwhile, as we have seen under the European Emissions Trading Scheme, there is considerable scope for the carbon market to embrace the characteristics of the broader capital markets. Permit-liable businesses will also need to be equipped for a range of new risks and consider their tax obligations. The fundamental drivers of emissions are outlined in Figure 6.

Figure 6: Fundamental drivers of emissions trading



Source: PricewaterhouseCoopers, 2009

Business has been slow to prepare for a carbon-constrained economy

As well as considering overall strategy and risk management, compliance and trading issues, companies should consider how the CPRS will affect operations, production and the supply chain. Many will need to update systems. Stakeholder communications is another vital consideration. But while all businesses surveyed see clear motivation to prepare, not all are taking action. Mining and finance companies are ahead of the curve; construction and transport companies have more to do.

Key findings

- Just 23.8 per cent of those surveyed believe they are fully prepared for a carbon constrained economy.
- While resources and finance sectors are more carbon ready than any other sectors, only 33.3 per cent of resources companies and 41.4 per cent of finance respondents are fully prepared.
- 75.2 per cent of companies have reviewed processes and operations but only 23.1 per cent have looked at their products and services.

Obvious challenges include areas where regulations remain a work in progress (eg financial accounting and reporting issues, verification, tax and legal issues). The CPRS will add a new layer to risk evaluation frameworks, especially with the uncertainties around allocations and market arrangements. Companies also need to consider the possibility of external shocks such as extreme weather.

Figure 7: Preparedness for a carbon-constrained economy

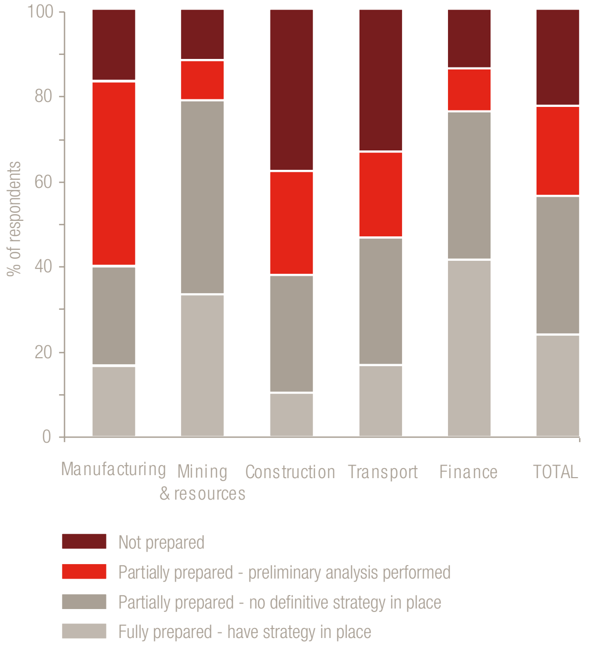
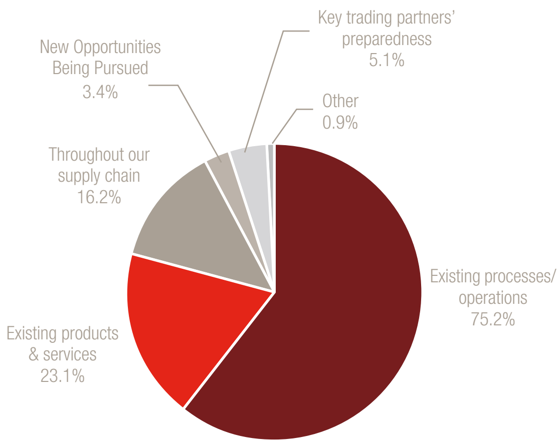


Figure 8: Areas of business where contribution to climate change has been reviewed



Total respondents that have undertaken a review: 117

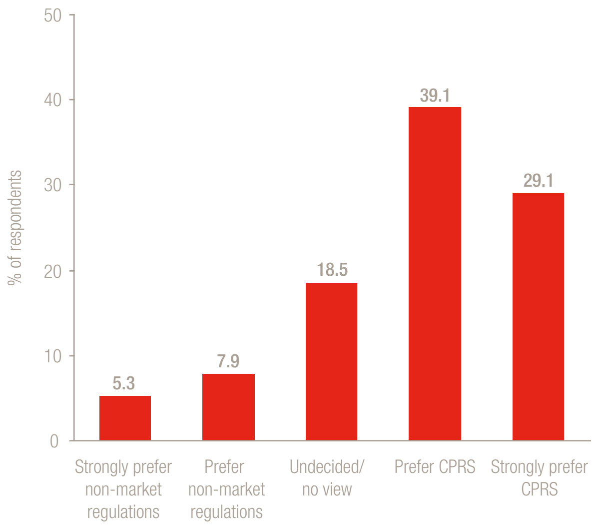
The CPRS is preferred to a tax-based regime

Generally, businesses believe that the CPRS is a more effective tool than a carbon tax in reducing Australia's emissions. Most businesses prefer the current proposed CPRS to a non-market-based regime or carbon tax as an effective response to reducing Australia's emissions.

Key findings (Figure 9)

- 68.2 per cent prefer the proposed CPRS of which 29.1 per cent strongly prefer it
- 39.1 per cent said a carbon tax would be less effective than the CPRS
- 18.5 per cent were undecided on the merits of the CPRS versus a tax-based scheme
- just 13.2 per cent favoured non-market regulation such as a greenhouse trigger in the *Environment Protection and Biodiversity Conservation Act* or bans on categories of investments.

Figure 9: Preference for non-market regulations versus the CPRS as an effective response to reducing Australia's emissions



Only the most agile and progressive businesses link carbon risk with acquisitions

The majority of businesses have not begun considering the cost of carbon in investment decisions and are yet to consider significant liability attached to carbon-intensive assets.

Key finding

- Just 17.2 per cent of respondents said they were factoring a carbon cost into their investment decisions.

  While it is unlikely that the CPRS will drive significant M&A activity, at least in the short to medium term, carbon will gradually emerge as a factor in acquisitions and divestitures. Companies with more favourable allocation profiles and/or prospects will have an enhanced value. Due diligence will need to address actual and future allowance allocations, emission levels and projections, compliance history and the extent to which the carbon risk is already hedged.

Most companies will trade for compliance purposes only

Few businesses will trade permits themselves, which will have a significant impact on the rapid development of the secondary market, trading risk management practices and carbon futures. In short, most businesses will manage carbon for legal and compliance reasons rather than to maximise economic benefit.

Key findings

- 22.5 per cent propose to outsource trade in permits
- 11.9 per cent intend to set up an in-house team and 8.6 per cent had one in place
- only 15.2 per cent propose to use a mixture of permits and international credits.

Curiously, none mentioned that they intend to trade to cut the cost of compliance (eg trading periodically, using a combination of forward contracts and spot trades during a trading compliance year, setting up a limited trading organisation, handling trading on a regional basis). At this stage at least, there appears to be no appetite for collaborative carbon credit purchasing such as through carbon funds or buyers' clubs to achieve cost-effective compliance.

> “There is so much noise surrounding the implementation of the CPRS that it is often hard to see the big picture. As you pull your head up above the fog of transition issues, it becomes clear that emission reduction will be a major investment theme for the next decade. As with all change comes opportunity, and it is this side of emission reductions which is the untold story in the carbon debate.”

Sean Lucy
Director, Head of Carbon Solutions Group
National Australia Bank, June 2009

Prepare now for the carbon-constrained economy

Climate change will affect virtually all aspects of a company's business – supply chain, customers, operations, investors, regulation and even competitors. Companies need a robust management strategy to operate in a carbon constrained economy. The PricewaterhouseCoopers Australia survey has revealed that the majority of Australian businesses are not ready for the CPRS and a carbon constrained economy. A significant majority have not conducted even the most preliminary analysis to quantify what impact the CPRS will have on their business.

The deferral of the scheme to 1 July 2011 will give business much needed time to get better prepared.

Business should use this time to ensure that it understands its regulatory obligations and that it is ready for the CPRS and carbon constraints more broadly.

What does a robust climate change management strategy look like? At the very least, companies must ensure they do the following:

1. **Identify and quantify the impacts of climate change and the CPRS.**

   Value could be at risk because of changes in weather, regulations and customer and consumer behaviour. To gauge their exposure, companies should look beyond emissions and energy use and consider the cost of whether, for example, raw materials which are part of their production processes and logistics services are likely to involve significant carbon costs.

2. **Create a senior carbon management position.**

   A senior carbon management position and team can ensure compliance and cost minimisation and look at investment and trading opportunities. If the position is a profit centre, it will drive the direction of that team from compliance and cost minimisation to a focus on the opportunities created through new investments and trading. The team's focus should be on:

   - driving internal and external carbon targets
   - identifying and leveraging carbon opportunities
   - reviewing and revising carbon strategies across the organisation.

3. **Measure and monitor emissions and forecast emissions growth.**

It is vital that companies put in place systems to identify and capture information for reporting under the NGERA. Thresholds for reporting are set at:

- 125ktCO_2e in 2009
- 87.5ktCO_2e in 2010
- 50ktCO_2e in 2011.

Penalties for breaches include fines of up to $110,000 but inadequate emissions management and reporting could result in indirect costs through poor press and market downgrading.

For this reason alone it is critical that companies understand their contribution to global emissions including direct and indirect emissions from electricity as well as emissions that relate to their interaction with suppliers, partners and customers.

Companies should also forecast their emissions growth, which can be benchmarked against an intensity unit such as tonnes produced, products delivered or revenue generated. Such metrics are critical to the measurement of future CPRS obligations as well as setting emission reduction targets and future performance against those targets.

4. **Identify and assign costs to abatement opportunities.**

Leading carbon performers will identify ways to reduce both direct and indirect emissions and their associated costs. Abatement options vary by industry but could include, for example:

- energy efficiency measures
- fuel switching and load management (transport)
- renewable electricity generation
- forestry offsets creation.

The objective should be to create a marginal cost of abatement curve for individual business units as well as for the entire company. This will provide valuable data on the quantum of avoidable emissions relative to key cost points, which could be used to inform future investment decisions. Reduction targets also need to be set for direct and indirect emissions. These targets will provide a basis to measure future carbon performance.

Identifying abatement opportunities presents risks in itself. These could include, for example:

- Is the emissions reduction (carbon credit) appropriately recognised?
- Is the organisation using an approved quantification methodology to calculate the emissions reductions?
- Does this quantification methodology apply to the project?
- Is the emissions reduction statement materially complete?
- Are all the sources and sinks of emissions accounted for in both the baseline and the project inventory?
- Are there any leakage effects?

5. **Set internal and external emissions reduction targets.**

Leading companies have already begun setting targets for cutting overall emissions and in some cases have devised metrics to track emissions efficiency. Examples include emissions per unit of production, or per financial reporting metric (such as EBITDA).

6. **Report emissions data internally and externally and have a clear communication strategy.**

Capital markets, investors, shareholders, employees and customers want information about companies' efforts to control their emissions. Companies should ensure they communicate clearly, particularly on sustainability reporting, and answer CDP information requests robustly.

7. **Have reported emissions data independently assured.**

   Stakeholders want to know that all data on emissions and abatement activities is credible. Large emitters should consider independent assurance over their NGERA reporting, and could be required to undertake independent assurance of data reported under the CPRS. Companies that trade in the voluntary carbon markets will require independent assurance of offset activities to protect against allegations of 'greenwash' and any litigation. Companies submitting Emissions-Intensive Trade-Exposed applications are required to have independent assurance over certain aspects of their application.

8. **Price carbon into investment decisions.**

   It is imperative that companies factor carbon exposure into their investment decisions, both with new developments and in mergers or acquisitions to ensure liability shocks, should they occur, are at least manageable.

   Carbon assessment therefore needs to be a core component of M&A strategy and processes. Leading companies have been incorporating a carbon price into their investment decisions for a number of years to help them determine the viability of a project – despite Australia only recently committing to an emissions trading system.

   Key questions companies should ask include:

   - Is the full carbon risk or opportunity of the asset understood and factored into the company's deal calculations?
   - Has the market factored carbon into values of the aggressor as well as the target?
   - Are there synergies?
   - Do due diligence processes look at carbon?
   - Is carbon assessment an integral part of all capital investment decisions?
   - How might it change target IRRs, or decisions on location or timing?
   - Do staff working in these areas understand the implications of emissions trading? Is their work integrated into a broader carbon strategy?

9. **Identify and leverage new carbon opportunities.**

   Because of the immaturity of carbon markets and regulations, opportunities for business are potentially huge. For example, there is scope for companies to provide carbon-managed solutions to customers through measurement, reporting and reduction or offset services.

10. **Track competitors' responses.**

    It is vital that companies compare how they and competitors will be affected by changes in the business landscape, and how competitors' carbon management policies might affect their own business, the industry and the wider business community.

    Longer term, businesses should look at rating competitors' carbon performance against their own, and monitoring rival offsetting products and services that could alter customers behaviour and their own investment decisions.

Contacts

Sustainability & Climate Change Services

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