

Committee Secretary  
Senate Standing Committees on Economics  
PO Box 6100  
Parliament House  
Canberra ACT 2600

25 February 2015

## **Inquiry into Carbon Risk Disclosure**

*Submitted on behalf of 350.org Australia*

Thank you for the opportunity to make this submission to the above inquiry.

### **About 350.org**

350.org is a global grassroots movement tackling the climate crisis by working with communities to return the atmosphere to a safe level of greenhouse gas concentrations – below 350 parts per million. Our online campaigns, grassroots organizing, and mass public actions are led from the bottom up by thousands of volunteer organizers in over 188 countries.

### **Our Position**

We are strongly in favour of measures to increase measurement and disclosure of the risks that climate change poses to capital markets, communities and ecosystems, domestically and internationally.

You would be aware of the “unburnable carbon” scenario that 80% of proven fossil fuel reserves must remain in the ground to avoid warming in excess of 2 degrees Celsius – the safe upper limit agreed to by climate scientists and governments internationally.<sup>1</sup> Even if the reserves of the top 200 publicly-listed oil, coal and gas companies were burnt, the emissions released would guarantee a temperature increase in excess of 2 degrees.<sup>2</sup>

Many scientists now agree that the climate impacts created by 2 degrees of warming are unacceptable and that the international community should adopt 1.5 degrees as its new upper limit. Under this scenario, to have even a 66% chance of staying below 1.5 degrees, we have less than 5 years’ left of burning fossil fuels at the current rate.<sup>3</sup>

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<sup>1</sup> Meinhausen et al (2009), “Greenhouse gas emission targets for limiting global warming to 2°C”, Nature, 458: 1158-1163.

<sup>2</sup> Carbon Tracker (2013), “[Stranded Assets and Wasted Capital](#)”.

<sup>3</sup> Carbon Brief, [Six years worth of current emissions would blow the carbon budget for 1.5 degrees](#), November 2014. (based on IPCC data)

Given this physical reality, it is clear that capital markets have financed future fossil fuel development based on the false assumption that what the corporate sector has asked investors to finance can actually be burnt. Consequently, leading international authorities are increasingly highlighting the major risks that this over-capitalisation of fossil fuel assets poses to capital markets and investors globally.<sup>4</sup>

Australia, as the world's second largest coal exporter, an estimated 20-30% of market capitalization connected to fossil fuels and with the fourth largest coal reserves globally, is particularly exposed to these risks [4]. When you overlay our vulnerability to climate impacts such as droughts, floods and bushfires, the arguments for understanding and mitigating carbon risks become even more compelling.

As such, we and a growing chorus of international and domestic experts, believe that investors and companies should be legally required to measure and disclose the carbon risks posed by their activities, on the understanding that these risks pose not only short-medium term financial risks to investors, but they pose systemic risks to society, the costs of which are currently paid for by the communities that suffer them rather than the companies and investors that create them.

Increasingly, institutions and individuals are making efforts to evaluate and reduce their exposure to carbon risks, as evidenced by the growing fossil fuel divestment movement and the marked increase in low-carbon and fossil free investment products and services globally. Since the fossil fuel divestment campaign began in late 2012, over 500 institutions, representing \$3.4US trillion in funds under management, have committed to move their money out of coal, oil and gas companies.<sup>5</sup>

Prior to the movement's inception, Australians were without options when it came to investing their superannuation in a way that doesn't drive dangerous climate change. Now, Australians have a growing suite of options, from fully fossil free super funds to fossil free investment options within industry funds. Similarly, there has been a significant growth in shareholder activism, both in Australia and overseas, regarding companies' approach to carbon risk evaluation and disclosure, with all of the major banks facing repeated questioning during AGM seasons over the past 3 years.

However, these developments, albeit positive, are the tip of the iceberg in terms of where Australia should be. The institutions that we work with repeatedly cite barriers to reducing their exposure to climate investment risks due to the wider financial community's lack of disclosure, awareness and appreciation of unburnable carbon as a measurable and serious investment risk.

A number of carbon measurement and reporting frameworks already exist, e.g. the Carbon Disclosure Project, the Asset Owners' Disclosure Project, however none of these frameworks are standardised nor mandated, with the result being that the leaders opt in and the laggards opt out. This creates a very misleading picture of where the greatest risks are being generated throughout the market, making it very difficult to mitigate them. An approach like France's, who recently

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<sup>4</sup> These include: The Reserve Bank of England, the IMF, the Prince of Wales, the World Bank, the United Nations, Mercer, [HSBC](#), Citi, Bernstein, Axa, Alliance, Carbon Tracker & the Grantham Institute at the London School of Economics and more.

<sup>5</sup> See: <http://gofossilfree.org/commitments/>

introduced mandatory carbon reporting for institutional investors,<sup>6</sup> would be worthy of exploration.

Clearly there is growing appetite and precedent for tackling these risks. It's time for Australian regulators to seize that opportunity.

## **Recommendations**

Whilst individual investors can and should play an important role in shifting the system towards a greater appreciation of these risks, it is also vital that Governments and regulators, charged with ensuring financial stability, tackling systemic risks and supporting long-term investment, drive a common understanding of the financial and societal impacts of failing to mitigate unburnable carbon and act swiftly to prevent the carbon bubble from bursting.

Some of the ways that this could be achieved include:

- Requiring listed companies and those applying for listing to report on their fossil fuel reserves and predicted annual carbon emissions
- Requiring companies to aggregate and publish reserves and emissions data using appropriate accounting guidelines
- Assessing the systemic risks posed to capital markets and wider economic sustainability through the overhang of unburnable carbon and ensure that investors are made aware of and supported in avoiding these risks
- Developing financial stability measures to prevent a carbon bubble bursting

We welcome the opportunity to support you in tackling this challenge and improving understanding of the systemic risks that unburnable carbon poses to Australia's capital markets and communities.

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<sup>6</sup> Trucost, [France first to introduce mandatory carbon reporting for investors](#), May 2015.