

# **Additional comments by the Australian Greens**

## **Time to pull our head out of the sand**

1.1 Ten years ago, Nicholas Stern called climate change 'the greatest market failure the world has seen'. That this inquiry has been conducted illustrates that the market's failure has now become a government failure to adequately respond to the magnitude of the problem.

1.2 There is no better example in the world of government failure than here in Australia where, under the Coalition Government, a price on carbon has been abolished and the pathway to meeting our commitments under the Paris agreement is nowhere to be seen.

1.3 This inquiry has shown that elements of the Australian corporate sector—the purported beneficiaries of the government's intransigence—are now out ahead of the government. It is the corporate sector that is advocating for a realistic and prudent approach to carbon risk and to the disclosure of this risk to the market. The Chair's report sets out the logic of this approach in stating that:

...the most accurate pricing of these impacts [climate risks] is likely to be provided by the market in an environment characterised by disclosure of relevant information.

1.4 Climate risk is a vast and urgent problem without precedence. Smart businesses know that the risk is real and present. Smart investors are taking climate risk into account. Smart executives know that that they are already liable and that it's only a matter of time before this liability is brought to bear. APRA Member, Geoff Summerhayes, recently made this point in no uncertain terms.

1.5 However, seeking a 'first mover advantage' in carbon risk disclosure is itself a risk. Responsible corporates have indicated they will accept carbon risk disclosure requirements so long as the playing field is level. What is missing is clear— uniform and mandatory standards. It is the responsibility of government to step into the breach, to set the parameters, and to enable the collective will.

1.6 The Chair's report provides a good summary of this inquiry's findings and includes some sound recommendations. However, the enormity of the problem requires a bolder approach and needs to demonstrate the preparedness of the Parliament to act decisively. There is a financial imperative, an economic imperative, and, frankly, an existential imperative to act decisively and to act now.

### **Price the externalities**

1.7 The primary failure of the market is the failure to address the negative externalities arising from carbon pollution. The Australian Greens believe that putting a price on carbon pollution is integral to both mitigating the effect of climate change

and to better disclosing carbon risk. A price on carbon makes accounting for climate pollution as natural as accounting for all other costs of doing business. A price on carbon would provide a uniform measure of greenhouse gas emissions that can be traced through the production chain and the investment chain.

### **Recommendation 1**

**1.8 The government reintroduce a price on carbon pollution.**

### **Recommendation 2**

**1.9 The government require that annual public reporting by Australian companies include the price paid for carbon pollution and the associated greenhouse gas emissions, including from global operations and interests.**

### **Set the standards**

1.10 The Financial Systems Board (FSB) Task Force on Climate Related Financial Disclosure promises to deliver a strong framework for carbon risk disclosure, as indicated by the draft recommendations of the Task Force. The involvement of Australian financial regulators in this project necessitates that the recommendations of the FSB be the least the Australian Government commits to. The government should make this commitment unconditionally to help ensure that the work of the FSB becomes a minimum international standard.

### **Recommendation 3**

**1.11 The government commit to bringing into effect the recommendations of the Financial Systems Board Task Force on Climate Related Financial Disclosure without exception.**

1.12 Notwithstanding the recommendation to commit to the outcomes of the FSB Task Force, the Australian Greens believe that the evidence heard during this inquiry requires an immediate and pre-emptive response.

1.13 Specifically, the government should set standards for definition of and reporting of carbon risk. These standards should be built into existing public reporting requirements of all public companies, and proprietary companies with large carbon risk exposures. Reporting against these standards should be mandatory by default. Exemption from carbon risk reporting should be the exemption rather than the rule.

### **Recommendation 4**

**1.14 The Council of Financial Regulators develop a standard definition of 'carbon risk' for the purposes of disclosure that incorporates policy, technological, market and physical risk dimensions.**

**Recommendation 5**

**1.15 The Council of Financial Regulators develop guidelines for mandatory annual public reporting of carbon risk by Australian public companies and by proprietary companies with financially material carbon risk exposures.**

**Recommendation 6**

**1.16 Amend the National Greenhouse and Energy Reporting Scheme to include public disclosure of equity exposures above a materiality threshold.**

**Recommendation 7**

**1.17 Amend the National Greenhouse and Energy Reporting Scheme to increase Scope 3 emissions reporting and disclosure where they are a financially material component of a company's carbon risk.**

**Recommendation 8**

**1.18 Require industry and financial regulators to develop guidelines for stress testing scenarios for different levels of global warming.**

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