

# Australian CEO guide to **CLIMATE ACTION**



## Andy Vesey

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## Foreword

The world is working towards a global agreement that limits global warming to less than 2°C above pre-industrial levels. As nations declare their Intended Nationally Determined Commitments (INDCs) ahead of COP21 in Paris, confidence is growing that we will see concerted action to reduce global greenhouse gas emissions.

For business, climate change mitigation represents both risk and opportunity.

Recently I joined a group of other Australian business leaders in a statement to confirm our commitment to addressing the challenges of climate change. We do this in view of our responsibilities as leaders of large organisations accountable to our customers, investors, our employees and the communities in which we operate. To paraphrase the statement made with my fellow business leaders, we need sound board governance, prudent risk management and a vision that positions business competitively for the future.

Our customers will increasingly focus on what we as businesses are doing to address this important issue.

My message is that all organisations must contribute to the global response to climate change.

The WBCSD / SBA CEO Guide to Climate Change can help. It describes the challenges particular to Australia: our changing environment, and the impacts that will resonate through our economy and shape our future energy mix. I encourage you to utilise the expertise within the WBCSD and SBA to help guide your response to these important issues.

**Andy Vesey**

## Foreword

Energetics are specialist advisers to Australia's largest companies on energy management and climate change. When a business embarks on a journey to decarbonise and use energy more productively, they move through common stages. From awareness of risks, compliance with prevailing regulations, to proactively identifying new opportunities to lower emissions, we see the development of an energy and carbon program that aligns with the company's brand, risk management strategy and plans for growth.

Reducing emissions creates value for business with new levels of efficiency, improvements in productivity and reduced energy costs. All of which deliver competitive advantages.

As the world embraces a new international climate change agreement the questions for individual Australian businesses are, where do I stand on my climate change journey? Where do my competitors stand? What is my reply when investors start to question our management of climate

### Tony Cooper

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change related risks?

The Australian CEO Guide to Climate Action provides information and a framework from which to build your response.

Businesses that embrace the challenge and see the opportunities will innovate and new products, services and leaders will emerge.

Concerted efforts to stabilise the world's climate builds confidence in our future. For business there are only benefits, and greater surety from which to make plans to grow and prosper.

**Tony Cooper**

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## The impact of climate change on Australia

Australia, the driest inhabited continent, is subject to extreme weather events, fluctuating temperatures and rainfall. Climate change intensifies these conditions. Compared to 1911, the number of days over 35°C has increased between 20 – 40% resulting recently in the hottest decade on record. With rising temperatures and drier conditions Australia has experienced extended droughts, lower rainfall, more severe tropical cyclones and ferocious bushfires.

The frequency of extreme weather events is set to rise. Australia could face up to 10% more droughts by 2030.

Australian businesses need to understand the implications of climate change in order to address the challenges it presents and new business opportunities. This is especially important as Australia seeks to revitalise its economy following the end of the mining boom.



## Forces shaping Australia: now and into the future

### ***New demands on Australia's workforce***

Australia's population is ageing. As the so-called 'baby boomer' generation retires and exits the workforce, a skills shortage will be created. At the same time, the population is growing, primarily due to immigration which accounts for 56% of the growth: the highest amongst all OECD countries. This new workforce will need to drive Australia's economy to pay for the increased demands on health and aged care services.

### ***More for less***

Globally, demand for food is set to increase by 70% by 2050. While Australia is well suited to become a regional 'food bowl', its arable land will be subject to a changing climate and extreme weather events. Australia's Commonwealth Scientific and Industrial Research Organisation (CSIRO), estimates that around 12 million hectares of agricultural land is being lost each year as climate change deepens. Australian agriculture will need to adapt to climate change in order to seize the strategic 'food bowl' opportunity.

### ***Australia's changing energy mix***

Australia's current coal fired generation technology is reaching its end of life. The International Energy Agency (IEA) expects the world to shift to predominantly low carbon energy sources by 2040. Australia already has the largest number of roof top solar systems installed per resident. Further growth in renewable energy technologies, advancements in battery technologies and low carbon energy technologies will lead to decentralised energy solutions with lower upfront current capital requirements.

### ***The rise of China***

China, as Australia's largest trading partner consuming 34% of Australia's exports, is becoming a significant geo-political player. China's climate plan commits to a peak in emissions by 2030, an increase in the share of non-fossil fuels in its energy mix by approx 20% by 2030, and a reduction in carbon dioxide emissions per unit of GDP by 60 - 65% by 2030, from 2005 levels. China's policymakers are primarily driven by demands for cleaner air, yet they also see the economic benefits as a technology leader (solar PV, electric vehicles and batteries) in a low carbon global economy.

# Australia is changing in response

## ***Reshaping the economy***

While mining and minerals processing will continue to be a key export, global demand is returning to historical norms. As a result, national economic growth will need to be driven by new and emerging industries.

## ***Sustainable cities and transport***

Australia is one of the most urbanised countries in the world with nearly 90% of the population living in a city. As the population continues to grow, the way cities and their supporting infrastructure are designed and built, will be critical. A vibrant economy requires connected communities and sustainable transport solutions that are resilient to climate change.

## ***Leading LNG exporter by 2020***

Australia is an energy export powerhouse with large exports of LNG, coal and uranium. By 2020, Australia will be the world's largest LNG exporter surpassing Qatar.

## ***Feeding the region***

Agriculture production is responsible for 93% of food consumed domestically. Increased demand and climatic factors will place significant pressure on the agricultural sector. Food consumption and production is set to increase by 75% by 2050 with China accounting for 40% of Australia's food exports.

## ***Greater support for action on climate change***

In the annual Lowy Institute Poll, 70% of Australians aged 18-29 support significant commitments to reduce greenhouse gas emissions.



# Climate events and their impact on business

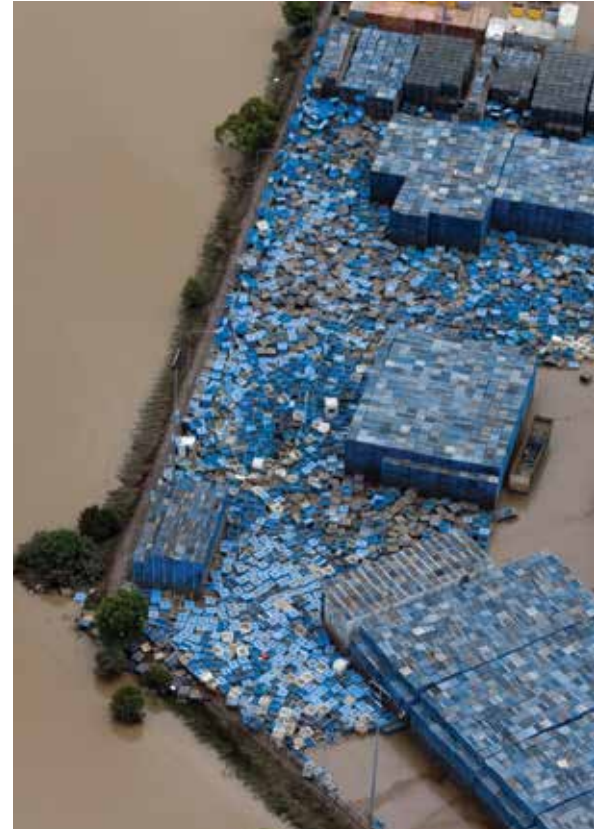
Climate change is already affecting Australian business.

The 2011 Queensland floods stopped mining operations across the state, resulting in a loss of AU\$5.7 billion for the mining industry. The same floods, exacerbated by a cyclone, also severely impacted the tourism industry with a total loss of AU\$590 million from cancelled trips and damage to the Great Barrier Reef.

The millennium drought caused agricultural production to decline from 2.9% of Australia's GDP to 2.4%.

In the future, agriculture will be directly affected by increasing variability in rainfall and temperature. The Climate Council has predicted that an annual loss of AU\$5.4 billion may occur from the increased frequency of droughts. Australia's mining, oil and gas industries face competition for water and energy, and an increased number of extreme weather events threaten operations.

Such events point to a shift in the risk profile of Australian business as climate change deepens. Mitigation and adaption solutions are available to business as they develop their strategic responses.



*Pallets scattered by flood water during the Brisbane flood of 2011. One of hundreds of businesses suffering loss after the Brisbane River broke its banks.*



## Meeting the needs of society

To avoid catastrophic climate change the people and businesses of the world need to limit average global temperatures to 2°C above pre-industrial levels by 2020. Australia must simultaneously:

- meet society's development requirements by ensuring adequate provision of basic needs
- undergo the necessary structural transformation to ensure that cumulative net emissions do not exceed one trillion tonnes of carbon
- become resilient to likely changes in climate.

*“To support the Commonwealth Government’s commitment to work towards the two degree goal, companies such as AGL need to take the lead”*

**Andrew Vesey, CEO, AGL.**



# Actions for your business

There are six steps business can take to manage climate change risks, identify new market opportunities and prepare for the shift to a low carbon economy.

- ① Base your actions on science
- ② Advocate efficient market mechanisms
- ③ Disclose carbon liabilities and be transparent about emissions reduction activities
- ④ Integrate climate response strategies into your core business
- ⑤ Join other leading businesses
- ⑥ Stay up to date on key developments

*“As a global business, we consider how best to mitigate and adapt to the effects of climate change in ways that will reduce societal impacts and maintain the supply of commodities.”*

**Andrew McKenzie, CEO, BHP Billiton: Chief Executive Officer's Review: 'Value through performance', Sustainability Report, 2014.**

*“Climate change must be tackled by a concerted campaign of community, science, government and business, acting in unison to ward off a very serious global threat.”*

**Harry Kenyon-Slaney, Chief Executive of Energy, Rio Tinto, The Australian, 2015.**

*“The Qantas Group believes climate change is a shared global challenge for governments, businesses and individuals, and we are committed to playing our part in the aviation industry's response.”*

**Alan Joyce, CEO, Qantas, “A strong, sustainable future”, Qantas Annual Review, 2015.**

# 1. Base your actions on science



## ***Climate Change Authority Reducing Australia's Greenhouse Gas Emissions Target and Progress Review Report 2014***

Australia faces major risks to the people, environment and economy from climate change. However, Australia will be able to benefit from strong global and local action.



## ***CSIRO and BOM 2015 Report Projections for Australia's NRM Regions***

Australia's average temperature has increased by 0.12°C per decade since 1951. Rainfall has increased in the north and decreased in the south. The natural resource sectors are susceptible to variability and long term changing of Australia's climate.



## ***Climate Works Pathways to Deep Decarbonisation in 2050: How Australia can prosper in a Low Carbon World***

To avoid the dangerous effects of climate change beyond an average 2°C warming limit, many countries are on the pathway to deep decarbonisation.



## ***Climate Council Lagging behind: Australia and the Global Response to Climate Change 2014 Report***

Global action is vital to protect Australia and the world from the serious consequences of climate change. As these consequences become clearer, more and more nations are accelerating their policy responses.

## 2. Advocate efficient market mechanisms

The Australian Government has committed to reducing greenhouse gas emissions by at least 26% below 2005 levels by 2030. The Government's Direct Action policy is the key mechanism to achieve this target. The centrepiece of Direct Action is the Emissions Reduction Fund (ERF) which commits AU\$5 billion to purchasing emissions abatement. A safeguard mechanism will be implemented to ensure abatement purchased through the ERF is not displaced by rising emissions elsewhere in the economy. This will increase demand for Australian Carbon Credit Units (ACCUs) generated from participating in the ERF.

The Renewable Energy Target (RET) drives investment into renewable energy. The objective of the RET is to ensure that at least 20% of Australia's electricity is produced by renewables by 2020.

The Government has also recognised that Australia's energy productivity trails that of other developed economies and announced a target to improve energy productivity by 40% by 2030.

In addition, different Australian states operate energy efficiency schemes that reward businesses for projects that achieve energy savings. The most established is a certificate scheme in New South Wales. Certificates created are purchased by electricity retailers in order to meet their own mandatory targets.

Business can play a role by advocating ambitious measures that are efficient, robust and certain, and engaging with government in the design of new policies and programs.



### 3. Disclose carbon liabilities and be transparent about emissions reduction activities

Investors are demanding greater transparency. The Montreal Pledge represents the latest move in what has been an ongoing push for investors to understand and manage their “financed emissions”. Signatories understand the emissions intensity of their chosen portfolios relative to turnover or market capitalisation. While in its early stages, the divestment movement is steadily growing in Australia as investors recognise the long-term risks of fossil fuel-based assets becoming stranded.

Activist shareholders have also been putting pressure on business. Shareholder resolutions at BP and Shell over 2015 resulted in commitments by these companies to increase transparency on their exposure to carbon related risk.

Many large energy-intensive Australian businesses have adopted a ‘shadow carbon price’ in their assessments of major capital projects. Taking this step ensures a resilient business approach to investor pressure and preparation for future carbon pricing.



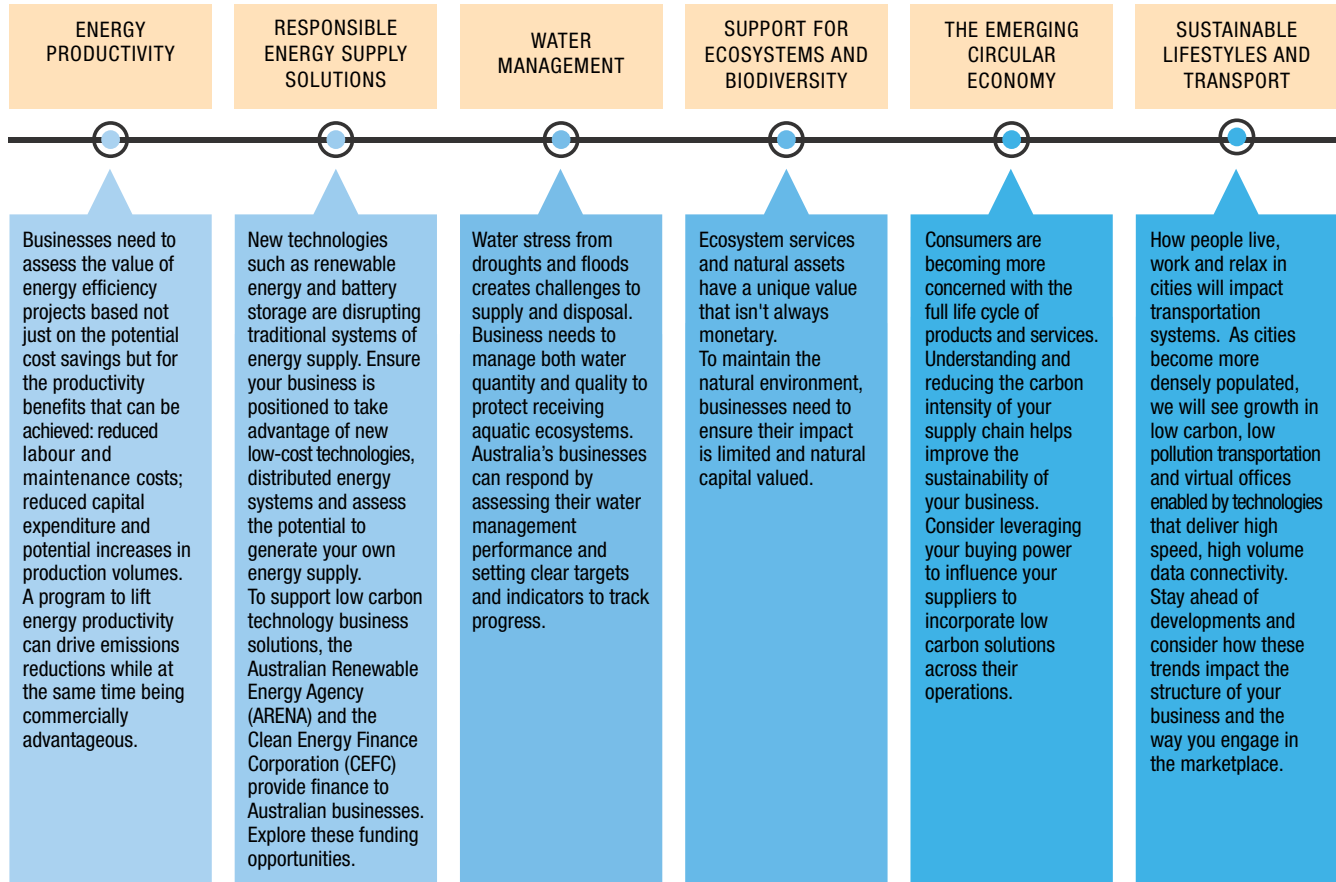
## 4. Integrate climate response strategies into your core business

An understanding of the risks and opportunities must be at the foundation of any strategy to successfully mitigate and adapt to climate change. Government policy and program responses to climate change, technological innovation, societal concerns and changing consumer preferences are shaping markets and directing investment.



Source - AGL

Business strategies need to drive:



## 5. Join other leading businesses

The World Business Council for Sustainable Development (WBCSD) is a network partner in the We Mean Business coalition which provides business and investors with a common platform for making commitments to climate change leadership. By outlining initiatives that can be pursued in a leading climate response strategy, the campaign demonstrates how business can grow and thrive in a low carbon economy.

Guidance on developing implementation plans for low carbon business solutions and technologies can be found in the WBCSD's Low Carbon Technology Partnerships initiative. Promoted through We Mean Business, the initiative offers a forum for private and public stakeholders to discuss ways to accelerate the development of low-carbon technologies and scale up the deployment of business solutions.

Assess the opportunities for your organisation in joining the We Mean Business coalition.



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Source - AGL



## 6. Stay up to date on major developments



*Sustainable Business Australia* represents a rapidly growing coalition of members who will be the backbone of the next era of wealth generation by providing commercial solutions to environmental challenges.

By investing time and resources in providing far-reaching policy recommendations, SBA advocates sustainable business strategies through research, and cross-sector collaboration. They are the World Business Council for Sustainable Development (WBCSD)'s Australian regional partner and a part of the Global Network.

SBA's vision is for an economy that thrives within an inclusive and cohesive society and a healthy, sustainable environment.



SBA acknowledges the contribution provided to the development of Australian CEO Guide to Climate Action, by carbon and energy management consultancy *Energetics*. Represented on the SBA Board, Energetics works with Australia's largest greenhouse emitters to achieve improvements in energy efficiency and business productivity; ensure robust data and transparency in reporting, and develop strategies for climate change risk management and unlocking new business opportunities in the growing low carbon economy.

A unique consultancy established for over 30 years, Energetics has offices in Sydney, Melbourne, Perth, Brisbane and Canberra.

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