

Wilderness Society

Submission on Climate-Related Financial Disclosures Exposure Draft

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About the Wilderness Society

The Wilderness Society (TWS) is an independent, community-based, not-for-profit environmental advocacy organisation. Our vision is to transform Australia into a society that protects, respects and connects with the natural world that sustains us. We are committed to protecting, promoting and restoring wilderness across the continent for the survival and ongoing evolution of life on Earth. From community activism to national campaigns, we seek to give nature a voice to support the life that supports us all. We are powered by more than 150,000 supporters from all walks of life.

Climate disclosure, Trust and the National Interest

The Wilderness Society supports the introduction of mandatory climate reporting legislation and calls for the Australian Government to signal that they will also introduce mandatory biodiversity reporting in the near future.

It is clearly in Australia's national interest that all nations collectively reduce their carbon emissions to levels that secure no more than a 1.5C rise in temperature. In fact, it goes beyond this. It is not just "in" the "national interest", it is "essential" to the "national interest".

It is important to note that the 1.5C level is set at a level at which the widespread climate impacts to natural systems are permanent and irreversible and are more likely to lead to additional cascading climate and biodiversity impacts. This does not mean that there is a guarantee that 1.5C is 'safe', nor that there are no substantive impacts below this level. We have already seen widespread ecosystem collapse in a number of Australian ecosystems at the current level of warming.

A world in which temperatures rise above this 1.5C threshold is a world where Australia loses swathes of biodiversity elements that are what make Australia unique. It is also where Australia suffers extensive, high-intensity and high-frequency catastrophic events that fundamentally alter the Australian way-of-life. There can be no sensible argument that it is not in Australia's national interest that global heating is kept below 1.5C.

Therefore it follows that Australia should seek to use all and any lever it has available to support the world achieving this. This can include through diplomacy and international relations, investment, trade, as well as through activities within a domestic context. However, it is through the domestic context that Australia gains its credibility, expertise and power to influence global outcomes. Without a credible domestic approach, Australia cannot use its international levers to achieve the outcome that is fundamentally essential to our national interest, a 1.5C increase or less world.

The relevance of this discussion of national interest to climate disclosure, is that the economic reliance on fossil fuel interests by a nation reduces its capacity to seek a fossil-free future. Transitions do not happen in a vacuum. There are economic interests who seek to protect their (paper) assets and their business model and will openly and covertly seek to influence the government and community response to climate change.

The presence of a fossil fuel industry within Australia and fossil fuel-dependent emissions-intensive industries hinders the ability of Australia as a nation, through its governments and community, to transition. It is a zero sum game where the interests of the largely globalised fossil fuels interests and the interests of Australia and the Australian people are exclusively misaligned.

Effective climate disclosure allows the public - whether as voters, owners of companies, holders of superannuation funds or just as someone affected by climate change - to understand the disjunct between the protection of theirs and the national interest and the actions of fossil fuel and fossil fuel dependent industries. It is also a policy tool for the government to assess industry progress towards emissions reduction goals. There is scope for climate disclosure to be more widely used across all elements of government's economic policy including in foreign ownership decisions, procurement, trade support, industry policy and competition policy.

The connection between the loss of public trust in government and Australia's climate policy record runs straight through the role the fossil fuel interests have played through their "delay and disrupt" tactics in the political arena.

Climate disclosure, along with reforms such as establishing a national integrity commission and an independent Environmental Protection Agency are key measures to restore trust to the Australian polity.

Greenwashing is not just the gap between claims of a company and their performance, it is a trust gap in the corporate world and a trust gap in politics in general through the failure of the regulators to deal with it. Right now it is too easy for companies to obscure their performance and their plans in regards to climate change.

While disclosure is important, it is not sufficient on its own to drive change. Much change in the climate risk space has come from Environmental NGOs working with a small set of activist investors plus some progressive investor groups to expose greenwashing and highlight the relative performance of different companies. A nation should not be depending on this haphazard approach to deliver outcomes essential to the national interest. It is a dereliction of the most fundamental duty of a government that has had to come to this, outsourcing a national outcome to a narrow subset of the private sector and environmental groups to drive the change a nation needs.

Deforestation should form an element of climate reporting

Deforestation and forest degradation are a major contributor to Australians emissions profile and should form part of the mandatory climate reporting, as well as being incorporated into the EPBC Act reform.

It particularly should be part of the scope three reporting for supply chains (food, agriculture) and for financed emissions of banks. This should be supported by an improvement to Australia's data collection and reporting framework for land clearing and forest degradation where the Commonwealth should adopt the satellite analysis approach of the Queensland Government's Statewide Landcover and Trees Study to create a more comprehensive, timely and scaled understanding of vegetation loss and gains.

The Wilderness Society recommends that the Commonwealth government Establish a comprehensive national monitoring and mapping system for deforestation and conversion based on Queensland's robust Statewide Landcover and Tree Study (SLATS) and Early Detection System (EDS), with these used to undertake compliance and measure effectiveness of the Nature positive law reform package. In order to comprehensively map Matters of National Environmental Significance (MNES) distribution and habitat to include probability of occurrence and necessity for recovery of species will also greatly enhance climate related financial disclosure, law reform, and ensure that the data is comprehensive and fit-for-purpose.

The Wilderness Society welcomes the inclusion of scope 3 emissions within the disclosure standards, as these will include reporting of land use and land cover change (i.e. deforestation and forest degradation). However, the urgency of the climate and nature crises imply that the requirements are equally urgent - therefore, they would be more effective before 2027. Scope 3 disclosures should also be as detailed as possible to reflect where a company's emissions reduction efforts need to be directed.

Biodiversity risk needs to immediately follow in climate disclosure footsteps

The Wilderness Society welcomes the Government's intent to create requirements for disclosure of climate-related financial risks in Australia. The requirements should have the objective of recognising the impacts of climate-related risks and incentivising investment in solutions.

While climate has been an important focus for corporations and financial institutions, economic systems must address the twin crises of climate change and biodiversity loss. Therefore, the Wilderness Society would support an extended focus on biodiversity risks as well as climate. **This legislation should include a mandatory review which would consider the extension of the requirements to biodiversity-related financial disclosures within two years of the entry into force of the climate-related financial disclosures requirements.**

Any climate and biodiversity disclosure framework, in order to be credible, should require corporate entities to publicly report on their actual impacts on climate and biodiversity, as well as on human rights, to disclose complaints and grievances they might have received, and transparently communicate on their lobbying activities on climate and biodiversity issues¹.

The process of creating disclosure regimes must involve a balanced list of stakeholders, including an important role for civil society organisations to limit the risk of such regimes facilitating greenwashing.

Treasury should consider how decommissioning and rehabilitation liabilities interact with climate disclosure

We understand that the Treasury, like the Wilderness Society, is concerned that too many entities are failing to adequately provision for, or carry out their remediation, rehabilitation or decommissioning obligations. This relates to mining, energy and onshore/offshore oil and gas.

Any unfunded or incomplete liabilities in this area create a risk for both the taxpayer and for the environment. The current accounting standards for provisioning work to obscure these external risks in favour of keeping assumptions unpublished and internal. There is around \$60 billion in offshore oil and gas decommissioning liabilities along with an as-yet-undetermined figure for coal-fired power plants, mines and onshore gas. It is likely that the total figure is well over \$100 billion. Yet the provisioning in the books of these companies is well below this.

¹ For more information see the Joint Open Letter to the TNFD signed by the Wilderness Society and dozens of other civil society organisations: [Joint Open Letter to the TNFD | Forests & Finance](#)

Where this becomes important for climate disclosure is that if, for reasons of climate change action, an oilfield or coal-fired power plant or LNG facility is closed early, the decommissioning is brought forward and because of the way it is currently accounted for with discount rates, there will not be sufficient funds provisioned for to carry out the decommissioning.

All climate transition plans therefore need to have explicit assumptions around decommissioning.

The legislation should cover all corporate entities and focus on specific fossil-fuel intensive industries

Disclosure requirements should be made mandatory for all corporate entities, as limiting the scope would risk resulting in loopholes - entities that are “small enough” wouldn’t be incentivised to disclose their climate and/or biodiversity risk, even though they might have impacts. Smaller entities are in fact arguably more vulnerable to the risks of climate change and biodiversity loss. The urgency of climate change and biodiversity loss justify urgent action - these disclosures should apply to all corporate entities. Additional guidance and support could be planned for smaller, less equipped entities, to help them navigate the new requirements.

All fossil fuel interests of any size and any emissions intensive fossil-fuel reliant companies should be immediately covered. Likewise, banks regarding financed land use emissions and food/agricultural entities regarding scope three supply chain issues should also be covered. State-owned forestry entities likewise should be covered.

It is important that companies cannot game the system through shell companies and joint ownership so that they fall under thresholds for reporting. Ownership in the fossil fuel industry has historically been convoluted and opaque and therefore **all fossil fuel companies should have to report the full suite of data regardless of size.**

Specific attention should be given to those companies involved in expansionary phases of fossil fuel development and those who have large decommissioning liabilities.

Fossil fuel mining companies should be providing transparent information about what they are spending each year on fossil fuel exploration and exploitation versus other sustainable energy sources. They should be reporting on the total potential emissions of their fossil fuel reserves and on their new exploration discoveries.

Importance of a reliable and transparent disclosure system

Transparency and accountability are key in these climate and/or biodiversity-related financial disclosures. Disclosures should be publicly accessible as a requirement.

The framework should make it easy for the public to understand the climate performance of companies operating within Australia and seek to develop ways to publicise those companies who are adequately transitioning and those who are not.

The reporting should be able to be rolled up into multiple scale data sets so the public, investors and the government can make decisions about those companies and facilities that are aligned with our national interest, and therefore how to deal with those who aren't.

Climate and biodiversity-related financial disclosures should be:

- **Comparable.** Information is more useful when it can be compared with similar information about another entity or with similar information about the same entity from a different time period. Consistency in formatting reports and what information is included will help with their comparability.
- **Specific** to the company in question. Standardising across the board doesn't account for the fact that some industries are more risk prone than others.
- **Decision useful.** Stating that the information in the financial statements can be used to make qualified and educated opinions with respect to the company.

It is important that any offsets need to be distinctly reported alongside any scope 1, 2, 3 emissions so the public and the government can understand what is a genuine transition and what is a stopgap measure. Offsets should clearly be delineated and the approach, location of the offset, methodology and the years of expected abatement should be made transparent. Also, offsets should only be allowed to be used as a very last resort, and not in common practice.

The requirements need to address a broad range of climate related financial risks, namely:

- a) **Credit risk** – through a potential increase in defaults on loans by businesses and households that may be affected by adverse climate events, as well as the potential for assets used as collateral to decline in value; Indeed, there is a risk that companies will be left with **stranded assets**. Indeed, a large part of fossil fuel reserves cannot be burned if the 2°C target is to be attained. The value of fossil fuel assets could plummet as a result of regulatory change, with the potential to cause a major economic crisis².
- b) **Market risk** – through the impact of potential re-pricing of financial instruments and corporate debt affecting the value of securities held on an institution's balance sheet;
- c) **Operational risk** – including the risk of supply chain disruption and forced facility closures as well as making areas used for commodity production even more susceptible to damages from increasing extreme weather events. This can then lead to volatility of costs resulting in financial instability.

² [Half world's fossil fuel assets could become worthless by 2036 in net zero transition | Environment | The Guardian](#)

- d) **Underwriting risk** - through a potential increase in insured losses as a result of more frequent and/or extreme weather events;
- e) **Liquidity risk** - through an increased demand for liquidity to respond to extreme weather events or the difficulties that may be faced in liquidating assets negatively impacted by climate risks;
- f) **Reputational risk** - including an institution's ability to attract and retain customers and employees due to changing employee and community expectations. There are **brand equity risks** affecting businesses engaging in, or connected with, activities that some stakeholders consider to be inconsistent with addressing climate change and biodiversity loss;
- g) **Physical risk** - damage to land, buildings, stock or infrastructure owing to physical effects of climate-related factors, such as heat waves, drought, rising sea levels, ocean acidification, storms or flooding. Effects are exacerbated by continual damage to biodiversity. Warming caused by greenhouse gases could damage livability and workability—for example, through a higher probability of lethal heat waves. Climate change will undermine food systems, physical assets, infrastructure, and cause irreparable damage to natural habitats.
- h) **Secondary risk** - flow-on effects of physical risks, such as falling crop yields, resource shortages, supply chain disruption, as well as migration, political instability or conflict;
- i) **Policy/Regulatory risk** - financial impairment arising from local, national or international policy responses to climate change, such as carbon pricing or levies, emission caps or subsidy withdrawal;
- j) **Liability risk** - financial liabilities including insurance claims and legal damages, arising under the law of contract, tort or negligence because of other climate-related risks. Stakeholder litigation, regulatory enforcement for not considering or responding to the impacts of climate change, biodiversity degradation and the impacts of business disruptions also lead to considerable financial loss.
- k) **Transitional risk** - financial losses arising from disorderly or volatile adjustments to the value of listed and unlisted securities, assets and liabilities in response to other climate and biodiversity related risks. Transitional risk is a broad term that can be seen as an umbrella definition that encapsulates all the financial risks associated with a changing climate.

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