Emissions retreat 'would sideline us'

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Body

The Coalition's proposed roll-back of mandatory emissions reporting "risks sidelining" Australia as other markets push towards greater corporate accountability, and flies in the face of already extensive consultation on the new laws.

That's the view of Gilbert + Tobin's head of climate change and sustainability Ilona Millar, who doesn't agree with opposition Treasury spokesman Angus Taylor's plan to unpick sections of the new disclosure regime, which came into force for large companies on January 1.

"Proposals to revisit the recently introduced mandatory requirements for sustainability reporting are disappointing given the extensive consultation undertaken by the government and ASIC (Australian Securities & Investments Commission) on these reforms and the broad support from the business community during that process," Ms Millar said.

"Repealing emissions reporting could undermine our momentum in keeping up with global best practices and risks sidelining Australia in the international drive toward greater corporate climate accountability. While some businesses may welcome regulatory relief, others see value in aligning with global standards to remain competitive internationally." The transition to cleaner energy and related policy is set to be a key issue during this year's federal election campaign, with a poll due to be held by May 17.

Mr Taylor told The Australian the new climate disclosure legislation would have damaging unintended consequences for smaller businesses and farmers.

"The laws in total have overreached and they need to be unwound," he said. "That's not to say we don't believe there shouldn't be any disclosure ... we put in place a voluntary disclosure regime.

"There are pieces of this (new regime) that just in any form are unacceptable. What remains (if the Coalition wins power at the election) will be something that we will work our way through ... we'll certainly have as the heart of it what we ourselves put in place a number of years ago." For the largest companies caught in the first phase of the legislation, mandatory disclosure is required for the first financial year that commences after January 2025.

The next tier of companies must begin reporting their emissions from the first financial year that starts after July 2026. Analysis by law firm MinterEllison has estimated that more than 6000 Australian entities will be reporting on climate by 2030, under the new regime.

Part of Mr Taylor's concern with the legislation is that mandatory disclosure of scope three emissions will be included for large companies from next year. Scope three emissions are indirect emissions that stem from a company's suppliers, customers, transport, financing and even employees commuting.

"There is nothing in this legislation that would avoid a result whereby a bank says to their farmer customer or tradie customer or manufacturing customer, you will have to pay more for your loan ... unless you are prepared to adopt draconian emission reduction targets," Mr Taylor said. "The farmer no doubt will have to calculate the flatulence of their cattle and sheep, and they will have to report that to all of their financiers." Other markets such as the US and Japan have not included scope three emissions in their mandatory frameworks, while attention is also shifting to whether incoming US president Donald Trump may repeal some aspects of the regime there. Canadian authorities last year gave companies a three-year reprieve on scope three reporting.

The European Union and New Zealand are ahead of Australia on the implementation of mandatory emissions reporting.

Gilbert + Tobin's Ms Millar said there were "various nuances" -between the regimes in each -jurisdiction.

"Australia has implemented a very robust regime closely aligned with the ISSB (International Sustainability Standards Board) IFRS S2 and based on a financial materiality threshold; however, the regime does not extend to the full scope of sustainability-related risks and opportunities that are being implemented in places such as Europe, nor does it require assessment of risk against double materiality standards," she added.

MinterEllison's assessment of NZ's emissions disclosure regime conducted last year cautioned that mandatory climate requirements should not lead to watered down targets.

"Without a thoughtful approach and regulatory backing, the unintended consequence of mandatory reporting may be a reduction in ambition," the firm's analysis said.

"The timing of Air New Zealand's walk-back (of emissions targets) has triggered concerns that the additional analysis and scrutiny required by mandatory reporting could lead to other companies doing the same, in effect leading to a reduction in corporate emissions ambition." Clayton Howes, chief executive of ASX-listed digital lender ***MONEYME***, said the company's environmental, social and governance focus had aided it on a number of fronts, including when it tapped investors in securitisation markets.

"Recent news of the plan to scrap emissions reporting risks putting Australia behind global peers who are progressing towards greater climate accountability," he added.

"For businesses who are early in their ESG journey, these standards may require significant investment to ensure compliance.

"However, the introduction of mandatory climate-related disclosures also presents opportunities. ***MONEYME***'s ESG focus has helped us gain traction with international investors, particularly in Europe, where expectations around sustainability are more advanced.

"A recent example was our $517.5m auto ABS (asset-backed security) deal, where our financed emissions reporting was a key factor for international investors' participation." Mr Howes noted, though, that while the standards made it easier to assess a company's climate-related risks and opportunities, he believed there was still more work to be done in making disclosures "meaningful to retail investors and consumers". "In the long run, we believe demand for more sustainable products and services will increase, shaping the future of business. Rolling back emissions reporting risks undermining this momentum, and Australian businesses may face greater challenges aligning with international standards and investor expectations," he said.

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