

## Climate change and its impact on Australian businesses

The topic of climate change has been gaining momentum over the past few years, and in late 2007 was attracting a great deal of attention in Australia as key political parties jostled for votes.

In late 2007 and early 2008 Inside Story interviewed Australia's senior business journalists to understand their perceptions of how businesses were tackling the issue and the expectations placed on the new government to help guide corporate Australia in the future.

### Why are businesses getting involved?

The ever increasing pressure to make changes is coming from a number of sources and impacting all companies, not just those listed on the stock exchange.

Some believe the Al Gore documentary An Inconvenient Truth was the catalyst which raised awareness among many audiences – in particular the general public:

*"There's a community and peer pressure that is coming about at the moment that's forcing these things to change; it's a groundswell that's shifting through companies."*

Sources of pressure are felt to include:

- The general community – including current and prospective customers and potential employees
- Shareholders – pressurising during AGMs
- Industry associations – setting up guidelines for members – eg the Business Council of Australia and Advertising Federation of Australia:

*"...in order to be accredited you have to be able to prove that you're committed and taking certain steps towards carbon neutrality."*

### At a glance summary

- Climate change impacting every business
- Pressure coming from all stakeholders
- Majority of businesses are modifying their business practices in some way – some more than others
- Government expected to bring leadership and guidance to the issue as well as regulation
- Further investments from businesses expected in the future – innovation and R&D

- Analysts, stockbrokers and investment banks – examining companies' actions:

*"There's a number of stockbroking firms and investment banks now that have climate change analysts and the companies are being examined on what they are doing about climate change."*

- The workforce – employee pressure
- Government

There is some feeling that those companies which become more involved straight away will achieve a competitive advantage over those slower to respond as well as earning brownie points with government:

*"Simply by being in there first and having those controls put in and getting your climate change output under control, obviously going forward you're going to get a big jump over the competition who are then going to be struggling to catch up."*

*"...I think the ethical standards have been raised over the last couple of decades or so...I think they do like to try and do the right thing."*

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*"...That will give them benefits from a regulatory front when they're dealing with government; that gives them kudos with the government."*

The more cynical journalists believe some actions are no more than a response to what is seen as a fashionable topic, companies wishing to improve their reputation:

*"...Just for their reputation...to be perceived as being a responsible business. I mean I guess it fits in the same mould as businesses that are quite public in the way they donate money to charities and to causes and this will go hand-in-hand with that."*

*"Because they want to win more customers...if they're seen as being a good socially responsible company more people are likely to turn to them for business rather than someone who's got a bad reputation."*

*"I think they want a better corporate reputation and I think there's probably some ethical kind of considerations to take on board as well and companies are wanting to be sensitive to those kind of issues as well."*

### What is the impact on business?

Climate change is impacting businesses in many ways, categorised by journalists into three areas; increased costs, savings and opportunities.

Costs can take many forms, with those highlighted including:

- Promoting environmentally sound practices – including the production of annual report sections, press releases, advertising campaigns, internal communications to employees
- Changing energy sources – with renewable sources commonly more expensive

- Upgrading and modernising equipment – everything from fleet cars and photocopiers which print double sided, to manufacturing plants which utilise less water and energy

Many of the costs are thought to ultimately become savings as businesses become more energy efficient with less wasteful practices.

The opportunists are those developing new technologies and approaches which have less impact on the environment and make use of power sources with a lower environmental impact. Others are developing carbon trading schemes:

*"People are now saying that carbon credits and the entire climate change industry is going to become the largest industry in the world worth many, many trillions of dollars, so it's not something business can ignore."*

Some businesses are thought to be impacted in more direct ways than others. One such industry is insurance, with increased pay outs as a result of progressively more severe storms associated with climate change.

The Insurance Council of Australia is believed to have been actively working to lobby on climate change mitigation and adaptation initiatives for a number of years now.

A number of journalists also point to the impact in terms of keeping and attracting employees, with Generation Y in particular asking the hard questions in interviews about what companies are doing to reduce their carbon footprints:

*"It's very quickly become good sense to have a policy on this...they expect to work for companies that they feel are doing some good in the world or [are] a force for the positive."*

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*"Business leaders tell me that one of the questions that particularly young people ask them if they're looking to join a company is what the company's record is on environmental issues."*

*"With the skill shortage, you can't afford to be ignoring that; you have to be able to offer your staff and incoming staff a company that they feel they'll be proud to work for."*

### What are businesses doing?

Generally it is felt the top 100 companies are those which have the financial capacity to make a major difference and as such tend to be leading:

*"... they're becoming an integral part of their business. Ten years ago every board meeting would start with what's happening about health and occupation, now it's what's happening with greenhouse."*

Many journalists believe there has been a change in recent months with some companies making a more serious contribution – moving from what journalists see as token efforts to more concrete and financial contributions:

*"I think in all of this there's a sense amongst directors, amongst company owners that there's a duty to take an interest in the greenhouse footprint."*

*"I think you're probably seeing more genuine commitment and people throwing themselves into it a bit more wholeheartedly..."*

Smaller businesses are felt to be slower to make changes, with cost representing the primary barrier. The majority are felt to be making some contribution:

*"You've got the small firms which are doing things like supplying push-bikes for staff who can reasonably ride into work. There's a vast array of people throughout our country and other countries who are making small measures."*

***"...companies can't just go through and ignore these issues anymore, it's expected of them from their shareholder base, from the wider community, that they embrace changes in this area."***

*Woolworths is highlighted for its policies which not only refer to its own business but also extend to suppliers:*

*"...They've said they expect all of their partners and suppliers to behave in a responsible way, and of course that suddenly makes all sorts of people...address their own issues. It's that thing of if you're going to lose money then it really focuses the mind... the main message was you'll have to do the things people talk about in terms of being carbon neutral..."*

*Aluminium producer, Alcoa, is believed to have made substantial investments into reducing its carbon output, with some success.*

*The world's airlines are thought to be among the highest contributors to greenhouse gases and hence climate change:*

*"So airlines are trying to counter this off by buying newer planes that use less fuel and looking at whether they should enter carbon emission schemes and they're giving passengers the option of buying carbon credit off-sets."*

*Qantas and Jetstar are named for setting up a fund for passengers to contribute to offset their carbon.*

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Australia's banking industry is also identified as working to make reductions:

*"Groups like ANZ Bank, I think a number of the banks actually have said they'll be carbon neutral by whatever it is, 2009, 2012."*

*"Certainly Westpac seems to win the reputation gauge awards...and these days they're audited I think by Ernst & Young, so companies just can't put up a policy, they actually have to be physically measured as to whether or not they're worth anything."*

BHP Billiton is frequently nominated as one organisation which has taken steps towards improving its carbon footprint:

*"Some of the big resource companies like BHP and Rio, that they've recognised the need to be part of the solution rather than the issue of global warming..."*

Some journalists, however, feel many companies are not committing enough to the long term solution and that efforts are somewhat tokenistic:

*"BHP Billiton...they've committed a tiny amount of money compared to their overall earnings to their green policy...some people might say that the big companies are showing leadership but compared to the overall earnings it is a token commitment."*

*"I think companies like to talk about what they're doing but maybe the activities themselves aren't entirely that groundbreaking."*

A number of businesses are having to look closely at their business mix in a bid to determine what they invest in, or are associated with, in order to remain aligned with company policies in this area:

*"...It is quite a rocky road. If you stake yourself as being someone who shows a commitment to the environment, sooner or later you are going to be coming towards a crossroads where that intersects with what you're in business for, and that's making money."*

***"... I don't think you'll get many small businesses who would want to do it if they weren't required by regulation or if there wasn't cost advantage.."***

### What is needed from government?

While it is considered important for businesses to be in control of their own changes, the role of government is deemed essential.

There is an expectation all companies need some leadership and guidance in order to ensure a consistent approach:

*"It's been the companies...that have been leading the way but they're weaving their way through a very murky path. They're not quite sure where the regulation is going to be or what controls are going to be in place; they need very clear direction from government about what they're going to be dealing with and they can adapt for what the future is going to hold but without knowing it's very hard for them."*

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Journalists believe the role of government is to remain an independent judge in this situation – listening to and working closely with business to help develop informed guidelines which are ultimately workable:

*"Leadership is the key thing. Balance, that the debate doesn't get skewed too much in one direction, particularly for what impact that will have on the costs for business but also employment...dialogue as well, to be listening to business rather than making policies in an isolated vacuum or policies which are driven by interest groups."*

*"If someone has to police this and take the initiative it's got to be government...it's got to be done in consultation with business..."*

Guidance for business is thought to present itself in a number of forms:

- Helping businesses realise what they can do to reduce their impact on the environment
- Helping to set targets for reducing carbon footprints

*"I think at this stage some of the most important things [are] to develop a road map of what those longer term targets are, what the milestones are, on how they get there."*

Government is believed to wield both the carrot and the stick when it comes to climate change, with the potential to introduce:

- Fines and penalties for polluters – for example carbon taxes
- Incentives – for businesses to invest in changes to practices

*"Sometimes business needs the right incentives to do it, and that can be in tax breaks...The right tax breaks can help push business into doing this."*

*"...A lot more to encourage the research and development of the technologies that are going to help us reduce greenhouse gas emissions and improve things like water usage and weather monitoring and adaption..."*

There is felt to be great uncertainty surrounding carbon trading and the setting of business emission targets. It is deemed one of the primary needs from government to aid businesses with their long term planning:

*"I think there's an expectation that there will be a carbon trading system with the cost of emissions charged to companies in some form...it's very difficult for them to plan 5, 10, 15 years ahead when they don't know what, if any, costs are going to be involved in that."*

Ultimately journalists believe a global trading system is needed, however it is thought Australia should take a leadership position and begin carbon trading immediately:

*"I think the most important thing for Australia is to get a carbon trading system up and running as soon as possible and not to wait for international developments; I think Australia should lead the way on that since we've got a real opportunity to develop the technology to try and cope with it."*

Journalists are awaiting the results of the Garnaut Climate Change Review, drafts of which are due to be released throughout 2008. Once the full results have been released it is expected the government will set guidelines and targets.

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### What is the role of regulation?

Journalists have noticed an increasing number of businesses trading on their environmental credentials as a point of difference and believe it will be important for government regulators to be able to assess the reliability of statements:

*"...I think that there probably is a little bit of cynicism creeping into some of these claims..."*

*"The ACCC is starting to take a bit of an interest in whether or not carbon off-set schemes are actually meaningful or worth anything...I think we're going to be seeing a bit of a crackdown on that and companies having to verify how they actually are delivering a result to the environment through these claims."*

Journalists are also starting to ask questions about other areas such as the management of carbon offsets – also felt to require monitoring:

*"...if ANZ is simply planting trees, how are those trees being managed? Are they affecting the water table where they're being planted? What happens if there's a forest fire? Those trees, the carbon will be released. So do you need insurance on those trees and who is going to take responsibility for those carbon credits that are released if there is a fire? There's a whole bunch of issues to be worked out but it is good to see them making efforts."*

*"... what they want is to know what the goalpost is going to be, they need to know where they're heading, have a clear path."*

### What can we expect in the future?

Journalists anticipate Australian businesses will continue their investment in reducing environmental impact, with a range of related schemes. These may include:

- More initiatives such as tree planting to reduce carbon footprints
- Increased engagement with key stakeholders – understanding perceptions and expectations on climate change
- Increased communication about specific activities undertaken to tackle the cause – building reputations
- Setting senior executives' pay and/or bonus targets based upon achieving climate change goals:

*"... tying of the remuneration schemes to achieving outcomes in these areas... one that comes to mind is Boral, I think their chief executive has certainly for his short term bonuses, benchmarks which have this factor in them."*

- Much more research and development into more environmentally sound technologies and practices
- More innovation:

*"Billabong making swimming shorts out of recycled drink bottles,...they're making a virtue that they've ...made a fabric out of it and they make them into board shorts. So they're promoting eco-friendly products."*
- Decisions surrounding Australia's energy mix – for example the contributions from solar, nuclear and wind

# INSIDE REPUTATION BULLETIN



## Climate change and its impact on Australian businesses

→ Carbon trading through the ASX:

*"The carbon trading scheme will come into place in 2012 but I expect that that will also then be expanded into a regional carbon credit system which you can trade through the Australian Stock Exchange"*

All companies, regardless of size, are expected to begin to take some action in the future – taking small steps towards reducing their impact on the climate and environment:

*"...All of those steps that we as individuals are told we should take we'll see increasingly companies doing the same."*

### About the Inside Story

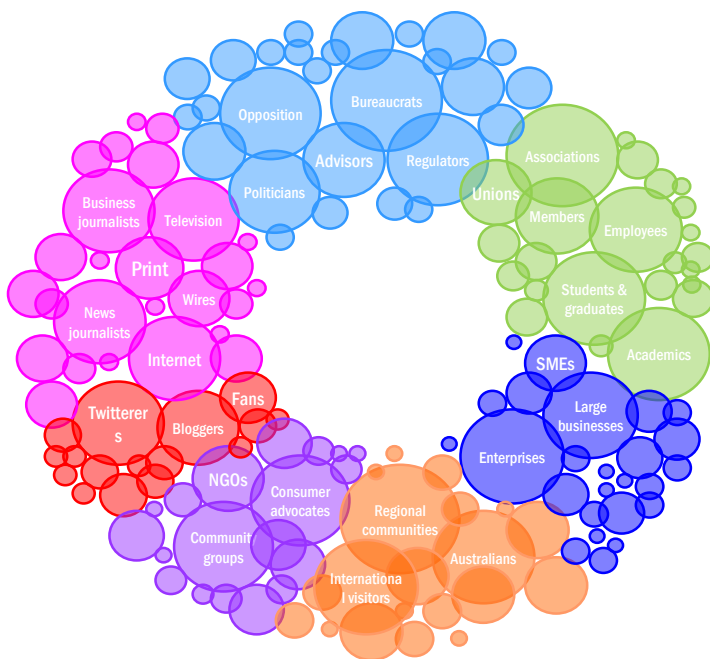
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In addition, we have spoken to many other stakeholder groups for our clients, including government, business influencers, financial analysts, key bloggers and of course the general public.

If you are interested in hearing more about our studies, would like to brief us on your research needs or just want a chat, please get in touch!

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