
Companies as good environmental performers – is climate change the driver?

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Previous arguments

- CAMAC – lost opportunity
 - Climate change would change behaviour
 - Potential of ASX Governing Council's Principles of Good Corporate Governance
 - Crucial role of Board
 - Need to get environmental issues into decision-making processes
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Changes since 2007

- New Australian government
 - CPRS
 - NGERA
 - Building Energy Efficiency Bill (Cth)
 - Global financial crisis
 - Impact on SRI's
 - Carbon Disclosure Project
 - Increase in climate change litigation
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CAMAC conclusions

- A recognition of the importance of corporate responsibility;
 - Amendments to directors' duties were not necessary as the current common law and statutory requirements were sufficiently flexible to enable directors to take stakeholder interests into account in their decision-making;
 - Where legal protection for social and environmental interests are needed, this should be done through specific legislation directed to the problem area;
 - Rejection of the UK approach in its new *Companies Act 2006*
 - Reporting under s299A *Corporations Act 2001* should be extended beyond public companies;
 - Mandatory reporting on social and environmental reporting would result in a 'tick the box' culture, which should be avoided. Instead there could be changes to the ASX Listing Rules and ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations*;
 - Government could encourage progress in this area by means such as encouraging cooperation in the formulation of codes and guidelines by the corporate sector.
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ASX governance rules

- Pr 7: Second Edition ASX Corporate Governing Council Corporate Governance Principles and Recommendations (2007) commencing entities first financial year on or after 1 January 2008 Companies should establish a sound system of risk oversight and management and internal control.
 - Recommendation 7.1: Establish policies addressing the management of material risks and disclose a summary of those policies.
 - Recommendation 7.2: Board to require management to design and implement this management system and report as to whether the risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.
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Material risks

- What are material business risks?
 - Financial and non-financial risk
 - Include but are not limited to: operational, environmental, sustainability, compliance, strategic, ethical conduct, reputation of brand, etc
 - Sustainability and corporate social responsibility
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Opportunities from climate change

Banks	Financing of infrastructure developments and investment in clean technology. Emission trading.
Telecommunication	Promoting products with low carbon intensity eg video-conferencing, electronic distribution of documents.
Real estate	New market for sustainable housing and offices.
Utilities	Renewable/ clean energy opportunities.
Agriculture	Innovation in weather resistant plants and animal breeding
Transport	Efficient design, alternative fuels such as bio-fuels.
Construction and engineering	Innovations to reduce the carbon intensity of industrial processes and develop less carbon-intensive products.
Insurance	Develop weather-related insurance products.
Materials	Product and process innovation.
Energy	Renewable energy and carbon sequestration.

Stakeholders

- Investor group on climate change
 - Core responsible investment vs broad responsible investment
 - Climate change mutual funds
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Amount of money invested in RI funds

	Amount in RI funds	% total funds under management	Year
Aust	\$4.5b	0.7%	2004
	\$14b	1.64%	2009
Canada	\$65.46b	3.6%	2004
	\$555b	20%	2008
US	\$2.29 trillion	9.4%	2005
	\$2.71 trillion	11%	2007
Europe	\$1.033 trillion	10-15%	2005
	\$2.6 trillion	17.6%	2007

Continuous disclosure and shareholder activism

- s674 – ASX Listing Rule 3.1
 - Immediate reporting of information that a reasonable person would expect to have a material effect on the price or value of the entity's securities
 - Shareholder activism
 - s249D: 100 shareholders or 5% of voting members – extraordinary general meeting
 - No shareholder resolutions for 4 years ending June 2009
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Disclosure – voluntary and mandatory

- National Greenhouse and Energy Reporting Act 2007
 - Building Energy Efficiency Bill (Cth)
 - Global Framework for Climate Risk Disclosure
 - a statement of investor expectations for comprehensive corporate disclosure
 - Guidelines for use
 - Carbon disclosure project
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Carbon disclosure project 2009

- 73% response – ASX100
 - Acceptance of disclosure
 - Lack of investment plans to mitigate their exposure
 - Identified opportunities
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Conclusion

- Greatly changed environment
 - New government
 - Ratified Kyoto
 - No changes to Corporations Act
 - Is mainstreaming into corporate behaviour
 - ASX governance guidelines
 - Mandatory and voluntary reporting
 - Risk and opportunities are driving investors
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