

# Carbon Disclosure and Australasian Banks

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The message from scientists who are at the cutting edge of research into climate change is that the world is facing an unavoidable 3-4°C warming of the Earth, with dire consequences for future generations. A major contributor to this is the increase in CO<sub>2</sub> into the atmosphere. If we are to lessen this impact, we need to change our investment habits and choices to companies that have low carbon footprints. Banks have an important role to play through their lending. How are Australasian banks doing? This article discusses a number of initiatives and reports that describe the carbon impact of companies, including banks.

## Carbon Disclosure Project

The need to move to a low carbon economy was recognised by a group of 35 institutional investors made up of insurance companies, SRI Funds, banks, pension and religious investors (representing assets in excess of US\$4.5 trillion) when they formed the Carbon Disclosure Project (CDP) in 2000 in the UK. With financial support that included the UK Government, the CDP wrote to the Chairperson of the FT500 Global Index companies, asking the companies to identify the business implications of their exposure to climate-related risks, and explain what they were doing to address these risks. Of the 500 companies contacted, 221 (44%) completed the questionnaire, 39 (8%) referred CDP to other corporate literature or responded with a short letter, 76 (15%) declined to respond and 145 (29%) did not reply.

In the 10 years since the launch of the CDP, the quality and quantity of reporting on climate change has improved to a level where CDP can now identify which companies are actively taking steps toward a low-carbon economy. In 2010, CDP (backed by 534 institutional investors representing more than US\$64 trillion of assets under management) asked the world's largest companies in the FTSE Global Equity Index Series (Global 500) and Standard & Poor's 500 Index (S&P 500) more pointedly than ever to demonstrate the actions they are taking to reduce global emissions. The vast majority of the Global 500, (82%) report their greenhouse emissions and climate change strategies to the CDP in order to set reduction targets and improve their environmental impact. The CDP is now receiving carbon data from nearly 3,000 companies in more than 60 countries, giving it the largest database of primary corporate climate change information in the world. It now receives funding support from a wide range of organisations. They include foundations such as the Nathan Cummings and Esmée Fairbairn Foundations as well as from governments in various countries including the UK, US, Sweden, France, Holland and Australia.

Lord Adair Turner, Chairman, UK Financial Services Authority said

*"The first step towards managing carbon emissions is to measure them because in business what gets measured gets managed. The Carbon Disclosure Project has played a crucial role in encouraging companies to take the first steps in that measurement and management path."*

Greenhouse gas emissions transparency is fast becoming a requirement for some companies, as global organisations like IBM and HP are requiring their supply chain to publicly disclose their greenhouse gas emissions as a condition of continuing to do business with them.

The CDP has expanded its programs to collect data for investors and about supply chains and water. Most recently, in October 2010, the CDP set its sights on

municipalities, launching CDP Cities providing standardised reporting of emissions data, analysis of climate risks and opportunities and adaptation plans for cities around the world.

When CDP began companies were given an assessment (A, B, C or D) that related to disclosure. A high carbon disclosure score would indicate a comprehensive response. The response would tend to show clear consideration of business-specific risks and potential opportunities related to climate change and good internal data management practices for understanding GHG emissions. However, the disclosure score does not reflect a company's actions on climate change mitigation. More recently a carbon performance score was introduced to complement the disclosure score and recognise companies that are taking positive measures on climate change mitigation. While detailed responses are available from the Australasian banks, via the CDP, overall comparative rankings of the carbon impact of companies are not available.

### Environmental Investment Organisation

The Environmental Investment Organisation provides a carbon ranking for 300 European companies. The top 3 financials by carbon intensity (tCO<sub>2</sub>e/\$million turnover) are Aviva (0.85); Aegon NV (1.35) and Banco Popular Espanol SA (1.57). The methodology is more useful than the CDP ranking but does not include companies outside of Europe.

### Banktrack

The Banktrack Report, *Close the Gap*, assessed the policies of 49 international banks. The results for Australasian banks (plus HSBC which was the only bank to get a category 4 rank) are in Table 1.

Quality of Policy	0	1	2	3	4
ANZ	5	10	3		
Westpac	6	10	2		
Commonwealth	10	8			
National Australia	9	7	2		
HSBC	2	13	1	1	1

A score of 0 is given where there is no policy; 1 is where there is a voluntary standard or initiative or where the policy is vague; 2 is where half the elements are present; 3 is where essential elements are present and 4 is where essential and additional elements are present. Policies include the sectors of agriculture, fisheries, forestry, military industry and arms trade, mining, oil and gas, and power generation. Policy issues include biodiversity, climate change, human rights, indigenous peoples, labour, operation in conflict zones, taxation, toxics, transparency and accountability. There are 18 policies, each of which has been ranked from 0 to 4. ANZ has 5 policies that scored 0; 10 policies that were graded 1; and 3 policies that scored 2 in terms of quality.

By way of example the ANZ has a forest policy that states

*"We will only support legal logging activities and will avoid supporting the logging of high-conservation-value areas or areas protected by specified legislation or international environmental treaties and conventions."*

They encourage certification such as the Forest Stewardship Council accredited schemes, but it is not required. They received a grade of 2 for their forestry policy.

By comparison HSBC forest land and forest product guidelines requires clients to obtain independently verified certification for timber operations and supply of timber products to HSBC's standard. This standard is based on the principles and criteria of the FSC certification scheme. As HSBC includes the other essential elements as well and the policy applies both to lending and investment banking services and to asset management it is accredited a score of 4.

In comparison with the major banks Kiwibank has no policies in regard to sector lending. Their Corporate Sustainability Manager has stated that  
*“although we don't have formal policies as Kiwibank, we do have policies as a subsidiary of New Zealand Post Group and we undertake numerous activities and initiatives in this area. We have an active sustainability group (with an executive team sponsor) which develops strategy and annual plans for Kiwibank. We feed our activities into New Zealand Post Group which uses the St James Ethics Corporate Responsibility Index and GRI for benchmarking the whole Group's (including Kiwibank's) activities”* (personal correspondence, 2011).

## **Conclusion**

A few years ago, Westpac was a leader in sustainability in the financial sector for Australia and New Zealand. This is no longer the case: it is now most probably the Australia and New Zealand Banking Group, or National Australia (which includes BNZ in New Zealand). The Commonwealth Bank is likely behind these two. The Commonwealth bank recognises the science behind climate change and that it is a real risk to future earnings, but its subsidiary, ASB bank in New Zealand, does not. Westpac needs to also recognise the science of climate change and incorporate it into its risk policies. Kiwibank has some catching up to do and develop policies that address these issues. HSBC is one of the leading international banks, but even its policies need development. The Australian banks recognise the importance of water policies, but have much work to do with their mining and energy policies if we are to significantly face the challenge of moving to a low carbon economy. During the last decade through such initiatives as the Carbon Disclosure Project and other NGOs like Banktrack much more information is now available for informed investor decision.

The UK Government has set a target of halving its CO<sub>2</sub> emissions by 2025. It has also recognised that there are market deficiencies regarding investment, by establishing a Green bank. It is likely that Australia and New Zealand will need to follow suit if the real risks of climate change are to be significantly mitigated, but there is also an important role for private investors to require our financial institutions to adopt proper definitions of risk and change their policies accordingly. If your investment portfolio has any Australasian banks then let your advisor or fund manager know that you want the better performing banks to be supported. If you use any of these banks for your banking needs, also let them know that their carbon policies are important and encourage them to improve.

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