Take on Board

Transcript – Mariana O'Gorman

Helga Svendsen 0:00

Welcome, everybody to the first take on board breakfast of 2022. I would like to start by acknowledging the traditional owners of the land on which we variously meet. For me, I'm in Thornbury, on the lands of the Wurundjeri people of the Kulin Nation. I know we have people from all over the place here from all over Victoria, Australia, and even some from not in Australia. So welcoming you all acknowledging traditional owners. My name is Helga Svendsen. I am your host for this evening. Next to me on my screen is Mariana O'Gorman, who is our speaker for today. So thank you, for all being here. All we need to know about climate governance over to you.

Marianna O'Gorman 0:44

Thanks so much Helga, I'm joining you from the land of the Kabi Kabi people in the Sunshine Coast. And thank you for your acknowledgement for the traditional owners earlier. So the Paris climate talks, countries are committed to holding warming below two degrees, preferably at 1.5 degrees. And since then, we've seen lots of countries and governments that have made net zero commitments by 2050. I worry, however, that people think that if we just get to net zero by 2050, things are going to be okay. It doesn't really matter what we do between now and then. And that's just not true because we have this thing called a carbon budget. And I guess I want you to think of a carbon budget, like your financial budget. So let's fast forward a few years. Let's say you're 69, you're sitting on two boards, you're earning $100,000 a year, you're living a pretty good life going on a few holidays going out and you spending $100,000 a year, next year, however, you need to retire, and you've got $500,000 in your superannuation. So think of your carbon budget, like that pool of superannuation savings, we've got this kind of finite pool of money that you can use. And once it's gone, that's it. We've got this finite budget of emissions. And really once that's gone, that anything past that is missing our chance at avoiding catastrophic levels of climate change. So I guess, I want to ask, you know, when you're retired, do you keep spending at $100,000 a year? Or do you try and cut your spending, because if you keep spending the way you are, your soup is going to be gone in five years. If you cut it in half, maybe myself 10 years, you cut it more, you've got a little bit more time.

We're currently emitting, like, we just don't have a budget. And if we keep doing that, we have less than a decade. In fact, last year, I quite shockingly heard from one of Australia's leading climate scientists that if we keep doing what we're doing, we only have two and a half years left, the longer we can make that budget last, the more time we have to get to net zero, which means the more time we have to create more technology. And the more time we have to transition our economy just like the longer you're leaving money sitting in Super, you know, the more chance you have that you'll get some good returns, and you can make it last a little bit longer. But the GFC might hit and your super might be smashed. It's the same with climate change. We have these things that are called tipping points. So think of tipping points like the black summer leading up to the black summer, we had these really long heatwaves, they went all across the country, they lasted for quite a while. They were followed then by devastating fires that burn 18 million hectares across Australia and they release millions of tons of carbon, that's probably going to contribute to more warming. We know more warming contributes to hotter and drier conditions, which are the conditions that create more black summers more bushfires, which creates more emissions. And then things start to spiral to a tipping point when climate change starts to spiral out of control, and we're not really sure what happens at that point. So the budget we have today might actually turn out to be a lot smaller than we think it is, depending on how these tipping points play out. So I guess what I want to get through to you today that 2050 isn't just a magical number that we can just hit and get to net zero and everything will be okay. It really matters what happens between now and then. And if we don't cut emissions, now, that really shortens that window in which we have to get to net zero. You've got to think about the Paris climate talks I was seven years ago. So a lot has changed since then. You only have to see the kind of terrible disasters we've had here in Australia. You know, the last seven years have been the hottest on record. And the IPCC has come out with new science since then, as well and it shows that the world warming a lot faster than we thought it was and that the impacts are being felt a lot faster and they're a lot harder than previous modeling had thought of it. That's why I think at the Glasgow climate talks last year, we really shifted the focus away from two degrees to 1.5 degrees, because even before we get to 1.5 degrees, those impacts are still pretty devastating. So let's move on to what you as directors can do about this. And I want to run through 10 things that boards can be looking at to future proof your organization in a changing climate. And I'll put those 10 things in the chat so that we can run through it together. The first thing is directors duties. I think making sure that everybody in your board understands their duty, their fiduciary duty when it comes to climate change is important. And that understands that breaching that duty might result in legal action. The duty should be treated pretty seriously because the regulators are treating it really seriously. The Australian Securities and Investment Commission or ASIC and the Australian Prudential and Regulation Authority, which is APRA, has issued stern warnings to directors that they will prosecute them if they are in breach of these duties. That's because the ASX asked again APRA. The federal treasury and the Reserve Bank really think that these climate risks are risks to financial stability, so they really want directors to be actively managing it. And on that note, in terms of election commitments, the Labour Party has announced if elected, it will ask the federal treasury to model the impacts of climate risk on the economy. That's something that used to be done but isn't being done anymore. The Australian Institute of company directors is another body that points to directors duties, and they say directors have a responsibility to be setting Net Zero targets consistent with a 1.5 degree pathway, I think the best resource to share with fellow directors to help explain their duties. It's a pretty short one is the 2021 Hartley opinion. And I'll put a link to that in the chat too. So once directors know what their duties are, the next thing they need to do to discharge it is to be disclosing risks to their organization. And the Task Force on climate related financial disclosures, known as the TCF DS is the most common tool used by directors to do this. It's used by about 100 of the top ASX 200 companies. And the best way really to understand what a tcfd report is, and what it requires is just to look up an organization in your sector that's done one and read it they usually pretty short. I think Caitlin and Anthea, join us here from Canada and L'Oreal for America. They're actually making climate change disclosures mandatory there. And it's also happening in the UK and New Zealand. And another election commitment the Labour Party has said is that they intend to make it mandatory here as well if they're elected. But to be able to disclose properly, you need to be able to identify your risks now and show how you're managing and monitoring them. So there's really three key risks you need to be thinking about. Firstly, transition risks. So what's the risk that your organization isn't going to be relevant in transitioning and economy, that customer preferences will change or policies will change? The next one is physical risks, so risks that natural disasters will physically impact your organization. And the final one is that liability risk. So the risk that you might get sued if you're not fulfilling your fiduciary duties? I think we have. We have seven directors of health and hospital boards here with us today. Lisa Hellyer. Shan, Kate, Andrea Rowena and Janice. Yes, a quite a number in the health and hospital sectors. So your transition liability risk might be relatively low, but your physical risks might be very high. So take for example, the northern New South Wales Health District board a few weeks ago, it had three hours to evacuate 55 patients from the bail in a hospital because of the floods. They didn't have 55 ambulances, so they had to rely on some trucks, some buses, taxis, to evacuate most of these patients, they had to get all the equipment out as well the trolleys and medicine, ultrasound VA and they had to set it all up in a school. They only had three doctors because a lot of the doctors and nurses were stuck on roofs. When they got to the school, they didn't have phone reception. So they couldn't call colleagues to ask for advice. They didn't have it so they couldn't look up patient records and they couldn't research medications or conditions that will really just running on the fly. So as directors of health boards, you need to be identifying these risks and working out ways to mitigate them. And you probably already know that like in medical school doctors and nurses are always preparing for like a rare mass casualty event probably some of that trainings come in use during COVID. But as health directors you probably need to be ensuring those climate risks and manage properly those simulations are being run not just as a Rare mass casualty event. But in a simulation where stuff is limited equipment is limited, where transport and food is cut off where phone lines are down, power is down, internet's down. And scarily with a flood or fire creeping up to the hospital's doorstep. Thankfully, I guess your job as directors isn't all about managing risk. So I want to say this, clearly, this transition will bring opportunities for every single board that you serve on, if, as directors you're watching for them. And that's where your board strategy comes in. A lot of you I know are working with vulnerable communities, or speaking with a few people for people in Victoria working with Australians with disabilities. margs working with some older Australians and Deb's organization works on women that also covers domestic violence. And unfortunately, natural disasters are really a bit of a breeding ground for abuse and domestic violence. Last week, I heard from Joe Dodds, who's the founder of the bushfire survivors group, she survived the black summer. And in the aftermath, she actually said that the first people to appear were, you know, the police, Defense Force ministers, mares. So mainly male leaders coming in to take the reins in the recovery. And she felt the need really to step up to make sure that the recovery efforts weren't just focusing on that physical infrastructure, that recovery needed to be really inclusive and incorporate things like mental health and how we protect vulnerable communities. I think that's true in any natural disaster, when the devastating task of rebuilding finally does start to take place. If we're looking for those opportunities to step up, there will be opportunities to build back better. For example, you know, infrastructure and services that are more inclusive for older Australians and disabled Australians than the infrastructure and services that existed before, the part of your strategy might also include a target. So that brings us to number five. And I want you to think of targets really in a very, very broad term, because it might not just be about setting a net zero target. And in fact, that might not be the target or goal at all. I think we have Caitlin here from the Royal Bank of Canada.

And their goal is to cut emissions by 70% by 2025, which is great, but banks aren't really a huge source of emissions. However, the people that they lend to.

And that's why the banks actually come up with a target to have 80% of their high meeting customers, reporting their emissions and 65% of their customers reporting their carbon reduction plans. So really leveraging their network to look at what they can be doing to influence others to take action. So if you don't have a climate target, or a goal, look at setting one and announcing it publicly and the strategy and details of how you're going to achieve it. And as I said, it might not be about how you reach net zero.

If you do have one, it's probably time to consider updating it if you announced it quite a few years ago. Both liberal and the Labour Party are taking net zero by 2050 targets to the next election. But the Labour Party has announced that the climate change authority there'll be using seeking their advice when it comes to latest science and reviewing international commitments. Because I think Net Zero really maybe too late and I think many companies in the private sector are already recognizing that some of the companies that are already setting have already set 2040 netzero targets are Fortescue Metals, Anglo American coal, a sauce McQuarrie, Deloitte, a konia IBM, AECOM, Coca Cola, Microsoft, Uber, Amazon, Ampol, the Royal Air Force in the UK. This year, I think we'll see even more companies starting to set net zero by 2035 targets in part because they're using science based targets and they update those targets as the science changes but in part because they just want to stay competitive. And first movers will be even more ambitious than that. Still. We've got Lisa here from the Milan Council Leonora from HSBC. Joan from a rough Tanya from Great Western water, all of which are setting Net Zero targets by 2030. And Dominique and Helen from the University of Melbourne, and they're sitting netzero targets by 2025. And being climate positive by 2030, which means removing more emissions than the uni produces each year. Setting a target is great, but you really need that right incentive behind it. And that's why we're seeing more boards linking variable compensation to ESG outcomes. Some companies are doing this than are doing this probably are some of the highest emitters because it's really the highest means that have the most to lose from going slow and the most to gain from moving really fast. So some of the ones that are already linking the variable compensation include AGL and pole, BHP BlueScope origin, Rio Santos and Woodside. Lisa from Glencore is here today, he's also on the board of Sun water. And if you look at the Glencore, variable compensation 15% of the CEOs bonus is linked to Glen cause climate targets. And by the way, if you're looking for a good example of a tcfd report, the Glencore one is pretty comprehensive, and quite short. companies aren't really doing this because they want to be a good corporate citizen, they really aren't doing it because they want to ensure that management, making decisions that will help future proof the organization. And I think there's there's really a high cost of carbon incorporated into all businesses, especially those higher meeting ones. And if these directors we pretend that they're not there, then we're doing the boards that we serve on a great disservice. The cost comes in many forms, and some of them are pretty well known, like access to finance, with most banks pulling away from unsustainable projects, attracting investors that are becoming increasingly active and the cost of insurance if your business is at risk due to climate change, but there's other costs to attraction and retention is a big one. Andrew Charlton who's the

Managing Director of global consulting firm Accenture, says that companies are facing challenges hiring young employees who don't want to go to a barbecue and say that they work for an unsustainable company. It's also getting harder to get organizations to work with you if you're not serious about ESG. If you put out a tender safe engineering or construction work, or you seek advice from law firms, consulting companies, if some PR agencies don't hear from her, I will tell you that many firms like hers, Deloitte, AECOM, Baker, McKenzie, Herbert Smith, Freehills, are turning down work that's not in line with climate change targets. And that's because their employees don't want to be designing, building and promoting projects that aren't helping the planet. Another way that cost of carbons impacting businesses is attracting and retention of customers who have set climate targets. So businesses might also miss out on premiums that their competitors can charge if their competitors can offer green energy, green steel, green bonds, green buildings, that kind of thing. And there's policy costs that will reward fast movers and penalize businesses that aren't transitioning. Another election commitment that the ALP has announced is that it will adopt a policy that the Grattan Institute and the BCA have put forward, which is to use the coalition's existing safeguard mechanism, which covers 215 of the country's largest emitters. And they will try and tighten the baselines on that scheme to make it work a little bit more effectively and incentivize emissions reduction. And I think that could be, you know, a policy that could have quite an impact on our economy and efforts towards companies decarbonizing. So we're seeing Australian boards factor in this shadow cost of carbon that comes in all of these forms, that really imposes a cost on businesses that aren't taking ESD seriously, and they're incorporating them into your business investment decisions, your asset valuations and your budgets. Directors are asking questions of auditors and management about the assumptions behind investments and whether these implicit and explicit costs really being factored in. I think that brings us to number eight, which is the board skills matrix. And I think most of you will know that ESG skills are coming out more and more on that board skills matrix. So if you don't have someone on your board with those skills, you might want to consider putting it into your succession planning. But it's not all about having that knowledge. In one director, you want to make sure that the whole board has a basic level of education to so each year planning for a board education session that covers the latest trends, risks, opportunities and policies in your sector in relation to climate change with an expert coming in to speak, I think is really valuable for most boards. That then I think it's time to wrap it up with number 10, which is collaboration which Kelly has already done a little bit of so far. I think one of the best things about working in that ESG space is it's a collaborative space because everyone's really wanting to work towards a shared goal. So reach out to other directors, policymakers and industry groups in your sector and swap notes with them where there's opportunities to collaborate on climate change. So as a little bit of homework, at the end of today's session, I'd like each of you to find one participant here today and reach out to them to organize a catch up. I hand it over to you Helga.

Helga Svendsen 20:03

Oh my god, I knew you're a woman after my own heart in all of that, like so many amazing tips and encouraging people to reach out. So we've got four questions left. The first one, what's the impact of what's happening in Ukraine on zero carbon potential? The person who posted this says they had a meeting with someone in the UK last night, and there's been huge pressure to drop zero carbon in the face of the war. What are some of your reflections on that Mariana?

Marianna O'Gorman 20:31

I really don't know the impact of the war when it comes to climate change and the kind of devastating events that are going on there. But I guess the one experience I can draw from is that I was working in the prime minister's office during the global financial crisis. And at that time, there was also a huge push to delay the then Emissions Trading Scheme, because of the risk of the global financial crisis, huge political pressure, which led to the delay. And I think that set our economy up in the long term, it really damaged our economy, and has put us in a much less competitive position than we would have been had we gone through the GFC performed as strongly as we did, but still looked at other challenges and threats, that we're facing our country and an economy and tried to address them at the same time and not delay this for another year, because it will just become a bigger and bigger human emergency, the longer we delay it.

Helga Svendsen 21:36

Yeah, become our next complete emergency. All right, and next question is from Nicole Baker, who is on the board at Ceres. Many companies have net zero targets, have any of these rely on renewable electricity and offsets and are not making the necessary transformative decisions are your reflections there.

Marianna O'Gorman 21:57

So I guess there's a bit of a difference between being carbon neutral and setting net zero emissions targets carbon neutral really can just you know, you can keep a meeting, you can even increase emissions and and offset those emissions. Net Zero really involves companies committing to reduce emissions as much as they possibly can, and then only offset what they can't reduce. So there will be some companies that are really looking to rely on offsets and renewable energy, I'm sure, there would be a lot of companies that are really trying very, very hard to reduce their emissions, I guess the smart companies would realize that they, they have to do the latter, because there's not gonna be enough offsets in the world to be able to offset all of our current emissions. So we really need and that means the prices are going to spike. So you're going to be put in a pretty uncompetitive position, if you're going to be relying on offsets to meet your climate targets. You're also not going to necessarily have the products that the businesses want to buy from you, you're not going to have the green buildings, the the green steel, the green energy, if you're just producing the same old product you've always produced, but doing it in a way that you offset it.

Helga Svendsen 23:11

Nice. Thank you. All right. And our final question is also from Nicole. We're seeing a lot of big investment shifting to climate frameworks. What trends are you seeing in the investors that are still funding coal, etc? Are they shifting?

Marianna O'Gorman 23:27

Yes, absolutely. And I think you can see that by look at some of the big emitters that I talked about before. They have some pretty ambitious climate change targets and frameworks, and pretty comprehensive governance frameworks, because they recognize this as a big risk. And they recognize it's a risk because their investors have told them that they need to recognize it. So how they're managing it. And so you see these, you know, big coal companies sitting net zero by 2040 targets. You also see these big mining companies that recognize, hey, as I said before, there is opportunities for every single board in this transition. So those companies that have been doing mining for 100 years have the best skill set to move on to other areas of mineral extraction, because there's a lot of raw materials and quantities that we're going to need to fund the transition to build all of the renewable energy that are critical materials, and somebody needs to be doing that mining and doing it in a sustainable way. So they're looking for those opportunities, and they're moving fast and their investors are prompting them to be moving.

Helga Svendsen 24:37

I was at the Institute of company directors governance summit last week, and they had a number of people from the big banks that were saying they will only bank those organizations that applies to have a transition plan that they will be banking gas into the future because they see that as part of the transition but they absolutely see an exit from coal, which was interesting to hear as well. It's such a change screen that even over the last five years, I think from organizations five years ago, I don't think you would have heard the bank saying that.

Marianna O'Gorman 25:07

Now the banks know that this is a huge financial risk to them. And the banks investors now it's a huge financial risk for them. Yes. So this is, you know, this is in part about helping the planet, but it's really about making sure that the assets that they're financing against are gonna be great assets by 2050. And if they're not, they're going to be pulling out their money. Yeah, exactly.

Helga Svendsen 25:30

I've just been looking in the background, there's a couple of people that are filled in their evaluations already. And they say it was insightful, engaging and cohesive, yet critical, informing and engaging. I'll send you some of this afterwards. was great to discuss with like minded people, and this person, first time it all went well. urgent action opportunity. So Mariana, we had a question earlier about some of the resources or experts that organizations can access access in the boardroom to help lift the kind of understanding of people in boardroom I think you've thought of one one expert that might be able to help out here.

Marianna O'Gorman 26:11

Yeah, when I was asked that question, like any woman, I didn't back myself and say that that's something that I've just started doing. And I'm really keen to work with, with boards that would like assistance in understanding their risks and where the opportunities might lie in their sector. So if you are interested, please reach out.

Helga Svendsen 26:34

So and of course, Marianna's details will be in the show notes. So please reach out to her I reached out to her because she's an expert in the field and I wanted her to share that incredible wisdom with the take on board community and I have no doubt she'll be able to share some of that wisdom in the incredible practical way that you've just heard.