Here They Come! Australia's Sustainability Reporting Standards

By KAI LINCOLN, Vice President – SEKO Logistics – Global Sustainability

In recent years, the global community has intensified its focus on sustainability, recognising the urgent need to address environmental challenges such as climate change, resource depletion, and biodiversity loss. As one of the world's most ecologically diverse nations, Australia finds itself playing catchup to many other developed countries, but is now poised to implement new sustainability standards that many Australian businesses, regardless of their size, will be impacted by.

For the non-sustainability folks reading this, there are three levels of emissions, commonly referred to as Scope 1, 2 and 3 and defined by the United Nations as:

- **Scope 1 emissions:** direct emissions from owned or controlled sources.
- **Scope 2 emissions:** indirect emissions from the generation of purchased energy.
- **Scope 3 emissions:** all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

For the purposes of our industry, most of what we do for our customers falls under Scope 3, as we are the ones moving both raw and finished materials to and from factories and on to their point of consumption. Many freight forwarders are seeing an increase in requests from clients needing to know the emissions related to the freight moved for them. Similar to my last article in this publication, small companies who may not have the resources to become invested in the corporate sustainability movement, may find themselves being dragged into reporting requirements by their clients. While this concept of a forced cost to comply with a trend is not new (think OH&S several decades ago), once it becomes embedded in law, it gradually becomes part of the norm.

In June 2023, we saw the introduction of two global standards providing a global framework for reporting on a range of sustainability related topics[1]. Driven by the International Financial Reporting Standards (IFRS), more specifically its supplement, the International Sustainability Standards Board (ISSB), the global standards were effective from 1 January 2024, though individual jurisdictions are able to decide whether and when to adopt.[2]

Following the lead of the IFRS, the Australian Accounting Standards Board (AASB) released an exposure draft of their own, the Australian Sustainability Reporting Standards (ASRS), in October 2023.[3] While both the ISSB Global Sustainability Standards and the ASRS share the common goal of improving sustainability reporting practices, they differ in terms of scope, geographical focus, regulatory framework, stakeholder engagement, and implementation timelines.

Public submissions relating to the ASRS were due on 1 March 2024 and the AASB is proposing that annual reporting will commence as soon as 1 July 2024 for Australia's largest companies. While it is possible that this may be deferred, it is important that all companies keep an eye on these requirements as the impact of the ASRS extends well beyond public companies and large multinationals. Based on the exposure draft, reporting obligations will be phased based on company size as follows:

- **Group 1, 1 July 24 Proposed Start:** Companies satisfying 2 of the three thresholds – 1. Over 500 employees, 2. $1B in controlled gross assets and 3. $500M in revenue

- **Group 2, 1 July 26 Proposed Start:** Companies satisfying 2 of the three thresholds – 1. Over 250 employees, 2. $500M in controlled gross assets and 3. $200M in revenue

- **Group 3, 1 July 27 Proposed Start:** Companies satisfying 2 of the three thresholds – 1. Over 100 employees, 2. $25M in controlled gross assets and 3. $50M in revenue

Many of you reading this may be asking – "what does this matter to me? We will not need to report prior to 2027, we've got plenty of time!" And for your company, you might be correct. However, as logisticians, the work we perform will often form a material component of a company's Scope 3 emissions.

For companies who may be asked to begin reporting as early as July 2024, if they do not already, they will need to establish their accounting baseline. Imagine that you have never produced a balance sheet for your company, despite having been operating for many years. Now, from only a 9 month notice period, you need to take stock of all your assets and liabilities and get all of them valued. You have hardware, rolling stock, vehicles, office buildings, warehouses and a vast collection of "stuff" that need to be assigned a value, but you have not had to follow any accounting standard since the creation of your company. It is almost a laughable task.

Creating a baseline for a company's carbon emissions is much the same. A fashion retailer sources raw materials from a supplier of fabric in Eastern Europe. These fabrics are moved to factories in China, Vietnam and Mexico. The factories all use various power sources to operate – Coal, Diesel and a tiny bit of solar. The finished products are picked up and trucked to ports before being shipped and flown to their various destinations. Old trucks, new planes, retrofitted vessels, EV's, who knows how, have helped move these goods along the way so I can buy that new shirt I've had my eye on (said me never). As companies move towards mandatory (and some voluntary) reporting, we, the logistics and freight providers, will be asked to help them establish their baseline and then provide information ongoing so they can maintain their emissions "balance sheet".

The reality for us is that emissions reporting is still in its infancy and because of this, is a challenge. While there are a few tools that have been around for a decade or so and some newer options now coming into play, it is far from a perfect science and lacks the historical experience of traditional financial accounting. As an example, CargoWise has been working on an in-built carbon reporting module, which is powered by an integration with the third-party tool EcoTransIT, who also offer their software to the public through various integration options. Other companies, such as the industry body Smart Freight Centre, are working to find a solution to access primary carrier data and deliver a more accurate carbon calculation tool. However, a silver-bullet solution that suits businesses large and small with accurate carbon reporting that accounts for the numerous variables that determine CO2 emissions does not exist.

Despite this fact, carbon reporting requirements are coming, and I guarantee that if they haven't already, every Australian logistics and freight company, be they ocean, air, road, rail or warehousing, will be asked to either report directly themselves or provide emission data to their clients in the near future.

The silver lining in all of this is that we are demanding companies to be better. Though we have a long way to go, the ISSB is clearly adopting Winston Churchill's approach that we cannot let perfection be the enemy of progress. As reporting becomes a requirement and audits begin to tighten up the information, I have confidence that the majority of companies will do the right thing. While there will always be bad actors in this world, if we can make better decisions based on data and intelligence, hopefully the majority will have done their part to leave this world in a better place than we had inherited it.

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1 https://www.ifrs.org/projects/completed-projects/2023/general-sustainability-related-disclosures/
2 https://kpmg.com/au/en/home/insights/2022/04/issb-sustainability-reporting-disclosures-guide.html
3 https://aasb.gov.au/news/exposure-draft-ed-sr1-australian-sustainability-reporting-standards-disclosure-of-climate-related-financial-information/