

Briefing note: Government leadership on net zero

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Introduction

Around the world, governments are beginning to take steps to reduce public sector emissions in line with the Paris Agreement. Governments have a unique role to play in decarbonisation efforts. First, public sector activities are responsible for around 15% of total greenhouse gas emissions worldwide.¹ Second, governments have the potential to demonstrate for other organisations and economic sectors what strong action on addressing climate change looks like. The learnings of these exercises can be valuable for the private sector in understanding how to pursue ambitious climate action.

From CPD's perspective, a credible net zero program should cover all emissions including scope 3, include as many government entities and activities as possible, and have a strong focus on measurement and public reporting of emissions. To enable consistent reporting, governments should provide tools and guidance.

A government can be a "leader in Net Zero" if it shows:

- **Ambition:** a leading net zero program has a challenging timeline and scale of action. It includes scope 3 emissions alongside scope 1 and 2 emissions.
- **Innovation:** leadership requires true change to internal systems, eg. internal carbon pricing.
- **Honesty:** leadership means clear and consistent reporting on aspects such as progress against clear emissions benchmarks, but also setbacks or unexpected difficulties.

Key features of a leading net zero government program

Inclusion of scope 3 emissions

Thus far, the focus by many governments has been largely on increasing the energy efficiency of buildings, procuring renewable energy, and reducing emissions in the government's vehicle fleet. This approach has been applied in jurisdictions such as Western Australia, the Australian Capital Territory Government, New Zealand, Scotland, and the UK.² While this is a good first step, simply focusing on these scope 1 and 2 emissions will be insufficient in fully decarbonising government functions. Over time the focus will need to switch to how to decarbonise public sector emissions more broadly, including taking active steps to address scope 3 emissions (which constitute around two-thirds of the emissions for which public procurement is responsible worldwide).³

Leading companies and investment managers are starting to incorporate scope 3 emissions in their net zero programs. For example, Microsoft tracks its scope 1, 2 and 3 emissions across its business functions. In Australia, many major industrial companies and investment funds are including some form of implied carbon price in their economic models to understand their exposure to scope 3 emissions.

Clear articulation of goals and roadmaps

Setting increasingly ambitious goals for decarbonising government functions and a roadmap to achieving these objectives should be a key part of developing a leading net zero program. The roadmap should articulate the timeline by which different parts of government, and different types of emissions (eg. scope 1 vs scope 3) will reach net zero. This sends an important signal to markets and participants in supply chains to understand and plan for changes.

Robust climate strategies can reduce overall costs, increase innovation, reduce supply chain risks, and improve public trust in a government's commitment to addressing climate change. In New Zealand, their Carbon Neutral Government Programme was announced in 2020 with the aim of carbon neutrality by 2025. The Programme has clear stages, including in terms of requirements for different types of government entities to measure and report their emissions.⁴ The Victorian Government has committed to developing pledges for different economic sectors and its own operations. New pledges are to be set every five years until the state achieves net zero emissions.⁵

Alignment of purchasing processes with net zero

Greening public procurement is essential to ensuring governments reach net zero. Not only does purchasing green goods and services reduce the emissions governments are responsible for, it also enables governments to take leading roles in incentivising and supporting the development of emerging markets in a green economy.

We believe the following actions could be part of a leading green public procurement program:

- Incorporating emissions into internal pricing decisions (a “shadow” or “internal” carbon price). For instance, Microsoft tracks scope 1, 2 and 3 emissions across all internal business groups, and budget adjustments are made (an internal “fee”) based on emissions, with the fees collected into a central fund for carbon reduction and removal projects.⁶
- The widespread adoption of a mechanism to conduct life cycle cost analysis. The Danish Government has a tool called DuboCalc that assesses the

energy use and materials of proposed construction projects and enables the results to be converted into price deductions from the initial procurement bid.⁷

- The articulation of minimum requirements for environmental standards in eligibility criteria for government procurement tenders. In the US, 95 percent of new public procurement contracts (exempting weaponry) must use sustainability criteria.⁸ In the Netherlands, the CO2 Performance Ladder enables public procurement agencies to favour businesses that take actions on climate change.⁹
- The addition of low-carbon options to supplier panels and central purchasing agreements. The US Government has a tool that enables purchasers to search for products, from construction materials to cleaning supplies, which align with federal requirements for sustainability.¹⁰
- The establishment of robust methods to measure the results of green public procurement policies. Government agencies in South Korea must report annually on the green products they intend to purchase that year and their related performance records from the previous year.¹¹

Collaboration with suppliers to decarbonise the supply chain

Governments should identify priority areas of emissions reduction and design solutions in collaboration with value chains, including suppliers, subcontractors, and other relevant industry stakeholders. Procurement officials should also take steps to work with particularly

high-emissions suppliers to develop action plans to reduce emissions.

While progress on this front has been slow, some major companies have started working to reduce emissions in their supply chains. The 1.5C Supply Chain Leaders group has formed, and members include IKEA, Microsoft, and Unilever. The group takes a collaborative approach to helping their suppliers reduce their emissions, with the assistance of resources and tools. As active steps towards this, Unilever engaged a small group of suppliers to help design the program, while Microsoft is partnering with the International Finance Corporation in emerging markets.¹²

A principles-based approach to the use of offsets

A leading net zero program would reduce the emissions generated by a government as much as possible, only relying on offsets where other options are not possible. The Western Australian Government has developed guidelines on the use of offsets, which could be similarly adopted by other governments. Public authorities are to select actions for reducing emissions by following the emissions reduction hierarchy: (1) avoid, (2) minimise, (3) remediate, and (4) offset. If carbon offsets must be used, public authorities are to use high quality offsets and favour local carbon offset projects where possible.¹³

There are concerns about whether offset projects actually do reduce or remove carbon, whether the projects would have occurred regardless (“additionality” issues), and how the offsets are verified. Governments should therefore only use offsets that are vetted and of a high standard.

Any reporting on emissions through a net zero program should clarify how much of any reduction in emissions is due to purchased offsets as well as the type of offsets that have been used. The reporting guidelines should set out how government entities are to disclose their offsets. For example, they could be required to

report on emissions both with offsets included, and as absolute emissions without including offsets.

Transparent reporting of progress

Leaders in the private sector report their progress transparently, and other jurisdictions are also starting to require government departments to measure and report on their emissions. Governments should publicly report progress against both short and long-term goals towards decarbonisation at least annually. New Zealand is rolling out mandatory reporting of emissions, gross emissions reduction targets, and emissions reduction plans across the public sector.¹⁴ In Scotland, public bodies must report on their goal date for achieving zero direct emissions for their own operations, goals for decreasing indirect emissions, and how their spending aligns with decreasing emissions and Scotland’s Adaptation Programme.¹⁵

Countries have released guides and tools to enable the public sector to measure and report emissions. Wales has published a guide for public sector organisations on how to estimate their net carbon footprint. The Government collates the data from this to produce a baseline for emissions of the entire public sector.¹⁶ Closer to home, the Western Australian Government has plans to develop a whole-of-government emissions reporting platform.¹⁷

Coverage of all parts of the government

An ambitious net zero program has a broad coverage of government entities, which can be achieved through a roll-out such as that being undertaken in New Zealand.¹⁸ In New Zealand, departments, departmental agencies and the executive branch were required to participate in its net zero program first, with Crown agents joining later.

Any government investment vehicles should also be aligned with net zero. Singapore has taken a particularly ambitious approach to climate change through its sovereign wealth funds. Temasek, which controls about one-third of the total AUM of Singaporean sovereign wealth funds, has set clear targets for portfolio decarbonisation. It aims to halve the emissions its portfolio is responsible for from 2010 levels by 2030, and achieve net zero by 2050. Temasek also incorporates an internal carbon price on its investments, applies climate scenario analysis, and has a green investment arm.¹⁹ The New Zealand Superannuation Fund (the largest of the country's four Crown financial entities) has a commitment to reach net zero by 2050. It is taking active steps towards this, such as by

becoming a signee of the Net Zero Asset Owners Commitment of the Paris Aligned Investment Initiative and regularly publishing reporting aligned with the Task Force on Climate-Related Financial Disclosures (TCFD).²⁰

At the federal level, we note that there will almost certainly need to be an exclusion for equipment related to defence and military capabilities – but scope 3 emissions for the defence portfolio should still be reported, targets can be applied to non-critical activities, and credible offsets can be bought for the rest.

Endnotes

¹ [‘Green public procurement: Catalysing the net-zero economy’](#), World Economic Forum, 2022.

² [‘Zero emissions government’](#), ACT Government, 2021; [‘Government Emissions Interim Target’](#), WA Government, 2022; [‘About the Carbon Neutral Government Programme’](#), Ministry for the Environment, 2022; [‘Leadership in the public sector’](#), Scottish Government, 2021; [‘Public Sector Decarbonisation Scheme’](#), UK Government, 2023.

³ See endnote 1.

⁴ See endnote 2 Ministry for the Environment, 2022.

⁵ [‘Victorian Government action on climate change’](#), Victorian Government, 2023.

⁶ E Willmott, [‘How Microsoft is using an internal carbon fee to reach its carbon negative goal’](#), Microsoft, 2022.

⁷ AN Lewis and M Machlowska, [‘Decarbonizing the EU’s road and construction sectors through green public procurement: The case of Sweden and the Netherlands’](#), Stockholm Environment Institute, 2022.

⁸ [‘Greening public procurement’](#), United States Environmental Protection Agency, 2022.

⁹ [‘The Netherlands’ CO2 Performance Ladder’](#), OECD, 2022.

¹⁰ [‘Buying green for federal purchasers’](#), United States Environmental Protection Agency, 2023.

¹¹ [‘Green public procurement of Republic of Korea’](#), One Planet Network, 2018; RE Ko and G Kim, [‘Revisiting Korean green public procurement policies to promote green steel demand’](#), NEXT Group and Solutions for Our Climate, 2022.

¹² [‘How 4 leading companies are tackling supply chain emissions’](#), World Economic Forum, 2022; [‘IFC, Microsoft partner to decarbonize tech supply chain in emerging markets’](#), International Finance Corporation, 2021.

¹³ See endnote 2 WA Government, 2022.

¹⁴ See endnote 2 Ministry for the Environment, 2022.

¹⁵ See endnote 2 Scottish Government, 2021.

¹⁶ See endnote 2 Welsh Government, 2023.

¹⁷ J Nadel, [‘WA to build whole-of-gov emissions reporting platform’](#), iTnews, 2023.

¹⁸ See endnote 2 Ministry for the Environment, 2022.

¹⁹ [‘Focusing on climate change’](#), Temasek, n.d.; L Pachymuthu, [‘Temasek launches green investment arm, pledges \\$5 billion in initial funding’](#), Asia News Network, 2022.

²⁰ [‘NZ Super Fund signs up to net zero carbon emissions by 2050 or sooner – joins Net Zero Assets Owner Commitment’](#), NZ Super Fund, 2021; [‘Climate change report’](#), NZ Super Fund, 2020.



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