

5 July 2024



Nicole Yazbec-Martin
Head of Taxonomy and Natural Capital
Australian Sustainable Finance Institute
C/- Hub Civic Quarter
68 Northbourne Avenue
Canberra, ACT, 2601

Sent via email: Nicole.Yazbek-Martin@asfi.org.au

AUSTRALIAN SUSTANABLE FINANCE TAXONOMY CONSULTATION PAPER

Dear Ms Yazbek-Martin

The Chamber of Minerals and Energy of Western Australia (CME) is the peak representative body for the resources sector in Western Australia. CME is funded by member companies responsible for 20 per cent of Australia's corporate income tax receipts in 2022-23.¹ In 2022-23, the WA resources sector accounted for 65 per cent of Australia's resources exports,² half of Australia's resources capital expenditure³ and 53 per cent of Australian resources employment.⁴

CME supports the Paris Agreement and its goal of limiting global warming to well below 2, preferably to 1.5 degrees Celsius, by reducing emissions to net zero as soon as practicable and no later than 2050.⁵ Members support promotion of lowest cost abatement across the economy and recognise that **achievement of Australia's 2050 net zero target will require significant investment in a broad range of technologies and projects.**

The Sustainable Finance Taxonomy (the taxonomy) is relevant to many CME members who would seek global finance to meet decarbonisation and climate mitigation ambitions for existing and new projects in the coming decade. Given the significant role financing has in this transition, CME welcomes the opportunity to provide input to the consultation on the taxonomy. We were pleased to host you, Guy Debelle, Bridget Boule and Michael Dolan at our offices in Perth on 18 June 2024. Members appreciated the overview provided on the taxonomy and the opportunity to discuss elements of the taxonomy directly with you and your team. **Members support further two-way dialogue on the future development of the taxonomy.**

This submission summarises member feedback on the headline ambitions of the taxonomy and Section 2 'Electricity Generation and Supply and Section 5 'Minerals, Mining and Metals' of the public consultation paper. We have also provided high level comments related to the development of a Do No Significant Harm framework and minimum social safeguards, which we understand is under development now, for consultation later in 2024.

The demand for metals essential for clean energy infrastructure and technology, including but not limited to, copper, nickel, lithium, and cobalt, is projected to rise substantially in the coming years. The primary challenge for the resources sector is to integrate sustainable practices in the production and processing of these metals – a goal the Western Australian resources sector remains committed to achieving. In support of this commitment, CME members consider it imperative that the taxonomy is realistic, transparent, and aligned with Australian government frameworks, policies and reporting requirements. As outlined further below, CME is concerned some areas of the taxonomy do not meet these criteria and we make several recommendations to address this. Alignment is critical if the taxonomy is to support the Australian resource sector in accessing global markets and in providing investors with the confidence needed to supply the financial capital required to meet net zero ambitions.

¹ Includes company tax, fringe benefits tax, petroleum resource rent tax and excise duty. Commonwealth of Australia, [Final Budget Outcome 2022-23](#), The Treasury, 22 September 2023, Note 3: Taxation revenue by type, p 39.

² Government of Western Australia, [2022-23 Economic Indicators Resource Data File](#), Department of Energy, Mines, Industry Regulation and Safety (DEMIRS), 9 January 2024. Australian Bureau of Statistics (ABS), [5368 International Trade in Goods](#), Table 32a.

³ Investment refers to capital expenditure as measured by gross fixed capital formation, current prices. ABS, [5220 Australian National Accounts: State Accounts](#), Table 25. ABS, [5206 Australian National Accounts: National Income, Expenditure and Product](#), Table 34.

⁴ ABS, [6291 Labour Force, Australia, Detailed](#), Table 5.

⁵ CME Climate Change Policy available at <https://www.cmewa.com.au/policy-advocacy/policy-areas/climate-change/>

CME recommends that the taxonomy is revised to ensure that detail underpinning the ‘transition’ and ‘green’ criteria aligns with other Australian government frameworks being established to guide Australia’s net zero transition. Taxonomy settings must be working towards the same goals as other frameworks to ensure that global capital can be accessed for transition and green investments in Australia. Specifically, the taxonomy must be aligned with:

- Australia’s Net Zero Plan;⁶
- Technology pathways (emissions abatement, removal and efficiency) identified in the six sectoral decarbonisation plans currently under development as part of the Net Zero Plan;
- Emission focus (scope 1) and emission intensity settings within the Safeguard Mechanism;
- Renewable electricity target and mechanisms supporting the achievement of the 82% target, focused on provision of low emission, reliable (firmed) and cost competitive electricity;
- National Hydrogen Strategy;⁷
- Future Gas Strategy;⁸
- Critical Minerals Strategy 2023-2030;⁹
- Australia’s emissions reporting regime.¹⁰

Feedback on specific elements of the draft Taxonomy is provided below.

1. Development of ‘transitional’ criteria is an enabler of Australia’s net zero transition

CME supports the development of the ‘transitional’ criteria in addition to the ‘green’ criteria. For many resource sector projects, the transition to net zero will involve staged projects and significant capital investment. Accessing finance for transitional projects will be a key enabler for the net zero transition and the development of the technology and infrastructure that will allow future projects to meet ‘green’ criteria. We note the terminology of ‘transition plan’ is also a feature of the upcoming Climate Related Financial Disclosures regime. However the definition outlined in that regime differs to the one proposed under this taxonomy, which may complicate compliance and be problematic with respect to communications, disclosures and potential risks of greenwashing.

2. The sustainable finance taxonomy for Minerals, Mining and Metals must include more than four minerals

We understand that the inclusion of four minerals – namely copper, iron ore, lithium and nickel – have been prioritised for inclusion in the Taxonomy as they are considered essential inputs for low emission energy infrastructure and technology development. We note that there are other minerals on Australia’s critical minerals list that also meet this criteria and existing resource sector projects that have net zero decarbonisation objectives that will need to access significant capital to enable their net zero transition.

The primary challenge for the sector, irrespective of the specific mineral, is to integrate sustainable practices and new technology in the production and processing of minerals. Since organisations are actively financing their net zero pathways now, we recommend **the sustainable finance taxonomy be expanded to include a broader range of resource sector outputs from the outset. CME recommends that extensive bilateral consultation is undertaken with all industries impacted by the taxonomy to ensure the underlying methodology is suitable for all aspects of the resource sector.**

3. Emissions intensity values used in the taxonomy must align with Australian regulatory frameworks

⁶ Net Zero Plan, <https://www.dcceew.gov.au/climate-change/emissions-reduction/net-zero>

⁷ COAG Energy Council, 2019, Australia’s National Hydrogen Strategy, <https://www.dcceew.gov.au/energy/publications/australias-national-hydrogen-strategy>

⁸ Department of Industry Science and Resources, June 2024, Future Gas Strategy <https://www.industry.gov.au/publications/future-gas-strategy>

⁹ Department of Industry Science and Resources, July 2023, Critical Minerals Strategy 2023-2030, <https://www.industry.gov.au/publications/critical-minerals-strategy-2023-2030>

¹⁰ National Greenhouse and Energy Reporting Scheme <https://cer.gov.au/schemes/national-greenhouse-and-energy-reporting-scheme>

In 2023, the Safeguard Mechanism (SGM) was reformed to align heavy industry decarbonisation trajectory with Australia's 2030 and 2050 commitments under the Paris Agreement.¹¹

The SGM has set intensity benchmarks (production variables) and includes product definitions for the four minerals currently included in the taxonomy. We note that the definitions used for the taxonomy are different to the safeguard mechanism production variables and appear to be based on 100 per cent metal rather than ore. Ideally, definitions and intensity settings would be aligned across federal government frameworks to minimise duplication when preparing data across regulatory frameworks, avoid confusion when reporting information for different purposes and enhance transparency.

CME recommends that the taxonomy terminology be amended to align to the Australian Safeguard Mechanism for definitions and emissions thresholds for the four minerals currently included in the Taxonomy and any future mineral or energy products.

Further, **CME recommends that additional consultation is conducted on the implementation rules associated with the emissions intensity thresholds**, due to a number of potential challenges which may impact the usability and potentially impact taxonomy (financing) outcomes.

Specific consideration should be given to the potential for:

- the misalignment of long project development cycles exceeding the intermediate emissions thresholds, particularly when emission reductions may only be realised on completion of the project;
- the stepwise approach incentivising short-term projects that can meet intermediate thresholds, over long-term projects that may provide more substantial emissions reductions; and
- risk of non-compliance if there are project delays which result in project delivery in a new emissions threshold period.

Consideration should also be given to the application of projects being aligned to thresholds at the period of commencement, and averaging emissions over the finance term.

4. The step-change approach to emission reduction trajectory is reflective of reality

CME supports the step change trajectory or phased approach to baseline decline trajectories as proposed in the taxonomy. This method is reflective of abatement technology development timeframe and also effectively addresses the lead times for large capital projects and the lag associated with realisation of emissions reductions. We recognise the benefits and endorse the phased step change approach, over an annualised decline glidepath methodology. This approach enhances predictability and provides planning security, while accommodating timelines for major capital investments and supply-side constraints of low carbon technology.

5. The technology measures included in the taxonomy must align with technology pathways in Australia's Net Zero and Sectoral Plans

The identified technological measures are overly restrictive and do not encompass the full range of technologies that have been identified as being required to deliver Australia's net zero targets.

To achieve the intent of directing finance to 'transition' or 'green' projects, the taxonomy must support technologies for energy efficiency, emissions reduction, carbon sequestration and adaptation for both new and existing projects.

We note that the taxonomy omits a number of technologies that are listed as "key enabling technologies" under Australia's Net Zero Plan including low carbon liquid fuels, atmospheric carbon removal, carbon capture utilisation and storage, process electrification, gas for firming renewables and energy efficiency measures. CME supports inclusion of the diverse range of technologies that will need to be funded to deliver the resource sector's net zero transition.

CME recommends that the application of technology measures within the taxonomy must be flexible or able to be periodically adjusted to reflect changing technology availability and align with Australia's sectoral plans as they are periodically updated.

6. The taxonomy should not include Scope 3 emission considerations for Iron Ore

¹¹ Paris Agreement (2015) – United Nations Framework Convention on Climate Change, Paris, France, Dec. 12, 2015

The taxonomy approach for iron ore is inconsistent with the other minerals covered by the taxonomy. We understand that the boundary for the taxonomy is restricted to the project boundary, with emissions related to downstream processing of a product to be included in the next consultation phase under the Manufacturing and Industry sector. The inclusion of Scope 3 emissions for iron ore is also inconsistent with other regulatory frameworks including Safeguard Mechanism.

Including Scope 3 emissions for iron ore may result in unintended consequences. For example, facilities that have the greatest potential for improvement may be locked out of transition financing, as third party operated downstream facilities may have targets that aren't aligned with the taxonomy's 'transition' or 'green' requirements. This may disincentivise the development and implementation of decarbonisation measures for iron ore projects within Australia and delay Australia's net zero transition.

Further, it unfairly places the burden on iron ore producers to transform third-party controlled downstream facilities, which is impractical and ineffective given current mechanisms and supply chain realities – most notably the fact that the majority of downstream facilities operate in international jurisdictions subject to different net zero ambitions. For example, determining the actual ore blend in a third-party steel mill in an international jurisdiction is very difficult, as mill input is often taken from a joint inventory stockpile at a foreign port, containing material from multiple suppliers. Resolving this issue will necessitate a substantial shift in data sharing and access protocols, which is beyond the ability of Australian organisations to influence, particularly where mills are State controlled. In addition, the emissions intensity data for steel mills is tightly controlled and not widely shared. Ensuring transparency and reliability in emissions reporting amidst such complex supply chains will require overcoming significant hurdles in data verification and authentication.

CME does not support the inclusion of Scope 3 emissions within the proposed methodology for Iron Ore, we recommend this is removed and instead suggest that 'green' and 'transition' criteria are developed for additional downstream products in the Iron ore-to-Steel supply chain (i.e. iron products and steel) to achieve the same sustainable financing outcome.

7. Criteria for new facilities should be the same as that of existing facilities

A single set of criteria should be adopted for both new and existing facilities to ensure consistency, fairness and transparency. Uniform standards create a level playing field, prevent market distortions, and promote equitable treatment, thereby fostering a collaborative industry environment. **The inclusion of 'green' and 'transition' criteria that are aligned with Australian government Net Zero regulatory and policy frameworks should be sufficient for both new and existing facilities.**

8. Future Taxonomy Development

We understand from the session held at CME on 18 June 2024 that a second round of consultation will be conducted in 2024, with the taxonomy expanded to include development of a Do No Significant Harm framework and minimum social safeguards.

CME recommends that high level principles from existing international frameworks should be utilised to develop criteria. This will minimise the administrative burden for organisation operating in multiple jurisdictions.

Conclusion

In summary, CME supports in principle the development of an Australian Sustainable Finance Taxonomy. However, we recommend that the proposed approach be adjusted to ensure the taxonomy achieves outcomes that are practical and administratively simple to apply and aligned to Australia's Net Zero Plan and supporting policy frameworks. We strongly encourage the further consultation with the industry and look forward to continuing to engage with the Australian Sustainable Finance Institute on the ongoing development of the taxonomy.

Should you have questions regarding this letter, please contact Ms Anita Logiudice, Manager of Resource Development and Sustainability on 0448 468 632 or at A.Logiudice@cmewa.com.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Rebecca Tomkinson', with a stylized flourish at the end.

Rebecca Tomkinson
Chief Executive Officer