

This is one of two rounds of public consultation on the Australian taxonomy's initial development phase. This round of public consultation is focused on the draft headline ambitions that have been developed for each of the taxonomy's environmental objectives, and the draft climate change mitigation criteria for the first three priority sectors under development, which include electricity generation and supply; minerals, mining and metals, and; construction and the built environment. Additionally, feedback is being sought on the draft headline ambitions.

The public consultation process: 28 May 2024 to Sunday 30 June 2024 (AEST).

AIGN Responses

1. Headline ambitions

Headline ambitions are the broad, longer-term goals that underpin a taxonomy's environmental objectives and are designed to be considered holistically. Draft headline ambitions have been developed for each of the Australian taxonomy's six environmental objectives in close consultation with TTEG and TAG members, relevant government representatives, and other key stakeholders. The draft headline ambitions are set out in Section 3 of the public consultation paper.

1.1

Do the headline ambitions reflect Australia's highest national goals for climate and environmental sustainability?

Ambition

The Australian Industry Greenhouse Network Limited (AIGN) appreciates the opportunity to engage with the development of the Sustainable Finance Taxonomy (2024).

AIGN supports the Government's commitment to the Paris Agreement and to meeting its goals, recognising the need for increasing ambition to keep the 1.5°C warming goal within reach and to achieve net-zero emissions by mid-century.

Consultation process

AIGN appreciates ASFI's clear communication regarding the consultation process for the sustainable finance taxonomy. We note that ASFI is open to receiving feedback on the first consultation paper during the second consultation phase in October.

AIGN encourages ASFI to consult broadly and openly. Some AIGN corporate members were not allowed to have bilateral consultations despite having a direct interest in the industry sectors ASFI is currently considering. In future written consultation rounds, it would be useful to allow stakeholders to attach documents to their submissions, as some of our feedback, while relevant, does not fit neatly into the set questions on the portal. As more industry sectors will be considered in the second phase of consultation, a flexible approach to stakeholder participation and submission of written feedback would facilitate deeper engagement with industry stakeholders, providing opportunities to express more nuanced views.

Timing and volume of work concerns

To meet its 2030 and 2050 targets, the Government is moving rapidly on climate change policy development and reform of existing policies to align with the Climate Change Act 2022. AIGN acknowledges the action being taken to put in place or build on existing policy frameworks to meet these commitments in what is a 'critical decade,' and the effect of economic transformation. This includes the Treasury's work on the Sustainable Finance Strategy, of which the sustainable finance taxonomy is a major facet.

The rapid and voluminous schedule of work creates a risk of policy misalignment and unintended consequences. AIGN members need sufficient time to give due consideration to impacts and interactions with other policies and provide thorough feedback.

There is a risk that the quality of elements of the strategy will be compromised if the timeframe is rushed. This concern encompasses multiple climate policy objectives, as there are ambitious deadlines across a wide range of policy development and implementation processes.

Whilst high-level reference groups can usefully provide a focus group to inform and test policy development they should not be used in isolation. Prior and informed consultation must be undertaken with the providers of this data (industries) – it is not until we understand how these policy recommendations will be implemented that the Government can make an informed decision on the nature and extent of the regulation.

Taxonomy

AIGN conditionally supports the development of a sustainable finance taxonomy that seeks to improve the flow and clarity of information. AIGN notes that corporate climate ambition and transparent reporting have been increasing without government intervention and reflect the private sector's evolving priorities.

The taxonomy must be facilitative rather than prescriptive – promoting common understanding while recognising inherent differences across sectors and entities. It should help investors and other stakeholders understand how assets, activities, or industries align with the transition to net zero while enabling independent investment decisions.

AIGN supports the view that the transition to net zero will require some ongoing investment in all activities that provide credible pathways to reduce emissions and that the taxonomy should not mandate investment approaches and capital flows.

The approach taken should not risk undermining Australia's ability to undertake the transition to net zero efficiently and at the least cost.

A labelling system for investment products could be useful in standardising terminology and enhancing investor confidence and a general understanding of the sustainability characteristics of investment products.

The taxonomy must be aligned with the Government's suite of policy measures designed to facilitate the transition to a net zero economy. Careful consideration must be given to language and labels, which could be further broadened (from 'green', 'transition', or 'ineligible').

Failure to do so risks misleading investors and other stakeholders about their role and Australia's policy more broadly (e.g., the role of carbon capture and storage, or offsetting).

Scenario selection

The Taxonomy has elected to use a single scenario for the pathway to 1.5 degrees, however, a more sophisticated approach would be to consider a range of potential future uses for different combinations of primary energy sources and abatement technologies.

This could include the range of pathways included in the climate science from the Intergovernmental Panel on Climate Change (IPCC), as well as Australian-specific scenarios e.g., Australian Energy Market Operator, and academic research such as the Net Zero Australia project led by the University of Queensland, University of Melbourne, Princeton University and Nous Group.

The Taxonomy must recognise the evolutionary nature of this transition, and in and of itself evolve as technology evolves. Over the decades to 2050 it follows that some investments that will accelerate Australia's transition to net zero might not meet the Taxonomy's definitions beyond 2050 but nevertheless play an important role in the short and medium term.

2. Electricity Generation and Supply

Detail regarding the proposed electricity generation and supply criteria is set out in Section 4 of the public consultation paper.

2.1

Do you agree with the proposal to provide the market with system-level advice for energy utilities or portfolios of assets that contain gas-firming facilities? If so, please provide feedback on what issues should be covered in the advice. If not, please elaborate?

The Australian Government's Future Gas Strategy was published in May 2024. It outlines "*...a medium and long-term strategy that establishes the role gas will play in the transition to net zero by 2050, securing affordable gas for Australia as we move to a more renewable grid, and confirming our commitment to being a reliable trading partner*". It further confirms that "*new sources of gas supply are needed to meet demand during the economy-wide transition*". These will need investment that should be conditionally supported by the Taxonomy.

Australian domestic gas supplies can play a sustained role in the energy transition through supporting renewables in power grids, use in hard to abate sectors such as for high process temperature heat, and as a chemical feedstock. Gas-fired generators will have a significant interim role with their capability to respond quickly to manage periods of high demand as renewable energy generation, transmission, and storage are developed at scale and traditional coal-fired generation is retired. The cost of firming renewable energy supply is likely to be the largest differentiator of Australia's future competitiveness for electricity-intensive industries; competitively priced gas can help deliver this essential service at the least cost. Gas firming should be considered in support of renewable deployment.

It would be sensible for the Taxonomy to recognise the timeline during which gas fired power generation will play an important role in decarbonising Australia's electricity systems.

Further, the basis for excluding gas fired power generation in its role as peaking support for renewables (i.e. because this occurs at a system rather than entity level) lacks merit.

CCS forms part of most decarbonisation pathways. The Intergovernmental Panel on Climate Change recently concluded that: "*Implementation of CCS currently faces technological, economic, institutional, ecological-environmental and socio-cultural barriers. Currently, global rates of CCS deployment are far below those in modelled pathways limiting global warming to 1.5°C or 2°C. Enabling conditions such as policy instruments, greater public support and technological innovation could reduce these barriers.*" The Future Gas Strategy identifies an action to "*promote geological storage of CO2 and support our region's transition to net zero by releasing acreage for offshore CCS and establish a new initiative on regional cooperation on transboundary carbon capture and storage which will provide options for energy security and carbon management solutions for our regional partners.*"

The current Taxonomy draft's exclusion of CCS based on Technology Readiness Level (TRL) appears at odds with these commitments. Conversely, inclusion in the Taxonomy could provide an important investment incentive to overcome barriers and accelerate Australia's decarbonisation.

2.2

On a scale of 1-3, how much of a challenge is it to acquire lifecycle assessment data for upstream scope 3 emissions? (1 = not likely to ever be available, 2= challenging but can be resolved in time with better disclosures and evolving practices, 3= not challenging, data is readily available).

Scope 3 emissions reporting is challenging and will require further detailed consultation with industry. There isn't a one-size-fits-all approach, and some emissions data will be scope 1, 2, and 3.

A sensible approach to lifecycle assessment data (scope 3 emissions reporting) is required.

Scope 3 reporting includes the entire supply chain – and the supply chains of entities' suppliers - an administratively complex, expensive, and methodologically challenging reporting exercise.

There are many views from stakeholders regarding the purpose of scope 3 reporting, pointing to a fundamental need for stakeholders to come to a better understanding of each other's positions and concerns.

For AIGN members, scope 3 reporting makes the most sense in the context of managing risk. Scope 3 emissions, by definition, are emissions that occur outside an entity's direct control, and therefore they represent a potential risk (or a potential opportunity) to the entity's operation.

The concept of operational control is the foundation on which the NGERS framework is built. Companies report emissions that are produced at their operated facilities – which they control, both in terms of measurement and output. Given the NGERS framework is facility-based, and entities report based on operational control of a facility, AIGN does not consider NGERS to be the correct tool for reporting scope 3 emissions. One of the challenges of reporting scope 3 emissions in NGERS would be the difficulties for reporters to obtain emissions information from third parties – it would not be feasible to expect an entity to track and disclose the emissions information of other businesses. Scope 3 emissions are furthermore not limited to Australia, and acquiring reliable data from other jurisdictions for NGERS would be problematic at best.

Despite scope 3 reporting being unsuitable within the NGERS framework, AIGN recognises that the consideration of scope 3 emissions can be of value, and further deep and wide engagement with reporters is required to determine the most efficient and effective method for reporting. AIGN recommends the Government form a working group to explore the many issues related to reporting scope 3 emissions. Reporting entities should be strongly represented in such a working group and complemented with end users and auditors to assist in bringing balance to their output. Issues for the working group to explore should include the purpose of reporting scope 3 emissions, the materiality of different sources of scope 3 emissions (e.g., supply chain emissions versus emissions associated with the administration and operation of a business), and the use of scope 3 emissions data by governments and other end users. The working group could advise on an approach to scope 3 reporting and identify workable solutions that meet the needs of reporting entities and end users in a credible reporting framework.

A whole-of-economy approach to reaching net-zero should include consideration of scope 3 emissions in Australia's carbon footprint, to better understand our impact in both domestic and global contexts, and to explore options for supporting decarbonisation.

See also answers for 3.7-3.10.

2.3
Are the proposed ISO standards suitable for assessing lifecycle emissions requirements in Australia? If not, which standard(s) is more suitable?

Applying the ISO standards is a sensible approach in general, but this needs to be considered on a broader and consistent basis for eligible activities e.g., the role of gas in enabling a reliable and stable renewable dominant grid. Recognition or input from other relevant methodologies would also be appropriate e.g., such as the Aluminium Stewardship Initiative.

2.4
Are the proposed technical screening criteria (TSC) usable and clear? In this context, usability of criteria refers to whether they are comparable, clear, objective and easy to understand.

The TSC is clear but needs to be considered on a broader and consistent basis for eligible activities e.g., the role of gas in enabling a reliable and stable renewable dominant grid. Recognition or input from other relevant methodologies would also be appropriate e.g., such as the Aluminium Stewardship Initiative.

2.5
Are the proposed TSC credible? In this context, the credibility of criteria refers to whether a transparent, scientific approach aligned to the Paris agreement temperature goal has been used, informed by the latest technological understanding.

The TSC provides a sensible approach in general, but this needs to be considered on a broader and consistent basis for eligible activities e.g., the role of gas in enabling a reliable and stable renewable dominate grid. Recognition or input from other relevant methodologies would also be appropriate e.g., such as the Aluminium Stewardship Initiative, World Cement Climate Pledge.

2.6
Are there any activities for which the TSC are unclear?

The role of natural gas and carbon capture and storage in enabling and supporting a renewable dominant electricity grid should be recognised in the transition to net zero.

2.7
Are there any activities for which further detail is required?

The role of natural gas and carbon capture and storage in enabling and supporting a renewable dominant electricity grid should be recognised in the transition to net zero.

2.8
Are there any additional activities that should be included, which comply with the taxonomy transition methodology? Note: hydrogen production will be included under the Manufacturing and Industry sector of the taxonomy.

The role of natural gas and carbon capture and storage in enabling and supporting a renewable dominant electricity grid should be recognised in the transition to net zero.

3. Minerals, Mining and Metals

Detail regarding the proposed minerals, mining and metals criteria is set out in Section 5 of the public consultation paper.

3.1

<p>Is the methodology for the development of intensity thresholds [for copper, lithium and nickel] clear?</p>
<p>In this section, inconsistencies in language need to be corrected:</p> <ul style="list-style-type: none"> • it is assumed that ASFI implies Copper Ore but this should be clarified to distinguish it from downstream processing steps (which may be addressed as manufacturing activities). • bauxite (aluminium ore) should be referenced as a Strategic Ore as it is used to produce a Strategic Material (Alumina/Aluminium). Bauxite should be included in future mining assessments and alumina and aluminium for manufacturing.
<p>3.2 Are emissions intensity thresholds [for copper, lithium and nickel] usable at the mine site level?</p>
<p>The intensity thresholds should apply at the commencement of the term. Noting the capital timeframes stated in the paper it is not practicable to apply them on an annual basis. The rationale for the exclusion of the transitional use of offsets should be clarified. Offsets could incentivise the demand for abatement and support Australia’s Paris aligned emissions abatement targets.</p>
<p>3.3 Does the trajectory for future thresholds adequately balance ambition, credibility and usability?</p>
<p>See previous.</p>
<p>3.4 Should biofuels and e-fuels be included in the list of eligible measures?</p>
<p>Australia should continue to incentivise all forms of emission reduction, including the use of biofuels and e-fuels. These fuels can form a practicable pathway for the decarbonisation of mining and manufacturing sectors. The lifecycle impact of biofuels and e-fuels should be included in ASFI’s assessment. Some biofuels and next generation fuels (e.g. renewable diesel) can facilitate significant emissions reductions compared to traditional fuels and should be recognised as a critical transitional measure in decarbonising some sectors. The measures should consider decarbonisation pathways that include fuel switching to lower emission sources and the integration of carbon capture and storage (CCS).</p>
<p>3.5 Which biofuels and e-fuels are most important to include specifically for the mining sector, and why?</p>
<p>The scope of included biofuels and next generation fuels should be broad to facilitate investment in the growing biofuels market. This is particularly relevant to the mining sector, given the significant decarbonising potential of renewable diesel using available technology. The consultation paper mentions that some biofuel feedstocks are ‘ethically complex’ given their links (in some countries) to deforestation, biodiversity loss, and population displacement. These concerns have historically emerged from the European market. The Australian market is markedly different from the European in this regard, given our extensive arable farmland and surplus supply of oilseed crops (which are currently exported as biofuel feedstock including to the European market). The Australian market can be carefully regulated to ensure it achieves its environmental objectives in parallel with its emissions objectives.</p>
<p>3.6 Should any requirements be attached to the inclusion of biofuels or e-fuels (e.g. standards, certifications)? In answering this question, please consider how your answers are aligned to the taxonomy’s core principles of credibility and usability.</p>
<p>It would be sensible to align the accounting of biofuels and e-fuels to the NGERs methodologies and other relevant frameworks and / or certification schemes in Australia (e.g. the Guarantee of Origin Scheme, which will be expanded to include renewable fuels). Some AIGN members use the International Sustainability and Carbon Certification (ISCC) standard for some of its renewable fuels.</p>
<p>3.7 Does the rationale for including Scope 3 emissions requirements for minerals align with the taxonomy’s core principle of credibility? Please explain.</p>
<p>The introduction of scope 3 emissions reporting for ores needs to be carefully considered to avoid unnecessary double counting e.g., scope 3 could be considered for manufacturing activities; this would capture ‘upstream’ emissions associated with ore production. Credible TSC must be based on the most recent agreed technology pathways for each activity and should consider the barriers to deployment for these activities in an Australian context. See also 2.2.</p>
<p>3.8 Are the proposed criteria around Scope 3 emissions usable and clear? If you answer no, please provide suggestions on how it could be improved.</p>
<p>See 3.7 and note that further consideration of the objective of scope 3 reporting is required to ensure the criteria and applicability most efficiently achieve the objective. Consideration of the treatment of domestically vertically integrated industries could lead to confusing or duplicative reporting at a facility level. Further consideration is needed before including scope 3 alongside scope 1 and 2.</p>

There is potential value in establishing a common benchmark for what 'green' is for iron ore mining and associated transition activities. This must be balanced against alignment with technical pathways identified in the Government and Climate Change Authority's work on sectoral decarbonisation pathways and acknowledge existing barriers for deployment. Decarbonisation of iron ore activities must be sufficiently incentivised in the interim period before step change technologies are available and deployable.

AIGN notes that ASFI is considering including scope 3 requirements that it acknowledges will be unachievable in the foreseeable future for some sectors such as iron ore mining (i.e. after 2030). If this proposal is included, it should be stated in the taxonomy to avoid misinterpretation by users. Sufficient low-carbon steel production capacity does not currently exist at the scale needed for the proposed offtake agreements, however, there is active industry collaboration between iron ore mining and steel producers on technology development. AIGN encourages ASFI to engage with relevant expert stakeholders to achieve a deeper understanding of this complex issue.

See also 2.2.

3.9

Do you agree with the 40% materiality threshold for Scope 3 emissions? If not, how would you change it and based on what?

See 3.8 and 2.2.

3.10

Which other factors could be considered for determining whether a Scope 3 requirement should or should not be applied to criteria for minerals covered in the taxonomy?

See 3.8 and broadly consider the most efficient and effective integration of scope 3 reporting for minerals. Without careful consideration, facility reporting could be unnecessarily complex and misleading.

Where practicable, consistency of application of scope 3 reporting is preferred across sectors and supply chains.

It is noted that the iron ore requirement is set at 'two downstream processes after mining' and that without a vertically integrated supply chain (and assuming it all meets the taxonomy's requirements), it would be very difficult to be able to meet this requirement e.g., metals exchange interactions, intermediaries, etc. it could also lead to unintended outcomes that disincentivise emissions intensity improvements.

See also 2.2.

3.11

Noting that the proposed criteria in this public consultation paper apply only to existing mines, what are the key considerations that should be taken into account when developing criteria for new mines, within the defined emissions boundary?

Definitions must be consistent with those applied in existing regulations such as NGER and the Safeguard Mechanism (production variables). Not addressing these differences will lead to confusion and differentiated reporting at a facility level. The policy should be carefully designed to avoid favouring one commodity over another in the economic transition. Australia needs all emissions abatement technologies to be deployed as soon as possible and the materials and infrastructure to support this deployment.

Iron Ore Criteria

Copper, Lithium, Nickel

4. Construction and the Built Environment

-