Scope of this Reporting

Submission on *National Greenhouse and Energy Reporting Amendment (Transparency in Carbon Emissions Accounting) Bill 2020*

Australia's fossil fuel exports are more than double direct domestic emissions in CO2 potential. Such 'scope 3' emissions should be reported and included in government accounting. Mining lobby objections do not stack up and are contradicted by the actions of many of their own members companies. Emissions data release should be insulated from the Minister in timing and presentation.

Submission

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Introduction

The Australia Institute would like to make the following submission regarding the *National Greenhouse and Energy Reporting Amendment (Transparency in Carbon Emissions Accounting) Bill 2020* (the Bill). While the deadline for submissions has passed, we thank the Committee for their indulgence to consider this submission.

The Australia Institute is a public policy think tank based in Canberra which has conducted extensive research on climate change policy, including specifically on the topic of scope 3 emissions.

The Bill has two elements. The first creates requirements for the reporting of 'scope 3' emissions under the existing National Greenhouse Gas Reporting scheme. The second creates new staturory deadlines for the Minister to publicly release greenhouse gas emissions data, in a format provided to him by the independent regulator. Both goals are worthy of support to better inform climate policy, debate and accountability.

OUTLINE

This submission first outlines The Australia Institute's estimates of the vast scale of scope 3 emissions from Australian fossil fuel exports, currently ignored by Australia's emissions accounts.

The submission considers and rejects key objections put forward by industry.

- There is no problem of 'double counting', only different ways of viewing the same problem, just as with current reporting of scope 2 emissions.
- The practicality of reporting schope 3 emissions is shown by the fact that many companies are already doing it, including large members of the lobby groups opposing the Bill, like BHP. Scope 3 reporting is widely expected in the industry.
- Reporting scope 3 emissions is entirely consistent with UN climate treaties. The concept of 'scope' did not arise in the UN process. The treaties encourage all global action and nowhere prohibit scope 3 reporting.

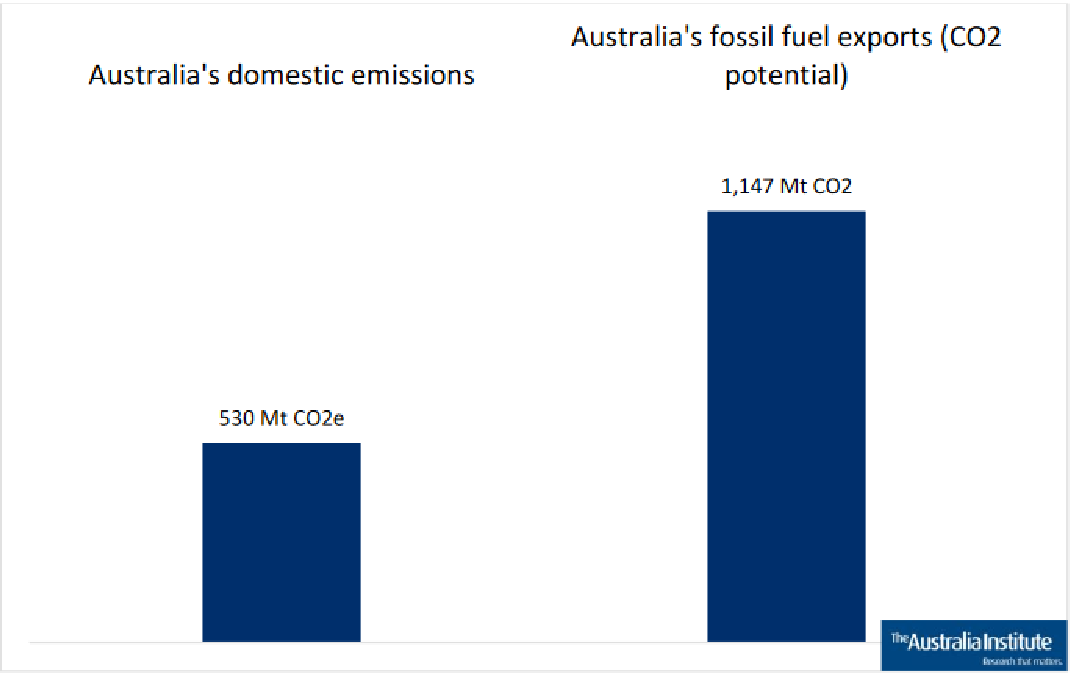
Finally, the submission argues the proposed disclosure arrangements would be worthy improvement. Unexplained Ministerial delays and untimely release undermine accountability and have come to be viewed as farcial. Emissions data release should be more timely and independent, like from the RBA and the ABS.

Reporting Scope 3 emissions

Greenhouse gas emissions are often categorised in terms of 'scope'. Scope 1 emissions are physically direct emissions, for example emissions released from a company's smokestacks. Scope 2 emissions are indirect emissions produced to generate the power used by a company. Scope 3 emissions are indirect emissions produced in the consumption or use of a company's goods or services.

The need to consider scope 3 emissions is obvious when we consider the vast emissions embodied in the fossil fuels exported by Australia. In 2019, The Australia Institute calculated the CO2 potential in fossil fuels exported from Australia, and compared to exports from all other countries.[1] This was done using IEA data and default emissions factors from the IPCC. The results are shown below.

Figure 10: Australia's domestic emissions vs fossil fuel exports

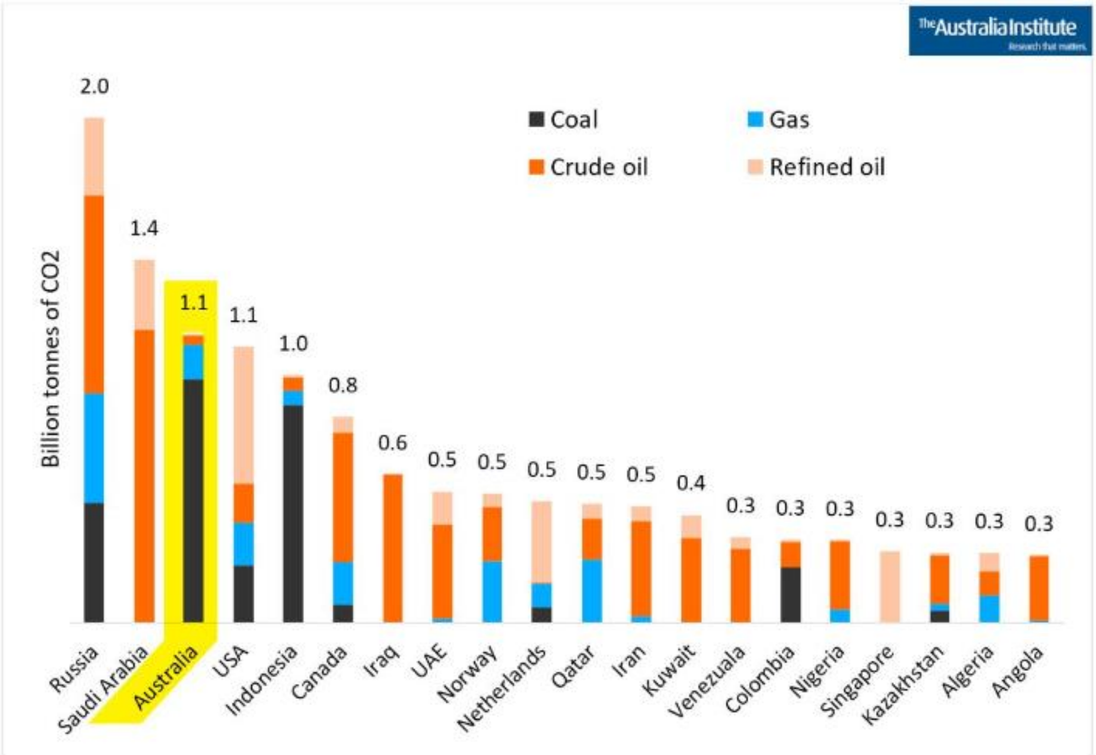


Source: IEA (2018) *World Energy Balances*; IPCC (2006) *IPCC Guidelines*, as described in text; Commonwealth of Australia (2019) *Quarterly Update of Australia's National Greenhouse Gas Inventory for September 2018*

[1] Swann (2019) *High Carbon from a Land Down Under - Quantifying CO2 fromAustralia's fossil fuel mining and exports*, https://www.tai.org.au/sites/default/files/P667%20High%20Carbon%20from%20a%20Land%20Down%20Under%20%5BWEB%5D_0_0.pdf

As the Figure above shows, Australia's exported fossil fuel CO2 potential is more than double Australia's total domestic emissions. This makes Australia the world's third largest fossil fuel exporter in CO2 terms. It is behind only Russia and Saudi Arabia. The vast majority of the export CO2 is coal, although gas has been increasing dramatically.

Figure: World's biggest fossil fuel exporters, CO_2 Gt potential of exports



Source: IEA (2018) *World Energy Balances;* IPCC (2006) *IPCC Guidelines,* as described in text; Commonwealth of Australia (2019) *Quarterly Update of Australia's National Greenhouse Gas Inventory for September 2018*

While The Australia Institute and others have been able to produce these estimates, this indirect and incomplete approach was necessary because official data is currently absent or unavailable from the Australian government. Similar estimates can be produced for exported fossil fuel emissions from individual companies, but again official data does not exist.

By failing to provide such data the Australian government is hiding the true scale of the global heating impacts of companies exporting fossil fuels from Australia.

Climate change as a global problem is blind to where the fuel is burnt. Failing to consider scope 3 emissions in Australia's coal and gas exports fails to consider the majority of Australia's contribution to the problem.

The omission of scope 3 reporting has the effect of hiding the information.

The Australian public should not have to rely on the research of civil society groups like The Australia Institute to access information about the true scale of Australia's impact on the climate. Nor, given the existence of corporate emissions reporting for scope 1 and 2 emissions, is there good reason for not including such emissions where they are so large and guidance may be readily given on how to report them.

While lobby groups for the fossil fuel mining industry have presented arguments in opposition to reporting scope 3 emissions, those arguments do not stack up. We here consider some of their main claims.

NO PROBLEM OF 'DOUBLE COUNTING'

There is no problem from alleged "double counting". The fact that one thing can be considered from multiple perspectives is something that most humans learn in infancy. A buyer and seller both see the same transaction in different ways but share responsibility for known consequences of the transaction.

There are many valid and important ways to categorise emissions, demarcate them and aggregate them. This is plainly not a good reason to refuse to categorise them in those ways. Yet that seems to be the argument.

Consider that National Greenhouse Emissions Reporting scheme (NGERS) has long required reporting of scope 2 emissions, which are also scope 1 emissions for someone else. Those objecting to inclusion of scope 3 do not appear to be objecting on the same grounds to scope 2 reporting.

The Bill makes changes relating to reporting requirements and does not regulate scope 3 emissions. Even if it did, the fact that both buyer and seller play a role in producing the emissions is not a reason to focus on one to the exclusion of the other.

MINING FUEL CAUSES SCOPE 3 EMISSIONS

Fuel that is not mined and sold cannot be burnt. Companies that mine and sell fuel are in this plain respect in control of those emissions. The mining and selling of fuel is a necessary condition of the subsequent emissions. It is not the only cause, but then neither is the final end use.

The mining industry attempts to deny these simple facts are difficult to understand. Again, such criticism is not being levelled at reporting scope 2 emissions, which the mining industry claims to support.

IT'S PRACTICAL, IT'S ALREADY HAPPENING

Reporting of scope 3 emissions is consistent with expectations from large corporations, not contrary to them. The practicality of reporting scope 3 emissions is demonstrated by longstanding practice in planning decision making and corporate accounting.

Scope 3 emissions are routinely reported by mining companies as part of applications and reviews in development applications and assessments. In The Australia Institute's experience this includes Queensland, WA and NSW. Material reference to scope 3 emissions from proposed coal mines was a key part of decisions by the Chief Judge of the NSW Land and Environment Court and the Independent Planning Commission.

The practicality of reporting scope 3 emissions is also demonstrated by the actions of some of the largest producers of scope 3 emissions on the planet.

BHP, the world's largest traded mining company, reports scope 3 emissions of its commodities. In 2018 BHP explained why it would report on its 'scope 3' emissions and try to reduce them:

> while reducing our scope 1 and 2 emissions is vital, emissions from our value chain (scope 3) are many times greater than those from our own operations … we have a stewardship role in working with others in our value chain to achieve emissions reductions across the full lifecycle of our products.[2]

In 2019, then CEO Andrew Mackenzie said

> And we won't stop at the mine gate we will also increase our focus on scope 3 emissions [which are] almost forty times higher than the emissions from our own operations. … To measure our stewardship of BHP's products in 2020 we will also set public goals to address scope 3 emissions.

[2] BHP (2018) *Addressing Greenhouse Gas Emissions Beyond Our Operations,* https://www.bhp.com/media-and-insights/prospects/2018/08/addressing-greenhouse-gas-emissions-beyond-our-operations/

> It is clear from the IPCC's 1.5 degree report that we all must work to prevent more greenhouse gases from entering the atmosphere and to remove some CO2 that is already there"[3]

Ernst and Young (EY), who are BHP's auditor, recently surveyed mining executives and found many see scope 3 emissions as a rising risk to mining's social license. EY global mining leader Paul Mitchell said "miners will inevitably be expected to participate in reducing the carbon footprint of the end products". He specifically noted this could include regulation "hence the need to begin focusing on scope 3 emissions."[4] Mitchell also said companies will be expected to consider which customers they sell to as part of reducing scope 3 emissions.

BHP is the largest member of the Minerals Council of Australia. So it is surprising to read in the Minerals Council's submission to this inquiry that "it is neither practical nor plausible for upstream entities to be held responsible for the accounting and reporting of downstream entities' emissions".

Compounding the apparent contradiction, mere paragraphs earlier, the MCA "proudly notes that many of its members already voluntarily report … scope 3 emissions". This plainly demonstrates it is practical in a wide range of cases.

The MCA should be clearer about the ability to report and the desire of some of their members to avoid requirements to do so.

Where mining companies do not currently produce data on the scope 3 emissions of their products, requiring them to do so would increase their governance of climate change risk and in turn increase the quality of corporate and financial decision-making. Standardising expectations and emissions factors should make the efforts involved to be minimal.

CONSISTENT WITH UNFCCC

Reporting of scope 3 emissions is entirely consistent with the UN Framework Convention on Climate Change (UNFCCC), in line with its spirit and even grounded in elements of that treaty convention.

[3] BHP (2019) *Evolving Our Approach to Climate Change,* https://www.bhp.com/media-and-insights/reports-and-presentations/2019/07/evolving-our-approach-to-climate-change
[4] Ker (2019) *Scope 3 accountability inevitable for miners, says EY,* https://www.afr.com/companies/mining/scope-3-accountability-inevitable-for-miners-says-ey-20191002-p52wzb

Mining industry voices have argued, including in submissions to this inquiry, that consideration of scope 3 emissions is in breach of existing accounting principles under the UNFCCC. This is curious, as the concept of 'scopes' does not appear in the UNFCCC or any subsequent treaty. The concept of 'scopes' arose within the business sector to meet a need for investment information.

The UNFCCC and subsequent treaties such as the Kyoto Protocol and the Paris Agreement set global goals for reducing global emissions and set up a range of national obligations. These include obligations to reduce 'territorial emissions', those physically released within a country's territory, which is roughly homologous to scope 1. However no part of any UNFCCC treaty forces countries to consider and reduce *only* territorial emissions and *prohibits* other considerations. On the contrary,the Paris Agreement includes a range of obligations which cover emissions reductions outside of national territories, including overseas development assistance, technology transfer and "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development".[5]

Note the UNFCCC Partnertship on "Methodological Framework for the measurement and attribution of climate contribution from scope 3 activities…". Clearly the UNFCCC Secretariat sees consideration of scope 3 emissions as relevant to meeting global goals.

More specifically, note further that text of the UNFCCC itself justifies accounting for scope 3 emissions. The UNFCCC treaty states:

> [Parties will…] Promote sustainable management, and promote and cooperate in the conservation and enhancement, as appropriate, of sinks and reservoirs of all greenhouse gases.[6]

UNFCCC defines key terms as follows:

> "Reservoir" means a component or components of the climate system where a greenhouse gas or a precursor of a greenhouse gas is stored[7]

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[5] UNFCCC (2015) *Paris Agreement,* Article 2.1.c https://unfccc.int/sites/default/files/english_paris_agreement.pdf#page=5

[6] United Nations (1992) *United Nations Framework Convention on Climate Change*, p 10-11, http://unfccc.int/files/essential_background/background_publications_htmlpdf/application/pdf/conveng.pdf

[7] P 7,

> "Climate system" means the totality of the atmosphere, hydrosphere, biosphere and geosphere and their interactions.[8]

A reservoir therefore includes deposits of fossil fuel.

Australia has already committed to “Promote sustainable management, and promote and cooperate in the conservation and enhancement” of fossil fuel deposits. Reporting scope 3 emissions would be a simple step to take towards that goal.

[8] P 7,

New statutory emissions reporting

The Bill would also create new statutory requirements for

- the Regulator of NGERS (currently the Clean Energy Regulator) to make quarterly emissions reports to the Minister,
- and for the Minister to then present them to Parliament within 15 sitting days.

These two changes would greatly assist in the NGER Act meeting its legislated Objects:

> The first object of this Act is to introduce a single national reporting framework for the reporting and dissemination of information related to greenhouse gas emissions, greenhouse gas projects, energy consumption and energy production of corporations to:
>
> > (b) [sic] inform government policy formulation and the Australian public[9]

Currently the Quarterly Emissions reports are released by the Department, on timelines and with public communications strategies determined by the Minister for Energy and Emissions Reductions. Despite Parliamentary attempts to make the release adhere to a set schedule, the data is regularly released late, or on terms colloquially described as 'taking out the trash', e.g. late on a Friday before a long weekend.

Amongst climate policy experts, the main audience for the data, the situation is widely viewed as farcial.

This would change with clear deadlines in law to ensure timely release.

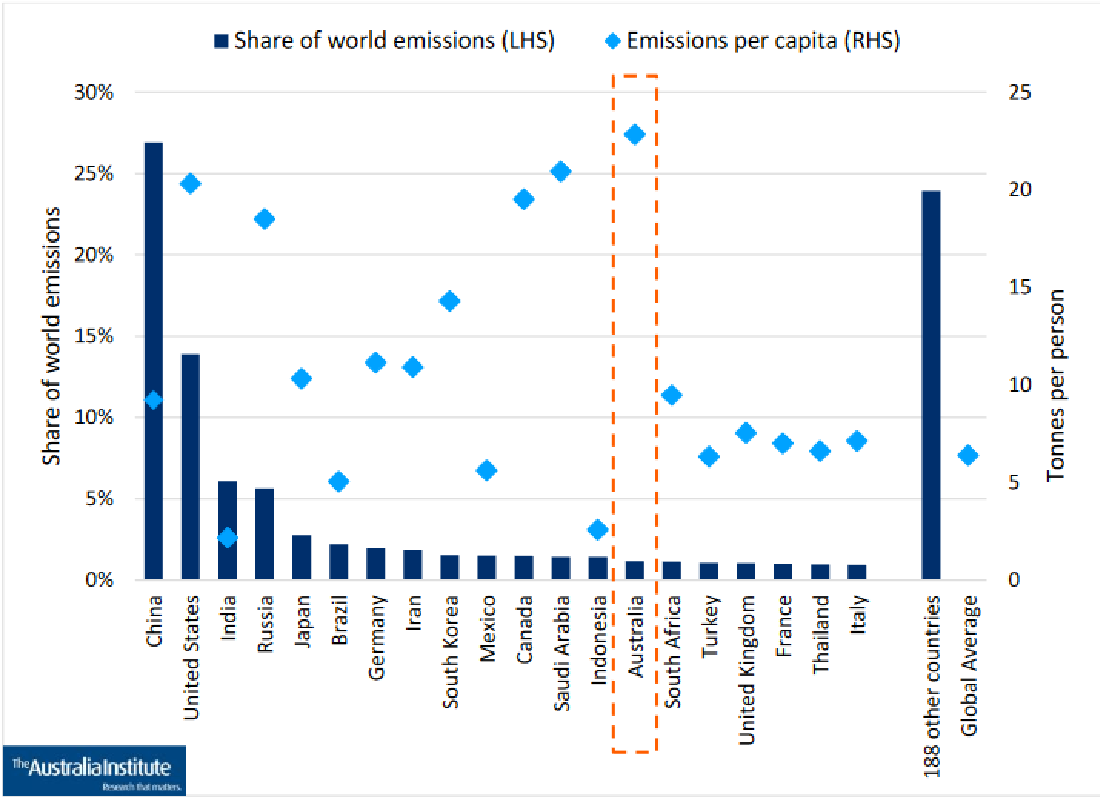
While the proposed legislation is a simple and worthwhile improvement, it is worth considering whether the reports should be made public even outside of Parliamentary sitting periods, and whether they should be presented to the Minister first. A good example here are the RBA and the ABS, which generally do not provide information on decisions and research to the government prior to public release.

Nonetheless, the fact that the emissions report would come from the Regulator, not the Department, will increase confidence in the authority of the report through insulation from executive influence. This extends not merely to the data itself, but more importantly to its mode of presentation.

[9] NGER Act https://www.legislation.gov.au/Details/C2019C00263

For example, Department's recent Quarterly emissions reports have consistently focued on per capita emissions reductions, highlighting this data above all else, despite the category having no bearing on our international obligations. More importantly, there is no mention of the essential context that Australia has the highest per capita emissions in the OECD and the highest outside of a handful of small petro-states (see Figure below).[10]

Figure 1: Top 20 biggest GHG emitting countries (2016, ex LULUCF)



Source: All Kyoto GHG, excluding LULUCF, 2016 PIK data, accessed via WRI (2019) *Climate Watch*, https://www.climatewatchdata.org/; World Bank (2017) *Population – 2016*, https://data.worldbank.org/indicator/sp.pop.totl?end=2016&start=2016

Australia's extreme per capita emissions justifies deeper cuts than are currently proposed, much less made, but through omission the Quarterly reports provide the opposite impression.

As an independent agency, the Regulator is far less likely to make such contentious choices in presenting this essential information.

[10] Swann (2019) *High Carbon from a Land Down Under*