



**CEMENT INDUSTRY
FEDERATION**



CEMENT INDUSTRY FEDERATION SUBMISSION

Climate-related financial disclosure – Consultation paper

21 July 2023



1. Introduction

Thank you for the opportunity to contribute to consultation on the second *Climate-related financial disclosure Consultation Paper*.

The Cement Industry Federation (CIF) is the national body representing all Australian integrated cement manufacturers – Adbri Ltd, Boral Cement Ltd and Cement Australia Pty Ltd.

Australian cement production is a **critical manufacturing industry of national importance**, supporting over 1,200 employees in high paid positions as well as hundreds of apprentices, contractors and transport operators. The cement, lime¹ and concrete value chain supports over 15,000 jobs in Australia.

After water, concrete (including cement) is the most used material in the world and will continue to be crucial in supporting a modern world.

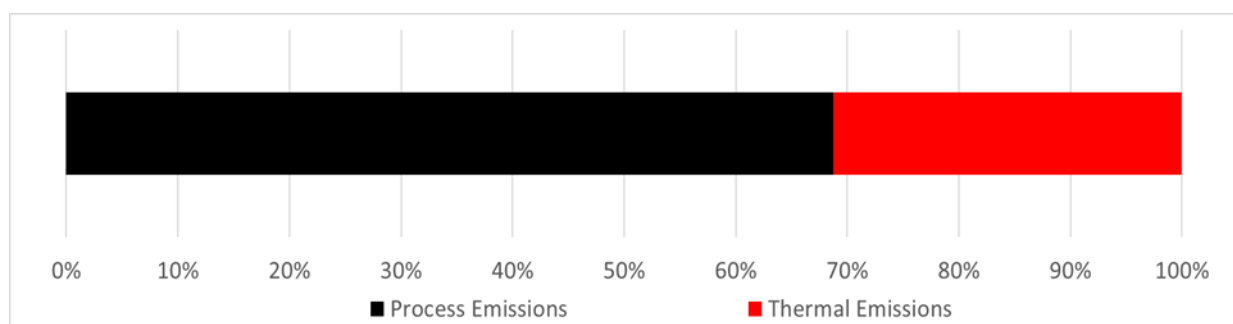
2. Cement Industry Emissions – In Context

Australian cement and lime producers are committed to reducing emissions as part of the collective challenge to achieve net zero emissions by 2050 or earlier. This is reflected in individual CIF member commitments, such as [Adbri Ltd's Net Zero Emissions Roadmap](#), [Boral's Commitment to net zero](#) and Cement Australia Ltd through its shareholders [Holcim](#) and [Hanson/Heidelberg Materials](#).

This is despite cement manufacturing being considered a hard-to-abate sector given the limited options currently available to reduce greenhouse gas emissions – specifically process emissions from the heating of the limestone raw material.

Cement, the binder in concrete, is made by heating limestone to very high temperatures up to 1450°C. This breaks down the limestone into calcium oxide, the key ingredient of cement, and carbon dioxide. This reaction is called calcination and makes up approximately 70 per cent of Australian direct (scope 1 emissions) – see Figure 1.

Figure 1: Typical Australian Cement Emissions Profile – Scope 1



While the industry is committed to implementing emissions reduction opportunities that are available now (such as clinker substitution and increasing the use of alternative fuels), significant emissions reduction opportunities are going to take time to develop and implement.

Carbon capture, use and storage (CCUS) is an example of a critical pathway for our sector to significantly reduce emissions that is in the early stages of development – including the required transport infrastructure.

¹ CIF members also produce lime, either in conjunction with clinker and cement or at stand-alone facilities.

3. General Comments

The decision to legislate standardised, internationally-aligned reporting requirements for businesses to make disclosures should be held over until detailed disclosure standards are developed, and consulted on in detail, by the Australian Accounting Standards Board (AASB).

The CIF notes the work completed to date by the International Sustainability Standards Board (ISSB) to design standardised, internationally aligned reporting requirements for businesses to make disclosures regarding governance, strategy, risk management, targets and metrics. Having access to clearly defined and internationally consistent standards for climate-related reporting will be critical for Australian businesses and stakeholders during the transition to net-zero by 2050.

However, the inability to provide feedback on the AASB standards while the regulatory scheme is being designed is a key concern. The CIF does not support the process by which Treasury propose to legislate mandatory financial disclosures, whereby consultation has taken place without draft AASB Standards being developed. Apart from not allowing sufficient time to provide feedback on the specific reporting requirements, it could also lead to unknown intended consequences as the design of the regulatory scheme may need to be further changes based on the AASB standards.

The proposed disclosure requirements are extensive and include emissions data, scenario analysis, climate resilience assessments, governance processes, controls and procedures, transition plans, targets, material climate-related risks and opportunities, industry-based metrics.

This proposed level of reporting will be challenging - particularly for unlisted companies who currently report to their respective owners, but not publicly or as rigorously as listed companies do - and has the potential to expose (directly and indirectly) commercially sensitive information and impact on the competitiveness of critical Australian industries such as cement manufacturing.

In terms of enforcement, transparency and accountability - Australian cement manufacturers are already subject to national regulation through the reformed Safeguard Mechanism and the National Greenhouse and Energy Reporting scheme (NGERs), which requires close accounting of emissions and annual emissions reductions.

While the overall aim is to increase transparency and accountability in terms of climate-related plans, risks and opportunities – any mandatory reporting framework should seek to avoid the publication of commercially sensitive information either in the form of data (cement facility emissions are closely related to production) or company/facility-specific information (e.g., supply chain information that may benefit a domestic or international competitor).

For hard-to-abate sectors such as cement manufacturing, the consideration and management of climate change risks and opportunities are a core part of doing business. As with other key business metrics, if these risks and opportunities are not identified and managed then the business will be impacted.

This is particularly important for cement manufacturing, where the capital investment requirements are large and lead times are relatively long, but many of the technologies for large-scale decarbonisation are in the early stages of development and unlikely to be available until well after 2030.

As such, access to internationally aligned standards around what is expected in terms of governance, strategy, risk management, targets and metrics will be essential during the transition to net zero.

4. Specific Comments on Proposals

4.1 Reporting Coverage

Proposal: that all entities that meet prescribed size thresholds and that are required to lodge financial reports under Chapter 2M of the Corporations Act 2001 (Cth) (Corporations Act) would be required to make climate-related financial disclosures.

All CIF members are controlling corporations under NGERs and therefore will be covered by the first phase (Group 1) of the proposed new reporting requirements.

As many businesses report on a calendar year (not financial year basis), consideration should be given in developing a disclosure framework that allows reporting in the same time period.

4.2 Reporting Content

Proposal: From commencement, companies would be required to disclose information about governance processes, controls and procedures used to monitor and manage climate-related financial risks and opportunities.

The CIF acknowledges the work to design standardised, internationally aligned reporting requirements for businesses to make disclosures regarding governance, strategy, risk management, targets and metrics.

As noted above, the CIF questions the mandating of such disclosures in the absence of internationally aligned Australian disclosure standards. It is in the best interests of businesses – particularly emissions intensive manufacturers – to establish (and report to relevant stakeholders) governance processes, controls and procedures in accordance with the relevant standards – once the AASB standards are consulted on, finalised and adopted.

To do so, it risks having to rewrite the proposed regulatory scheme to fit with the design on the AASB standards, not the other way around, which in our opinion would be the preferable approach to policy making.

Proposal: From commencement, reporting entities would be required to use qualitative scenario analysis to inform their disclosures, moving to quantitative scenario analysis by end state.

The use of qualitative scenario analysis in the first instance, moving to quantitative analysis by end state, should not initially be a mandated requirement subject to penalties, but rather encouraged as 'best practice' through the relevant standards as the development and application of Australian-specific scenarios matures.

As noted in the consultation paper, useable Australia-specific scenarios for the corporate sector are yet to mature, therefore mandatory disclosures should only apply once the Australia-specific scenarios are fit for purpose and acceptable for use.

Proposal: From commencement, transition plans would need to be disclosed, including information about offsets, target setting and mitigation strategies.

Transition plans, particularly for hard-to-abate sectors with a limited number of currently available decarbonisation pathways, are likely to involve elements of uncertainty and therefore should be treated with caution.

The CIF supports a greater focus on transparency rather than prescribing certain transition planning activities or a level of ambition that firms should meet.

Proposal: Disclosure of material scope 3 emissions would be required for all reporting entities from their second reporting year onwards. Scope 3 emissions disclosures made could be in relation to any one-year period that ended up to 12 months prior to the current reporting period.

A one-year exemption is unlikely to be sufficient for many entities to understand and incorporate scope 3 emissions in line with recognised accounting frameworks (including the GHG Protocol).

Further, it is proposed that the Federal Government introduce the mandating of supplier disclosure of scope 1, scope 2 and 3 emissions for Federal (and State) Government funded projects. This would allow climate related factors to be adequately addressed and considered across all aspects of Government and not just on financial disclosures made by businesses.

4.3 Enforcement

Proposal: Climate-related financial disclosure requirements would be drafted as civil penalty provisions in the Corporations Act. The application of misleading and deceptive conduct provisions to scope 3 emissions and forward-looking statements would be limited to regulator-only actions for a fixed period of three years.

Civil penalty requirements should only be required if it becomes clear that investors are being intentionally misled. It is important to note there is already a legislative framework that addresses misleading and deceptive conduct under Australian consumer law to sufficiently mitigate and dissuade companies improperly disclosing climate-related financial disclosures.

5. Further Comments

Thank you for the opportunity to provide the above comments. For further information relating to this submission please contact the Chief Executive Officer, Cement Industry Federation.