Climate Disclosure Unit
Market Conduct Division
The Treasury
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Dear Climate Disclosure team,

We thank you for the opportunity to make a submission to the Australian Government's consultation on climate-related financial disclosure.

Publish What You Pay Australia is a civil society coalition of anti-corruption, human rights, faith-based, environment and union organisations campaigning for greater transparency and accountability in the oil, gas and mining sectors and a just energy transition.[1] We work with the global PWYP coalition, a network of over 1,000 organisations in more than 51 countries around the world, united in our call for an open and accountable extractive industries, so that communities can access the information they need about projects and share in the benefits of their local natural resources.

PWYP coalitions internationally are focused on the need for a just energy transition - having identified that we need to stop extracting and burning fossil fuels. We also need to hold the booming critical minerals sector to modern standards of environmental protection, cultural heritage protection, First Nations rights, greater accountability and a better share of benefits from mining for the public. PWYP Australia and our international partners are actively working on these issues.

PWYP and Transparency International (TI) made an earlier submission during round one of consultations in partnership with Transparency International. We appreciate the opportunity to engage in this second round.

We want to reiterate the importance of transparency and improving data and digital systems to enable better decision making.

Our colleagues at PWYP US have recently published a handbook titled "Publish Your Plans". The handbook makes important recommendations about climate-related disclosures to improve public access to information over aspects of oil, gas and coal projects which provide a useful lens to monitor and manage climate related risk.

Our submission addresses two core issues in the consultation report - the timeline and reporting entities. Also included are specific recommendations to implement the Extractive

[1] For more information on the 30 organisations that make up the PWYP Australia coalition go to: www.pwyp.org.au

Industries Transparency Initiative - an international standard on reporting which the Australian Government has supported and previously agreed to implement. PWYP has also included a suite of recommendations developed by Publish What You Pay US which has taken a broad review of the disclosure needs on transition plans.

Our comments are underpinned by our view that the current criteria which sets out who will be a 'reporting entity' does not adequately incorporate companies operating fossil fuel projects which is a significant gap and barrier to these disclosures delivering on the key principles.

The greatest emissions from fossil fuel projects are their scope 3 emissions – these emissions account for 80 to 95% of total carbon emissions from oil and gas companies.[2] The current climate-related financial disclosures plan does not include scope 3 emissions as a criteria to include a company as a "reporting entity." Smaller oil, gas and coal companies who do not meet the criteria on size, value or Scope 1 emissions, may not be required to report despite the significant emissions impact of these companies.

Oil, gas and coal companies and projects represent the highest risk both in-terms of the emissions contributions – through scope 3 - and their volatility in a changing policy setting. These businesses are different to other industries and have a different sensitivity to the policy shift and reforms, therefore they should require a different trigger to become a reporting entity.

In lieu of scope 3 being considered in the criteria for reporting entities and because the National Greenhouse Energy Register (NGER) has not captured smaller fossil fuel companies we strongly advocate that the climate-related financial disclosures specifically require fossil fuel extraction companies to be included as Group 1 reporting entities.

We wholeheartedly agree with the International Energy Agency (IEA) assessment that there can be no new coal, oil or gas projects if the global energy sector is to reach net zero emissions by 2050 and help avoid catastrophic climate change.[3] The fossil fuel sector has for decades undermined the scientific consensus on climate change and prevented meaningful policy reform. The climate-related financial disclosures legislation provides an important policy platform to review companies and their risk.

Citizens, investors and civil society have no way to judge whether or how fossil fuel companies are moving to a low-carbon future and the climate and financial impacts of company action or inaction. This is due to disclosures of climate information by the coal, oil and gas sectors currently being voluntary, inconsistent and incomplete.

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[2] Wood McKenzie, October 2022. Few oil and gas companies commit to Scope 3 net zero emissions as significant challenges remain.https://www.woodmac.com/press-releases/few-oil-and-gas-companies-commit-to-scope-3-net-zero-emissions-as-significant-challenges-remain/

[3] International Energy Agency (2021), Net Zero by 2050: A roadmap for the global energy sector, https://www.iea.org/reports/net-zero-by-2050

As the Investor Group on Climate Change has said, *"voluntary approaches are insufficient and only mandatory regimes provide companies with a clear set of expectations for reporting and levels the playing field."*[4]
It is estimated that the financial loss from stranded fossil fuel assets could lead to a discounted global wealth loss of between $1-4 trillion, a loss comparable to the 2007 financial crisis.[5],[6] The absence of adequate information on climate risk is contributing to systemic financial stability risks including overvaluation of emissions-intensive activities, under-pricing of climate risk and mispricing of assets.[7]

Climate-related financial disclosures are going to be essential in coming years as governments, investors and communities grapple with the transition to a clean energy future, at a time when the world is going to increasingly feel the impact of a changing climate which is likely to be disruptive to many of our systems and supply chains.

Transparency and access to reliable information are going to be needed to inform decision making and to hold industry to account. This is why PWYP are advocating for the implementation of the Extractive Industries Transparency Initiative 2023 Standard and have a suite of recommendations on further climate related disclosures - outlined in the submission attached.

We enclose the following submission for your consideration and look forward to discussing these issues in more detail over the coming months.

[redacted]
National Director
Publish What You Pay
[redacted]

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4 Investor Group on Climate Change (2021), Confusion to clarity: A plan for mandatory TCFD-aligned disclosure in Australia, https://igcc.org.au/wpcontent/uploads/2021/06/ConfusiontoClarity_APlanforMandatoryTCFDalignedDisclosureinAus.pdf

5 ibid

6 * finding that stranded assets in coal power generation alone could be between 1.3 and 2.3 trillion US. Yen-Heng Henry Chen, Erik Landry, John Reilly. September 2022. World Scientific. An Economy-wide Framework for Assessing the Stranded Asset of Energy Production sector under climate policies. https://www.worldscientific.com/doi/epdf/10.1142/S2010007823500033

7 Mercure et al., Macroeconomic impact of stranded fossil fuel assets, Nature Clim. Change 8, 588–593, pg.1 (2018), https://core.ac.uk/download/pdf/162913713.pdf

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Climate-related financial disclosure Consultation paper - June 2023 Feedback

Timeline for implementation

Recommendation:

1. The proposed timeline for mandatory reporting of Group 2 and 3 should be brought forward. And should include scope 3 emissions from the first stages of reporting
2. That the timeline include reporting requirements on the implementation of transition plans

1. We believe it is unnecessary for there to be a two year gap between group 1 and 2 commencing reporting. In essence group 2 companies have 3 years to prepare and group 3 companies have four years to prepare for mandatory reporting. By the time Group 3 begins reporting it's anticipated that the world would have already reached 1.5 degrees of warming.

Once some of the standards are established and issues with scope 3 emissions are worked through by Group 1 – group 2 and 3 should be able to implement this reporting with a greater level of ease. We see no reason that Group 2 or 3 should be given 3 and 4 years before they are required to report and we strongly advocate for their reporting to be brought forward.

2. It is unclear in the roadmap when companies are required to report and provide details on implementing the transition plans. Transition plans are not going to be effective unless there are obligations to implement and provide evidence of that implementation. See below for further recommendations on the make-up of transition plans and the need for quantitative metrics for assessing progress in implementing transition plans.

Reporting Entities:

Recommendation: That additional requirements be made for companies operating oil, gas and coal extractive projects and that these companies be included in Group 1 and be required to report on Scope 3 emissions from the commencement of reporting in 2024.

In the current configuration of the Group 1, 2 and 3 entities and NGER reporting companies do not necessarily capture fossil fuel extraction businesses whose primary risks and CO2 contributions are identifiable as scope 3 emissions, which are not captured in this proposal.

"Proportional to risk" is one the leading principles outlined for this reform. In practice this is to target businesses with a great risk and impact:

> *"Climate disclosure requirements should be proportional to the risks they seek to address, particularly regarding whom they apply to, what costs those entities will incur, what data or capability they will require and what liability they may enliven.*
>
> *Fossil fuel extraction is one of the greatest risks to our climate and is a sector that is most exposed to regulatory changes globally and shifts in investor and public sentiment. All oil, gas and coal companies should be included in Group 1 to address the key principle of "proportional to risk."*

Not captured in these guidelines are fossil fuel companies who may not already be an NGER reporting entity and who have less than 500 employees, entities with assets amounting to less than $1 billion and consolidated revenue less than $500 million. We note that on the latest NGER reporting of the 421 reporting companies less than 100 were coal, oil or gas companies – and yet there are 178 coal extractives businesses[8] and 344 oil and gas extractives businesses[9][8] in Australia.

Many of these companies are small. Limiting disclosure obligations to entities in the coal, oil and gas sector above a certain threshold (whether by market capitalisation, turnover or number of employees) would exclude a large number of entities. Limiting disclosure to entities with a market capitalisation above AUD 100 million would exclude approximately 70% of ASX listed energy companies from having to disclose.[10] This resultant information gap – even if temporary – is a missed opportunity in really accounting for climate related financial risk and limits the credibility and efficacy of the legislation.

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[8] IBIS World, James Thomson, March 2023. Industry Report B0600: Coal Mining in Australia – Keep the flame: Revenue is growing despite volatile trading conditions affecting coal miners.

[9] IBIS World, James Thomson, February 2023. Industry Report B0700: Oil and Gas extraction in Australia: Black gold: Output growth and soaring global prices are fuelling strong revenue recovery.

[10] Based on the number of energy companies and their market capitalisations listed here: https://www.listcorp.com/asx/sectors/energy/energy

In its current form we cannot identify any specific reforms that add any additional requirements to companies who have a greater exposure to risk or greater contribution to emissions. We strongly urge that oil, gas and coal extractives have a greater requirement to reduce emissions more rapidly and increase transparency over a number of aspects of the business that can assist in identifying and managing risks and transitions.

Reporting entities - The inclusion of private companies

We welcome the inclusion of private companies as reporting entities. These companies have very different reporting requirements and the public has little visibility over their operations.

The transparency and accountability of private companies is critical. We welcome comments from Treasury that highlight that the climate-related financial disclosures are important beyond future investment decisions but also extend into Australia's emissions reduction commitments, and are in the interest of public transparency and accountability. We also note that there are already some requirements for emissions reporting for private companies through the NGER and believe that private companies are just as capable as ASX listed companies of reporting. We look forward to greater transparency and a wider scope of disclosures that apply to private companies, particularly those private companies in coal, oil and gas extraction.

Climate disclosures - Extractive Industries Transparency Initiative (EITI)

Publish What You Pay has been an advocate of Australia implementing the EITI standard. In 2023 the EITI released a new set of reporting requirements, a range applicable to climate related disclosures. The new standards include some suggestions on reporting climate related risks. As a whole the EITI reporting requirements capture a greater scope of information which would help inform decision making related to climate risk and the energy transition.

Helen Clarke, the Chair of the EITI board frames the importance of the EITI in a climate context:

"First, in light of the imperative of demand shifting away from fossil fuels, there are critical new requirements around disclosures on carbon taxes and pricing mechanisms, greenhouse gas emissions, costs of production, reserves and subsidies, among others. Disclosures of revenue forecasts and companies' costs can strengthen public understanding of expected revenues and investment decisions, while data on greenhouse gas emissions may be used to guide policymakers, citizens and investors."

Implementing the EITI in full addresses many of the issues related specifically to extractives which are not adequately captured in the existing climate-related financial disclosures in its current form.

We must have a better and clearer way of highlighting the risk and exposure of those extractive industries which are contributing and locking us into a future of burning fossil fuels. At the same time we need to acknowledge that fossil fuel companies are making record profits – despite the policy shift away from fossil fuels. IBIS World reports that in 2022-2023 coal extraction profits in Australia were up by 19% equalling $52.4 billion, and for oil and gas extraction profits were up by 28.6% equalling $46.9 billion.[11]

These record profits may not continue but the importance of them now in preparing for a transition away from fossil fuels should not be lost. The volatility in the market will impact many shareholders, businesses and workers. In its current form the draft proposal does not address these unique risks in the fossil fuel extractives and does not include the smaller companies who are even more exposed.

We are supportive of the EITI standards and urge the government to consider the implementation of the EITI to provide the foundation for a consistent dynamic reporting system that allows communities, media, investors and others to access information.

Transition Plans – Publish What You Pay US – Publish Your Plans

We welcome the inclusion of reporting requirements on business strategy, decision making related to transition planning and have a suite of recommendations to create greater transparency, accountability and mechanisms to monitor progress.

Publish What You Pay in the US has developed a handbook for addressing climate related risks and disclosures in the oil, gas and coal extractives industry. PWYP Australia is supportive of their findings and their view that fossil fuel **companies** should be required to make disclosures on many aspects of their **business operations and projects t**o better understand the risks and manage and prepare for their demise.

Transition Plans

Status in the climate-related financial disclosures: the Department of Treasury has a requirement for reporting on business strategy and decision making related to transition plans.

Recommendation: We advocate that transition plans include quantitative targets and appropriate metrics that allow civil society and government to track progress towards the implementation of those plans.

[11] IBIS World, James Thomson, March 2023. Industry Report B0600: Coal Mining in Australia – Keep the flame: Revenue is growing despite volatile trading conditions affecting coal miners. IBIS World, James Thomson, February 2023. Industry Report B0700: Oil and Gas extraction in Australia: Black gold: Output growth and soaring global prices are fuelling strong revenue recovery.

Oil and Gas (and coal) Reserves information

Status in the climate-related financial disclosures: there is no current requirement for reporting on oil, gas, coal reserves.

Recommendation: that there be requirements for fossil fuel companies to publish data on oil, gas and coal reserves. This information provides critical insights about the companies future production plans and emissions, their exposure to future policy changes and implications for countries achieving their emissions reduction targets. This is now part of the EITI 2023 standard.

Emissions embedded in reserves

Status in the climate-related financial disclosures: there is no current requirement for reporting on oil, gas, coal embedded emissions in reserves.

Recommendation: that alongside information about oil, gas and coal reserves that there be reporting on the expected embedded emissions within those reserves – this refers to the GHG emissions that would result from the production and combustion of the reserves.[12] This is also a potential method for calculating scope 3 emissions which represents 80 – 95 percent of total GHG emissions[13] and provides information to estimate the entire future emissions potential from oil, gas and coal extraction.

GHG Emissions on a project level basis

Status in the climate-related financial disclosures: There are requirements for scope 1 and 2 reporting and a phased approach to scope 3.

Recommendation: that the requirements for scope 1,2 and 3 emissions data are disaggregated on a project level to assist in identifying projects which face a greater risk of becoming a stranded asset. In addition, we advocate that Scope 3 requirements for oil, gas and coal companies be required during the first phase of reporting given the nature of the risk and importance of these emissions to these businesses and global emissions.

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[12] This methodology is recommended by the US Environmental Protection Agency and the oil industry sustainability association IPIECA and forms the basis for Exxon's Scope 3 emissions disclosures. See US EPA, "Emission Factors for Greenhouse Gas Inventories," https://www.epa.gov/sites/production/files/2020-04/documents/ghg-emissionfactors-hub.pdf; see also IPIECA, "Estimating petroleum industry value chain (Scope 3) greenhouse gas emissions," Overview of methodologies, https://www.ipieca.org/resources/good-practice/estimating-petroleum-industry-valuechain-scope-3-greenhouse-gas-emissions-overview-of-methodologies/; see also ExxonMobil, "Advancing Climate Solutions Progress Report 2023," 2023, pg. 92, https://corporate.exxonmobil.com/-/media/global/files/advancingclimate-solutions-progress-report/2023/2023-advancing-climate-solutions-progress-report.pdf
166 TCFD, "Implementing the Recommendations of the Task Force on Climate-Related Financial Disclosures,

[13] Wood Mackenzie, "Few oil and gas companies commit to Scope 3 net zero emissions as significant challenges remain," October 28, 2022, https://www.woodmac.com/press-releases/few-oil-and-gas-companies-commit-to-scope-3-net-zero-emissions-as-significant-challenges-remain/

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Critical Financial Assumptions and Estimates

Status in the climate-related financial disclosures: There are some requirements for auditing and assurances with a phased approach increasing the requirement and liabilities around assurances. There are no requirements for end of project life costs reporting or financial assurances and bonds.

Recommendation: There should be an inclusion of the closure liability and bond arrangements included in these financial assurances specifically for oil, gas and mining projects.

There is a significant price volatility in the oil, gas and mining sector which can lead to premature closure, care and maintenance or abandonment of offshore and onshore projects. There is a long legacy of premature closure of mines in Australia as a result of price volatility. There are an estimated 80,000 abandoned mine sites.[14]

Ensuring that companies have sufficient financial assurances to properly remediate project sites is critical, particularly those impacted by volatile prices related to climate and emissions reductions. **This represents a significant financial and environmental risk to state, territory and federal government in Australia and it is critical that this information is collected and the risks surrounding the liabilities managed.**

Project Break Even Prices

Status in the climate-related financial disclosures: There are no requirements for reporting on project break even prices.

Recommendation: that companies be required to disclose project break even prices. Break-even price refers to the price point at which a project is no longer profitable. As discussed above – oil, gas and mining are highly sensitive to price volatility. If companies and governments have greater information about the profitability of a project, then it is easier to identify the external factors that might influence the price and risk of projects becoming unviable. With this information governments and companies are able to put in place mechanisms to ensure those sites are closed and remediated safely and that there is some potential to transition the workforce.

Price Sensitivity Analysis

Status in the climate-related financial disclosures: There are no requirements for reporting on price sensitivity

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[14] https://www.australiangeographic.com.au/topics/history-culture/2022/07/australias-abandoned-mines-rehabilitated/

Recommendation: that oil, gas and coal companies disclose the price sensitivity associated with extraction – identifying the price of their products which would change the demand for the product. There are currently voluntary requirements for oil and gas publicly listed companies in the US to report price sensitivity analysis as part of the SEC's Modernisation of Oil and Gas reporting rule.

Much like the "Break Even Prices" recommended above – being able to identify the price at which demand for a product may change will help identify risk to a project. Again having visibility over this through reporting can help governments and industry manage those risks when changes in the price are occurring.

All the recommendations above have been adapted from the US Publish Your Plans Handbook and reviewed against the climate-related financial disclosure proposal. The full handbook is attached as an Appendix.

Final Comments

In addition to the recommendations made above. We would also like to recommend in the interest of transparency and accountability that there should be requirements for government to report both on their scope 1 and 2 and 3 emissions but also that governments should provide the following:

1. information about the payments government receive from reporting entities in the form of taxes or royalties
2. the payments through subsidies, grants, loans, guarantees made by government to reporting entities
3. the details of political donations from reporting entities
4. analysis based on the data and information collected through new climate related financial disclosures

Climate policy in Australia has been heavily influenced by the political power and influence of the industries who are most impacted by climate policy – the companies who are the biggest emitters. The movement of money between these companies and governments are not clearly captured. Together they provide important information about how the interests of the private sector are driving an important area of public policy.

The information collected through Climate-related Financial Disclosures will be hugely valuable, but even more valuable when analysed and reviewed. Independent review and analysis of the data will be critical in making the disclosures meaningful for everyday Australians, for decision makers, investors, governments. We are eager to see details about how these data sets and information will be used and communicated by the Australian Government.

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