



CCIWA Submission to the EPA

Response to the background paper on Greenhouse
Gas Assessment Guidance

2 September 2019

Introduction

The Chamber of Commerce and Industry of Western Australia (CCIWA) is the State's peak business body and has been the voice of business for more than 125 years. Our vision is to make Western Australia (WA) the best place to live and do business.

The CCIWA welcomes the opportunity to provide input to the Environmental Protection Authority (EPA) on how it should consider greenhouse gas emissions when assessing significant project proposals in WA.

Background

On 7 March 2019, the EPA updated its guidance on how it considers air quality and greenhouse gas emissions in the environmental impact assessment process. This guidance was released in two documents: *Environmental Factor Guideline: Greenhouse Gas Emissions* and *Technical Guidance: Mitigating Greenhouse Gas Emissions* (together referred to as the Guidelines).

The Guidelines were rescinded on 14 March 2019 after concerns were raised about a lack of industry consultation by the EPA. They were subsequently re-released for consultation in June 2019 with an accompanying background paper.¹

The specific changes introduced by the Guidelines, as outlined in the background paper include:

- A clear requirement for project proponents to provide estimates of their direct and indirect emissions.
- A clear threshold of 100,000 tonnes of carbon dioxide equivalent (tCO₂-e) for scope 1 (direct) emissions.² This threshold would trigger the EPA to:
 - consider that advice to the Minister for Environment is warranted; and
 - impose a requirement for the proponent to describe and justify emissions mitigation measures; and
 - recommend offsetting of all residual direct emissions.
- Depending on the nature of the project, further consideration of scope 2 and 3 (indirect) emissions when making EPA advice would also be required.

The recommendation to offset all residual direct emissions would effectively result in a net zero emissions target for all major WA projects. This does not align with Australia's international emissions reduction commitments or national emissions policy framework.

¹ EPA, *Background paper on greenhouse gas assessment guidance*. June 2019. Available: <http://www.epa.wa.gov.au/sites/default/files/EPA%20GGAGC%20Background%20paper.PDF>

² Note: this proposed threshold is the same as the liability threshold under the Australian Government's Safeguard Mechanism.

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Economic contribution of WA's resources industries

The resources sector is integral to WA's economy, accounting for nearly a third (\$79 billion) of WA's gross state product in the 2017-18 financial year.³ Almost \$18 billion in capital expenditure was invested in WA's resources industry in 2018, representing more than half of national capital expenditure.⁴ WA's economy has a strong export focus and contributes substantially to Australia's merchandise exports, accounting for nearly half (42 per cent) of Australia's \$344 billion merchandise exports in 2018. Minerals and petroleum accounted for 91 per cent (\$131.4 billion) of WA's merchandise exports last year.⁵

As of March 2019, WA has an estimated \$113 billion worth of major resources projects in the pipeline, including \$25 billion in the construction or committed stage and \$88 billion worth of planned or possible new projects.⁶ These projects will be a crucial source of future economic growth and jobs creation for WA.

Due to the energy intense and export-oriented nature of WA's economy, emissions reduction measures must carefully consider potential implications for the State's economic competitiveness. The CCIWA supports cost effective action to reduce Australia's greenhouse gas emissions, but it is essential to also protect the competitiveness of our trade-exposed industries and provide investment certainty for the business community. In their current form, the Guidelines would duplicate existing regulatory requirements for project proposals, limiting WA's attractiveness for major project investment.

National approach to emissions reductions

It is the Federal Government's responsibility to ensure that Australia meets its international commitments to reduce emissions under the Paris Agreement, which are set at a target of 26 to 28 per cent below 2005 levels by 2030. All sections of the national economy have a role in meeting this target, and Australia's current and future emissions policies should be designed to not disproportionately affect a particular sector or region. Singling out major WA projects with the imposition of stringent emissions offset or mitigation requirements risks placing a disproportionate burden on the State's resources industry to contribute to Australia's international target. It would effectively act as a state-

³ Department of Jobs, Tourism, Science and Innovation, *Western Australia Economic Profile*, July 2019. Available: https://www.jtsi.wa.gov.au/docs/default-source/default-document-library/wa-economic-profile-0719.pdf?sfvrsn=d8e6701c_4 [accessed 13 August 2019]

⁴ Department of Mines, Industry Regulation and Safety, *Industry Activity Indicators*. Available: <http://www.dmp.wa.gov.au/About-Us-Careers/Latest-Resources-Investment-4083.aspx>

⁵ Department of Jobs, Tourism, Science and Innovation, *Western Australia Economic Profile*, July 2019. Available: https://www.jtsi.wa.gov.au/docs/default-source/default-document-library/wa-economic-profile-0719.pdf?sfvrsn=d8e6701c_4 [accessed 13 August 2019]

⁶ Department of Mines, Industry Regulation and Safety, *Industry Activity Indicators*. Available: <http://www.dmp.wa.gov.au/About-Us-Careers/Latest-Resources-Investment-4083.aspx> [accessed 13 August 2019]

based, industry-specific emissions reduction target, resulting not only in lower levels of activity but also carbon leakages due to major importing countries switching to lower cost energy sources with a higher emissions intensity.

Action to reduce greenhouse gas emissions requires an international, coordinated approach driven at the federal level, with consideration of social, economic and environmental factors. Achieving international emissions commitments via a national policy framework provides the benefits of driving emissions reduction at lowest cost across the economy, which is important for balancing the priorities of emissions reduction while preserving economic prosperity. It also has the benefits of regulatory consistency across jurisdictions, administrative simplicity, and flexibility in how liable entities can reduce their emissions. Such consistency, simplicity and flexibility all facilitate the achievement of emissions targets via cost effective solutions.

The Federal Government has clearly outlined its plan to meet the 2030 target in the Climate Solutions Package, which includes the continuation of the Emissions Reduction Fund (renamed the Climate Solutions Fund). Large emitters are regulated under the Safeguard Mechanism, which establishes a 'business as usual' emissions baseline for major projects. The Safeguard Mechanism is not intended to drive down emissions. Emissions reductions are instead driven by the Emissions Reduction Fund/Climate Solutions Fund.⁷ As of the ninth Emissions Reduction Fund auction in July 2019, a total of 192 million tonnes of abatement are under contract across 473 projects, with 44.8 million tonnes of abatement being delivered so far. The Federal Government recently announced an additional \$2 billion to extend the Climate Solutions Fund.⁸

The adequacy of the national approach

In its discussion paper, the EPA makes a clear statement that if regulation is effective at the national level it would not feel the need to recommend greenhouse gas emissions conditions. The EPA highlights that the Safeguard Mechanism is not effective in reducing emissions, because a number of facilities received calculated baselines under the Safeguard Mechanism. This analysis represents a fundamental misunderstanding of the national policy framework.

It fails to consider that:

- Many of the facilities that received a calculated baseline did not have their emissions baselines increased. Instead, they were required to get a calculated baseline because they were a new facility and there was no historical data upon which to set an emissions baseline.

⁷ Australian Government. *Climate Solutions Package*. March 2019. Available: <https://www.environment.gov.au/climate-change/climate-solutions-package> [accessed 16 August 2019].

⁸ Clean Energy Regulator. *Ninth Emissions Reduction Fund auction infographics*. July 2019. Available: <http://www.cleanenergyregulator.gov.au/Infohub/Media-Centre/Pages/Resources/ERF%20media%20resources/Ninth-Emissions-Reduction-Fund-auction-infographics.aspx> [accessed 28 August 2019].

- Under the national policy, the Safeguard Mechanism is not intended to drive down the nation's emissions. That role is played by the Emissions Reduction Fund/Climate Solutions Fund and a range of other initiatives, as shown in Figure 1.
- The Federal Government has been clear that it intends to meet its Paris Agreement obligations and will undertake regular reviews of its policies and programs to ensure these are recalibrated from time to time to ensure the 2030 targets are met.

The effectiveness of national climate policy is routinely reviewed against progress towards national targets independently through the Climate Change Authority. This includes the Safeguard Mechanism. Through the Guidelines, the EPA is duplicating the role of the Climate Change Authority – this creates an additional layer of confusion in an already complex policy landscape. To provide policy certainty and avoid disruption to industry, the CCIWA supports a long-term, broad-based climate policy to enable a measured and orderly transition to a lower emissions economy, in line with Australia's international commitments.

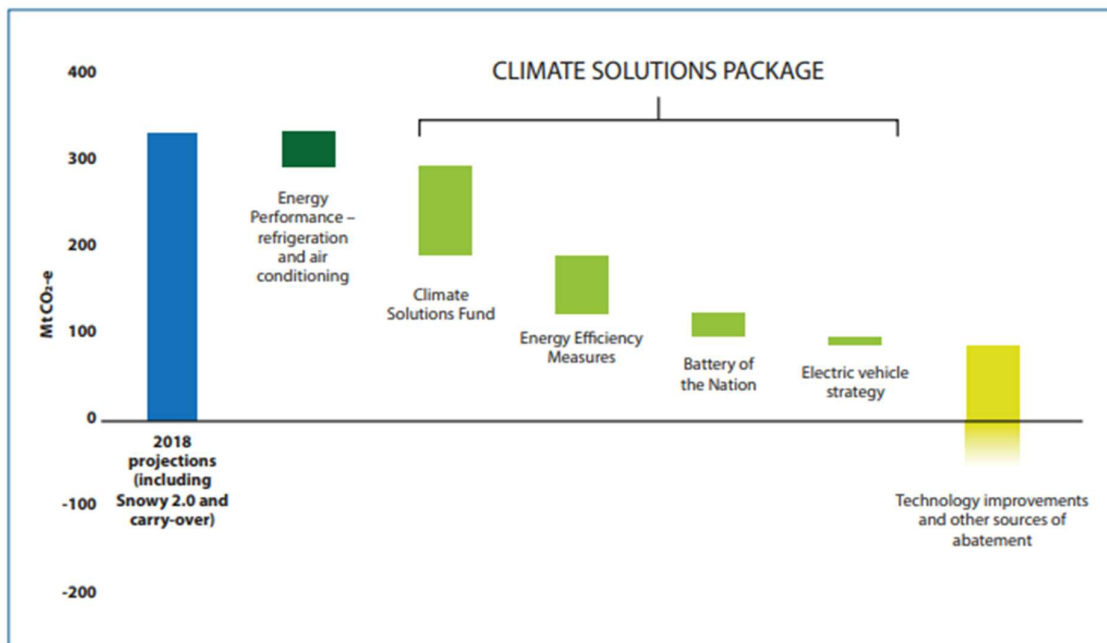


Figure 1: Emissions reduction breakdown under the Climate Solutions Package (Australian Government).

The role of WA's resources sector in global emissions reduction efforts

WA's resources industry has a significant role to play in global emissions reduction efforts. WA produced 14 per cent of the global LNG supply in 2018.⁹ A quarter of this supply was exported to China and India, providing a lower emissions energy source to displace

⁹ Department of Jobs, Tourism, Science and Innovation. *Western Australia LNG Profile*. August 2019. <https://www.jtsi.wa.gov.au/about-the-state/major-resource-producer/lng-profile> [accessed 16 August 2019].

domestic coal.¹⁰ The Federal Government estimates that Australia's LNG exports have the potential to lower emissions in importing countries by approximately 148 Mt CO²-e in 2018.¹¹

The role of gas in reducing the emissions intensity of electricity supplies is evident in WA's two main electricity grids, the South West Interconnected System (SWIS) and North West Interconnected System (NWIS). The relatively high proportion of gas-fired generation, combined with the rapidly increasing penetration of renewable energy technologies means the emission intensity of electricity supplied by the SWIS and NWIS is 15 per cent and 27 per cent lower (respectively) than electricity supplied in the National Electricity Market in the eastern states.¹² The lower emission intensity of the WA electricity grids, from which households and industry across the State benefit, has only been possible on the back of a vibrant LNG export industry. This is the same industry the EPA is targeting with the Guidelines it released in March and will be the main industry affected by any future updated guidance.

Furthermore, gas-fired generation has a crucial role in providing a flexible and responsive source of electricity supply in support of intermittent renewable energy generation. A responsible transition to lower or zero emissions electricity supplies may require new or additional gas-fired generation in the future, particularly as baseload coal plant is retired and existing gas turbines reach the end of their life. If excessive emission offset obligations deter new gas generation assets from entering the market when they are required, there could be an enhanced risk to grid stability resulting in load shedding, black outs and lost productivity.

Implications for WA manufacturers and value-adding industries

The competitiveness of domestic manufacturers in global markets is largely underpinned by affordable and reliable gas supplies, as well as new and innovative equipment, plant and technology. Many WA manufacturers are highly reliant on gas as an input, either as a feedstock for chemical production or as an energy source (direct use or via gas-fired electricity generation) for their operations.

By not including any reference points or international benchmarking for manufacturing operations, the EPA's Guidelines do not account for the WA manufacturing sectors relatively low emissions intensity relative to the higher emitting manufacturing jurisdictions such as China. The Guidelines would subsequently decrease the competitiveness of WA manufacturers by applying additional emissions requirements

¹⁰ International Energy Agency. *The Role of Gas on Today's Energy Transitions*. July 2019.

https://www.iea.org/publications/roleofgas/?utm_content=buffer2f1d6&utm_medium=social&utm_source=facebook.com&utm_campaign=buffer [accessed 29 July 2019].

¹¹ Department of the Environment and Energy. *Media Release: Australia's National Greenhouse Gas Inventory December 2018 Quarterly Report released*. June 2019. <https://minister.environment.gov.au/taylor/news/2019/australias-national-greenhouse-gas-inventory-december-2018-quarterly-report> [accessed 19 August 2019].

¹² Department of the Environment and Energy. *National Greenhouse Accounts Factors*. July 2018.

<https://www.environment.gov.au/system/files/resources/80f603e7-175b-4f97-8a9b-2d207f46594a/files/national-greenhouse-accounts-factors-july-2018.pdf> [accessed 21 August 2019].

and operating costs on manufacturers who already have a lower emissions intensity than their international competitors.

This risk is particularly prevalent in WA's growing role in downstream battery minerals processing and chemical production. The increased penetration of renewable energy in global electricity systems and decarbonisation of our transport systems will be largely enabled by battery technology. WA already has a crucial role in the global battery supply chain as a major exporter of battery minerals such as lithium, cobalt, nickel and alumina. However, the rate at which battery technology is adopted will primarily be driven by cost reductions. It is therefore crucial that WA continues to be able to produce and export cost-competitive battery minerals and chemicals to the global supply chain.

WA Government greenhouse gas emissions policy for major projects

On 28 August 2019, the Western Australian State Government tabled its Greenhouse Gas Emissions Policy to guide its decision-making for major projects that are assessed by the EPA. The policy includes an aspirational target to work with all sectors of the economy to achieve net zero greenhouse gas emissions by 2050. The Policy supports project proponents to develop project-specific Greenhouse Gas Management plans to outline their contribution towards the State's aspiration of net zero emissions by 2050 and their strategy to avoid, reduce, mitigate and offset the projects scope 1 emissions. Under the Policy, proponents can also propose their own timeframes and interim targets, and publicly report against these targets.

CCIWA recommends that the EPA broadly aligns its revised Guidance with the State Government's emissions policy. Otherwise, there is no clear path forward or certainty when it comes to how emissions will be considered for major project approvals, putting the WA economy at considerable risk. Better alignment between the EPA and State Government will also improve the likelihood of the EPA's advice being enacted. This in turn, will make the EPA a more effective body.

Response to the EPA's consultation points

CCIWA acknowledges that the EPA has an obligation under section 15 of the *Environmental Protection Act 1986* to use its best endeavours to protect the environment, and prevent, control and abate pollution and environmental harm. However, the EPA can't take social and economic factors into account when assessing major projects. As highlighted throughout this submission, actions to reduce emissions requires a coordinated, national approach that appropriately considers social and environmental factors while preserving economic growth.

1. The information that should be required by the EPA for Environmental Impact Assessments

2. How emissions associated with a proposal should be considered by the EPA

- The EPA should not seek to impose regulation that is the primary responsibility of the Australian Government. Part IV of the *Environmental Protection Act 1986* is not the appropriate mechanism for regulating emissions.
- The EPA should not require a project proponent to demonstrate net zero scope 1 emissions in the Environmental Impact Assessment process. Instead, the information provided should be consistent with the national policy framework and align with the State's policy position.
- The EPA should consider the following information in making any advice on a proposal that is above the appropriate threshold:
 - Whether the project is covered by a Federal Government program such as the Safeguard Mechanism.
 - How the proponent intends to operate the facility to minimise emissions, including the company's relevant policies and management practices for managing greenhouse gas emissions.
 - How the proponent took emissions minimisation into consideration during design of the project.
 - Description of scope 1 and 2 emissions.
 - Option to broadly describe the project full life cycle impact (including a reference to any scope 3 emissions). However, scope 2 and 3 emissions should not be subject to regulatory control as they are the scope 1 emissions for another emitter.

3. The constraints on potential emission mitigation conditions the EPA should recognise

- It is appropriate for the EPA to request that a proponent describes the mitigation of greenhouse gas emissions to inform the environmental impact assessment process.
- It is not appropriate or practicable that the EPA require a proponent to demonstrate how it will achieve net zero emissions in order to be recommended for approval.
 - A net zero approach (which may not be feasible) is not consistent with Australia's current international emissions reduction commitments or national emissions reduction policy framework.
- The Guidelines should request proponents above the appropriate threshold to describe emissions reduction efforts or involvement in the federal policy framework

or plans for continuous improvement, as described above in response to questions 1 and 2.

4. Any other advice related to the assessment of greenhouse gas emissions by the EPA that would further clarify or improve the guidelines

- The guidance and recommended conditions should not duplicate reporting requirements under the federal legislation or create additional reporting requirements for proponents.
- Extensive reporting is already required under the *National Greenhouse and Energy Reporting Act 2007* (NGER Act) and published annually if it is above the reporting threshold. It is noted that the State Government has access to the federal NGER Act dataset. If there are any gaps in reporting or data available, this should be addressed through the national reporting mechanism, rather than introducing additional reporting burden on businesses.
- Further clarification on the following issues is also required:
 - Processes for dealing with situations when emissions go over the forecast or threshold throughout the course of operations.
 - Per the Technical Guidance, Section 1.0: Purpose and Scope:
 - What is the treatment of “expanding operations”? Is the existing operation grandfathered, and only the new portion of the project subject to the proposed guideline or is the entire operation reassessed? Applying a net-zero emissions (or offsets) requirement to the existing operation would impose unreasonable costs for the proponent.