

1 September 2023



Hon. Lisa O'Malley MLA
Chair, Public Accounts Committee
Legislative Assembly of Western Australia
Parliament House, 4 Harvest Terrace
West Perth WA 6005

Sent via email: lapac@parliament.wa.gov.au

Dear Chair

Inquiry into how the Western Australian Government's progress towards achieving ESG outcomes is assisting to secure international investment

The Chamber of Minerals and Energy of Western Australia (CME) is the peak representative body for the resources sector in Western Australia. CME is funded by member companies responsible for 87 per cent of the State's mineral and energy workforce employment,¹ ranging from mining (mineral and petroleum commodities) to manufacturing (alumina, basic inorganic chemicals and explosives) and supporting services.

The value of royalties received from the sector totalled \$12.1 billion in 2021-22, accounting for 29 per cent of the State's general revenue.² Commodity demand, royalties and stronger tax collections from the sector are expected to continue to underpin government fiscal capacity in future years.

Overview

Delivery of Environmental, Social and Governance (ESG) outcomes is a shared priority for the Government of Western Australia (WA Government), industry and community. Our state is fortunate to be well-positioned regarding its ESG credentials, supporting our strong reputation as a trusted international trading partner and investment destination. To maintain our state's advantage in an increasingly competitive global investment context, as well as diversify our sources of investment, we need to ensure we keep pace with expectations in all areas of ESG.

This submission focusses on the Environmental component of ESG, where CME members see the greatest challenges and opportunities, and the strongest link to investment risk.

With respect to the net zero transition, CME supports the Paris Agreement³ and its goal of limiting global warming to well below 2, preferably to 1.5 degrees Celsius, by reducing emissions to net zero as soon as possible and no later than 2050.⁴ CME members are also committed to achieving net zero and are developing plans to decarbonise their current and future operations by 2050 or earlier, in line with both voluntary corporate commitments and Federal and State Government policy settings.

The Commonwealth greenhouse gas emissions (emissions) legislative framework has strengthened since 2022 and provides a robust framework for regulating emissions nationally. Recent updates to Commonwealth Government policy settings include changes to Australia's Nationally Determined Contribution (NDC) to align with Australia's commitments under the Paris Agreement, the legislation of the 2030 and 2050 national emission targets in the *Climate Change Act 2022* (Cth) and Commonwealth Government reforms to the Safeguard Mechanism requiring heavy industry to reduce facility baseline emissions annually. The Commonwealth Government recently instructed the Climate Change Authority (CCA) to commence development of whole-of-economy sectoral decarbonisation plans to guide the development of Australia's 2035 emissions target as required under the Climate Change Act. In addition to the requirements for

¹ Government of Western Australia, [2021-22 Economic indicators resources data](#), average number of individuals onsite under State legislation, Department of Mines, Industry Regulation and Safety, 5 October 2022.

² Includes Commonwealth royalties from the North West Shelf project. Government of Western Australia, [2021-22 Annual report on State finances](#), Department of Treasury, 28 September 2022, pp. 8.

³ United Nations Framework Convention on Climate Change, [Paris Agreement](#), 2015.

⁴ Chamber of Minerals and Energy WA, [Climate Policy](#), 2023.

emissions reporting under the National Greenhouse and Energy Reporting Act 2007, the Commonwealth Government is in the process of implementing a standardised, internationally aligned mandatory climate-related financial disclosure regime that applies to large business and financial institutions. Consultation on the regime is well progressed, with introduction planned for the 2024/25 financial year. This regime will ensure large businesses and financial institutions provide Australians and investors with greater transparency and accountability when it comes to their climate-related plans, financial risks and opportunities.

Given the strong framework established nationally, CME recommends the WA Government ensures that any policy initiatives introduced at a state level aligns with, and does not duplicate, policy settings applied nationally. Misalignment across Federal and State frameworks could lead to inconsistent and duplicative settings that create uncertainty and additional costs.

For CME members, action to decarbonise will take many forms, and will be influenced by the development and availability of effective emissions abatement technologies. The industry's focus to 2030 will be largely on increasing the proportion of electricity sourced from low emission (renewable) generation. In addition, affordable and reliable low emission electricity creates opportunities to further reduce emissions through future process electrification.

In May 2023 the WA Government published its South West Interconnected System Demand Assessment (SWIS DA), for the period 2023 to 2042. The SWIS DA models the optimal mix of renewable generation and storage required to meet anticipated electricity demand in the SWIS over the next 20 years (based on expansion and electrification plans shared by industry) and identifies the network augmentations necessary to transport that electricity to where it is needed. The central 'Future Ready' scenario estimates a step change in total electricity demand on the SWIS (WA's largest electricity network) to around 5 GW by 2031, from around 2 GW in 2023, with a further doubling to around 10.5 GW by 2042. More than 50 GW of new generation and storage capacity would be required to meet this demand, compared to 5.9 GW of total utility-scale generation capacity in 2022 (of which approximately 1.2GW was utility-scale wind and solar and 3.1GW was gas-fired generation)⁵. In addition, more than 4,000kms of new high capacity transmission lines could be needed over the next 20 years.

Demand is also expected to increase substantially in WA's North West Interconnected System (NWIS). CME and several resources companies participated in the WA Minister for Energy's Pilbara Industry Roundtable to discuss the unique opportunities and challenges of a clean energy transformation in the Pilbara and explore the opportunities of developing new common use electricity infrastructure to underpin renewable energy development. Future electricity demand scenarios were modelled as part of the Roundtable and there is consensus among participants that subject to appropriate commercial arrangements, common use electricity infrastructure has a role to play in supporting increased levels of renewable energy and decarbonisation in the Pilbara.⁶

The WA Government's financing task to achieve the anticipated build out in new generation, storage and transmission infrastructure will be significant, and ongoing access to international capital markets will be important to fund this critical investment. Domestic funding will also play a part, with the Federal Government providing up to \$3b in concessional loans and equity investments to WA for new builds and major upgrades to transmission in the SWIS and the NWIS.⁷ To meet Australia's 2030 emission reduction targets legislated by the Climate Change Act 2022 the WA Government should develop an implementation plan aligned with these targets promptly.

Key messages

A coordinated, timely energy transition is one of the most impactful ways the WA Government's achievement of ESG outcomes can assist to secure international investment. Access to affordable, low emission and reliable electricity, in the required timeframe, is of critical importance to WA's ability to decarbonise to meet 2030 and 2050 emission targets and remain internationally competitive. This is especially the case for the WA resources sector.

Meeting the forecast increase in electricity demand in the SWIS will involve billions of dollars of capital investment in low emission generation, storage and additional transmission infrastructure. The step-change

⁵ Government of Western Australia, [SWIS Demand Assessment – 2023 to 2042: A future ready grid](#), page 7.

⁶ Government of Western Australia, [Pilbara Industry Roundtable Communiqué](#), 26 July 2023.

⁷ Government of Western Australia, [Joint media statement - \\$3 billion Rewiring the Nation deal to power WA jobs and growth](#), 29 August 2023.

required cannot be understated. SWIS-connected large industrial loads (including many CME members) will be unable to meet their decarbonisation targets without the requisite transformation of the network. The WA Government should be mindful that the costs to industry to reach these decarbonisation targets are significant. In addition to the capital expenditure required to connect to a green grid, there is also substantial investment being made in behind-the-meter generation and storage, plant and process upgrades to enable electricity-powered processes, as well as compliance costs with respect to the Federal Government's Safeguard mechanism. Industry is willing to contribute its share, but Government must remain aware that the totality of increased costs on industry as a result of decarbonisation targets could impact the viability of some operations as well as appetite for future investment in our State.

The urgency of transition applies equally to the NWIS, where updating existing land tenure guidance for common use electricity infrastructure and renewable energy development is a priority first step. The NWIS currently consists of largely standalone networks owned by private companies and public entities with only a very small proportion of electricity generated from renewables.

The recent Federal-State Rewiring the Nation deal should assist greatly, with up to \$3 billion through concessional loans and equity investments to WA through the Clean Energy Finance Corporation (CEFC) to facilitate identified priority projects builds and major upgrades to transmission. The WA Government must provide all stakeholders, including the resources sector, with certainty that the new affordable, low emission and reliable electricity system will be delivered on time. Given the long planning and construction timeframes involved in new energy infrastructure, the Government must act with urgency.

How the State Government's commitment to net zero emissions by 2050 will help improve ESG outcomes

CME is supportive of the WA Government's commitment to net zero emissions by 2050 since this is aligned with emission targets legislated by the Federal Government in the Climate Change Act 2022 to deliver Australia's commitments under the Paris Agreement.

We note that Federal Government emissions policy settings continue to strengthen. We encourage the WA Government to regularly review State policy settings to ensure they are aligned with Federal settings to minimise duplication and enable resources to be focused on common goals to achieve maximum benefit. Two areas that require ongoing focus by the WA Government to ensure that settings are aligned with, and do not duplicate federal settings, are the regulation of emissions under the Environmental Protection Act 1986 and the development of state Sectoral Emissions Reduction Strategies. As outlined in submissions to the Environmental Protection Authority (EPA) during their recent revision of the Environmental Factor Guideline – Greenhouse Gas Emissions (EFG-GHG), we consider the Federal Government the appropriate primary regulator of emissions and that duplication of emissions regulation at a state level would not deliver greater emissions reduction. Instead, this approach would contribute to significant additional cost, regulatory and compliance burdens for all sectors captured.

We would like to see the WA Government focus on establishing policy settings that encourage low emission energy adoption, energy efficiency and economic diversification, fostering a sustainable and competitive future.

The commitment to net zero may also act as a catalyst for innovation and research to develop the carbon reduction and abatement technologies of the future. This includes fields like renewable energy technologies, carbon capture and storage and sustainable transportation fuels. This innovative culture could help to maintain our resources industry's reputation as world-class operators and position our State as a leader in clean energy and environmental solutions on a global scale.

The WA Government's commitment to net zero lays the ground for a strong regulatory and policy framework, providing government and businesses with the certainty they need to invest in decarbonisation. It will also drive the decarbonisation of public assets, with the WA Government's commitment to retire all state-owned coal fired power stations by 2030 being a case in point.⁸ This certainty and messaging from the WA Government is also an attractive influence on foreign investment capital and enhances WA's investment reputation more broadly.

⁸ Government of Western Australia, [State-owned coal power stations to be retired by 2030 with move towards renewable energy](#), 20 June 2022.

Milestones in place for achieving ESG outcomes, including monitoring and reporting

Milestones for achieving ESG outcomes need to be aspirational, but achievable. This view is shared by the WA Treasury Corporation (WATC) who successfully marketed WA's first 'green bond' to domestic and international investors. The bond, which matures in July 2033, was heavily oversubscribed with over \$6 billion in bids from more than 60 investors.⁹

CME continues to participate in consultation around the development of Sectoral Emission Reduction Strategies (SERS) for WA. We continue to call for greater transparency in respect of how they will align with federal sectoral targets that have been foreshadowed for development by the Climate Change Authority and what implications WA SERS will have for WA industry. It is important that any WA legislation is aligned with national frameworks to avoid duplication and inconsistencies from overlapping regimes, which increase costs and decrease our international competitiveness without delivering better environmental outcomes.

Transparent reporting regarding the State's progress in achieving aspirational but achievable milestones is also essential for investor confidence.

The WA Government should be cognisant of new international standards released by the International Sustainability Standards Board (ISSB), namely IFRS Standard 1 (S1) Sustainability-related Disclosures and IFRS Standard 2 (S2) Climate-related Disclosures. The Australian Treasury's Climate-related financial disclosure consultation paper proposes mandating the requirements of IFRS S2 for reporting periods commencing after June 2024 and CME believes that WA should utilise national frameworks wherever possible to avoid duplication and additional costs.

Financial implications of doing nothing

International investors are now giving increased weight to ESG factors when they evaluate where to invest their money. This shift in investor priorities has a direct impact on governments that do not show a clear and genuine approach to ESG outcomes, particularly as it relates to Environmental outcomes. Specifically, **governments that fail to act on ESG outcomes could face reduced access to international capital and/or higher borrowing costs.** We saw an example of this in 2019, where Sweden's central bank sold off Western Australian bonds (along with Queensland and Alberta's bonds) because it felt that the jurisdictions' levels of greenhouse gas emissions were too high.¹⁰

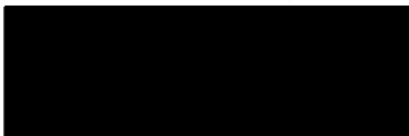
Credit rating agencies are also taking ESG risks into account. Failure to address these risks can result in lower credit ratings. A lower credit rating implies a higher perceived risk of default, which, in turn, leads to higher borrowing costs.

Furthermore, regulatory bodies and market authorities are increasingly endorsing ESG disclosure and integration, adding more weight to the importance of ESG factors and putting extra pressure on both governments and companies to follow best practices.

Should you wish to discuss this submission further, please contact Mr Aaron Walker, Manager – Industry Competitiveness on [REDACTED] or at [REDACTED].

CME consents for this submission to be published on the Parliament's website.

Yours faithfully



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⁹ Government of Western Australia, Treasurer, [Media Release](#), 13 June 2023.

¹⁰ Sveriges Riksbank, [Riksbank selling bonds for climate reasons](#), Speech by Deputy Governor Flodén, 13 November 2019.