Australian Sustainable Finance Institute

Australian Sustainable Finance Taxonomy V0.1

Consultation Questions - First Public Consultation

Are you an organisation or an individual?

Organisation

What is the name of your organisation?

MSCI ESG Research LLC

Which one of these best describes your organisation?

Company

Which one of these best describes your organisation – financial institution?

[---]

Is your company ASX listed?

No

1. Taxonomy Headline Ambitions

Headline ambitions are the broad, longer-term goals that underpin a taxonomy's environmental objectives and are designed to be considered holistically. Draft headline ambitions have been developed for each of the Australian taxonomy's six environmental objectives in close consultation with TTEG and TAG members, relevant government representatives, and other key stakeholders. The draft headline ambitions are set out in **Section 3** of the public consultation paper.

1.1 *Do the headline ambitions reflect Australia's highest national goals for climate and environmental sustainability?*

Yes. The headline ambitions / environmental objectives are also consistent with the environmental objectives laid out under the EU Taxonomy and other APEC regions wherein they target similar topics / themes.

2. Electricity Generation and Supply

Detail regarding the proposed electricity generation and supply criteria is set out in **Section 4** of the public consultation paper.

Application of the Transition Methodology

2.1 *Do you agree with the proposal to provide the market with system-level advice for energy utilities or portfolios of assets that contain gas firming facilities? If so, please provide feedback on what issues should be covered in the advice. If not, please elaborate.*

No. All unabated gas should remain as 'phase down to phase out' because gas is a fossil fuel and there is a risk of locking-in fossil-fuel investments. Those investments in gas-fired power plants would also support all the other related infrastructure, such as gas production, processing, transportation and storage. Those activities are prone to methane leaks. Also, you shall agree that when it comes to global warming potential, methane is much more potent greenhouse gas over a 20-year horizon compared to CO2 emissions.

Proposed lifecycle emissions requirements

2.2 *On a scale of 1-3, how much of a challenge is it to acquire lifecycle assessment data for upstream scope 3 emissions? (1 = not likely to ever be available, 2= challenging but can be resolved in time with better disclosures and evolving practices, 3= not challenging, data is readily available).*

2

2.3 *Are the proposed ISO standards suitable for assessing lifecycle emissions requirements in Australia? If not, which standard(s) is more suitable?*

Yes

Proposed Technical Screening Criteria (TSC)

2.4 *Are the proposed TSC usable and clear? In this context, usability of criteria refers to whether they are comparable, clear, objective and easy to understand.*

No. In addition to the Forest Stewardship Council (FSC) which is already included in the Taxonomy, we propose to add Programme for the Endorsement of Forest Certification (PEFC) to bioenergy certification criteria (Exploring pathways to deliver sustainable woody biomass - PEFC Programme for the Endorsement of Forest Certification). Certification (PEFC) is a long-established, major global forest certification organization. PEFC acts as an umbrella organization that endorses forest certification systems through independent third-party certification which is used by many utility and biomass producers. (https://www.pefcaustralia.org.au/)

2.5 *Are the proposed TSC credible? In this context, credibility of criteria refers to whether a transparent, scientific approach aligned to the Paris agreement temperature goal has been used, informed by the latest technological understanding.*

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2.6 *Are there any activities for which the TSC are unclear?*

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2.7 *Are there any activities for which further detail is required?*

[---]

2.8 *Are there any additional activities that should be included, which comply with the taxonomy transition methodology?* *Note: hydrogen production will be included under the Manufacturing and Industry sector of the taxonomy.*

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3. Minerals, Mining and Metals

Detail regarding the proposed minerals, mining and metals criteria is set out in **Section 5** of the public consultation paper.

In the context of these questions:

- *usability of criteria refers to whether they are comparable, clear, objective and easy to understand;*
- *credibility of criteria refers to whether a transparent, scientific approach aligned to the Paris agreement temperature goal has been used, informed by the latest technological understanding.*

Proposed methodology – copper, lithium, nickel

3.1 *Is the methodology for the development of intensity thresholds clear?*

Yes, it is clear but needs further clarification on the sample size of the mines utilised to determine the best performing 20 per cent mines.

3.2 *Are emissions intensity thresholds usable at the mine site level?*

Yes

3.3 *Does the trajectory for future thresholds adequately balance ambition, credibility and usability?*

Yes

Inclusion of biofuels as eligible measures

3.4 *Should biofuels and e-fuels be included in the list of eligible measures?*

Yes. Biofuels can significantly reduce greenhouse gas emissions compared to traditional fossil fuels and can be used in existing diesel engines with minimal modifications, making them a practical option for mining equipment, but it is only a short term solution.

Inclusion of bio-fuels and e-fuels would mean that mining companies are slow in transition and are not going for a straight switch to electrification. However, it is an effective measure for reducing GHG emissions.

3.5 *Which biofuels and e-fuels are most important to include specifically for the mining sector, and why?*

In the mining sector, the most important biofuels and e-fuels to consider are biodiesel and synthetic e-fuels. These fuels can be easily integrated into existing mining machinery without significant modifications, while reducing the carbon footprint of mining activities.

3.6 *Should any requirements be attached to the inclusion of biofuels or e-fuels (e.g. standards, certifications)? In answering this question, please consider how your answers are aligned to the taxonomy's core principles of credibility and usability.*

Yes, the inclusion of biofuels should be supported by the standards, that promote best practices and can act as a benchmark for performance and sustainability. The standards will ensure that biofuels were produced in an environmentally sustainable manner, minimizing negative impacts on ecosystems and biodiversity.

Proposed Scope 3 requirements

3.7 *Does the rationale for including Scope 3 emissions requirements for minerals align with the taxonomy's core principle of credibility? Please explain.*

Yes. It does align with the taxonomy's core principle of credibility. Scope 3 GHG value chain emissions constitute a major share of mining companies total carbon footprint and represent significant transition risks. Inclusion of Scope 3 emissions would therefore be essential for driving improvements in both upstream and downstream value chains.

3.8 *Are the proposed criteria around Scope 3 emissions usable and clear? If you answer no, please provide suggestions on how it could be improved.*

Yes

3.9 *Do you agree with the 40% materiality threshold for Scope 3 emissions? If not, how would you change it and based on what?*

Agree with 40% materiality threshold for scope 3 emissions, which is in line with the SBTi standard.

3.10 *Which other factors could be considered for determining whether a Scope 3 requirement should or should not be applied to criteria for minerals covered in the taxonomy?*

In line with the current criteria, mines would be discouraged to sell to blast furnace refiners. Hence, feasibility and scale of adoption for DRI capacity to replace the blast furnace should be considered.

Development of criteria for new mines

3.11 *Noting that the proposed criteria in this public consultation paper apply only to existing mines, what are the key considerations that should be taken into account when developing criteria for new mines, within the defined emissions boundary?*

There is lack of literature in this space but some general principles are:

- Embedding circular economy principles from the design stage.
- Criteria that define the starting point for the new mines including the electrification of the vehicle fleet, energy storage and low carbon fuel technology, Trolley Assist and the electricity sources.

Proposed iron ore green criteria - measures

3.13 *Are the proposed measures and materiality thresholds for iron ore mining [green] criteria clear and usable, including from a data availability perspective? If not, how could they be improved?*

Materiality thresholds are clear and usable.

3.14 *Is using 2020 as a baseline for iron ore emissions reductions suitable?*

It is suitable, as data on emissions and production levels are likely to be more accurate and comprehensive compared to older baselines.

Proposed iron ore green criteria - offtake requirements

3.15 *Is the requirement to measure/audit and report on offtake agreements feasible? Please comment on any constraints users may face in complying with this requirement.*

No. Iron ore miners typically have detailed production and sales data, which can be used to report on offtake agreements. Many mining companies already report on this offtake agreements and release to investors as material financial information. Offtake agreements can include commercially sensitive information. Balancing the need for transparency with the need to protect confidential information can be a significant constraint.

3.16 *Are iron ore producers able to evaluate the emissions intensity of the steel producers they sell to?*

No. Yes, it is possible to evaluate the emissions intensity of steel producers. Australia ships around 70% of its iron-ore to China, the largest steel producer in the world. Due to the absence of a mandatory regime on climate reporting, the transparency of the emissions intensity could be very low.

Proposed iron ore green criteria - entity requirements

3.17 *What reporting requirements would be needed to support producers meeting this target?*

Carbon emission intensity per production of steel (tCo2e/tonnes of crude steel).

3.18 *Is there adequate data availability to assess entity-level requirements for producers outside Australia? Please substantiate your response.*

Yes, various international organizations such as World Steel Association and IEA provides comprehensive data on emissions intensity for steel production globally. The availability of information at entity level may vary depending upon the regulatory frameworks mandate the reporting of greenhouse gas emissions.

Proposed iron ore transition criteria

3.19 *Are there any material decarbonisation levers missing from the measures listed?*

No

3.20 *Is the 50% materiality threshold needed to demonstrate that measures programmes are sufficient / significant?*

Yes. It is seemingly material if a mine implements measures to reduce 50% of its emissions, and is reasonable to be classified in transition.

3.21 *What additional detail is needed to ensure the transition criteria can be used?*

Yes. A clear demonstration that the capital expenditures of the company are consistent with the transition goals.

Proposed lithium green criteria

3.22 *Does the proposed threshold adequately align with the core taxonomy principles of credibility and usability? If not, why?*

Yes

3.23 *What additional detail is required to aid usability?*

Details on sampling of the top 20 mines would help usability.

3.24 *Is the trajectory proposed feasible?*

Yes

Proposed lithium transition criteria

3.25 *Are there any material decarbonisation levers missing from the measures?*

No. The list of levers is comprehensive in relation to the available technologies and source of emissions.

3.26 *Is the 50% materiality threshold needed to demonstrate that measures are sufficient/significant?*

Yes. It is seemingly material if a mine implements measures to reduce 50% of its emissions, and is reasonable to be classified in transition.

3.27 *What additional detail is needed to ensure thresholds can be used?*

A clear demonstration that the capital expenditures of the company are consistent with the transition goals.

Proposed nickel green criteria

3.22 *Does the proposed threshold adequately align with the core taxonomy principles of credibility and usability? If not, why?*

Yes

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A clear demonstration that the capital expenditures of the company are consistent with the transition goals.

Proposed copper green criteria

3.22 *Does the proposed threshold adequately align with the core taxonomy principles of credibility and usability? If not, why?*

Yes

3.23 *What additional detail is required to aid usability?*

Details on sampling of the top 20 mines would help usability.

3.24 *Is the trajectory proposed feasible?*

Yes

Proposed copper transition criteria

3.25 *Are there any material decarbonisation levers missing from the measures?*

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4. Construction and the Built Environment

Detail regarding the proposed Construction and Built Environment criteria is set out in **Section 6** of the public consultation paper.

Proposed Sunrise Provisions

4.1 *Do you support a 'sunrise' trigger for refrigerants and embodied carbon?*

Yes

4.2 *Is the nominated two-year sunrise date (1 Jan 2027) appropriate? If not, what should it be and why?*

No. A two-year transition period is feasible for embodied carbon, however for refrigerants, a two-year transition period seems to be more challenging. In terms of the data centre buildings, most of the small and medium sized data centres that have been built have opted for air or water evaporative cooling to cool their servers for cost reasons. This makes them sensitive to the price of refrigerants and greenhouse gas emissions. It seems difficult to transition them to other server cooling technologies within two years. A lot of development applications would have been submitted/approved already and will likely need revising and resubmitted if new criteria is applied.

Proposed Sunset Dates

4.3 *Do you support a sunset date for transition criteria? If not, what should it be and why?*

Yes

Proposed framework for assessing proxies

4.4 *Do you agree with the framework for assessing the suitability of proxies for the screening criteria?*

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4.5 *Are there additional proxies that should be considered for the Australian building sector?*

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Proposed alignment with NCC energy efficiency requirements

4.6 *Do you support the proposed alignment with the NCC requirements and revisioning process for energy efficiency for new buildings, or should those requirements be subject to an uplift, like the 10% required by the Green Star Buildings criteria?*

Yes - align with NCC requirements

If you support an uplift, what should it be and for what reasons?

[---]

4.7 *If you currently support an uplift, should this continue indefinitely or should it be revisited in the future as the NCC continues to be revised?*

Revisited with NCC changes.

It should be revised. Technology is constantly evolving and models updated, particularly when it comes to our understanding of climate change. For example, if NABERS models or Green Star models didn't evolve and we relied on our understanding of climate change 20 years ago then those models would be redundant now.

Proposed refrigerant thresholds

4.8 *Is the time allowed for industry adaptation appropriately calibrated for commercial and residential applications?*

Yes. Based on the information presented in the consultation paper, it seems feasible. With a caveat that residential needs to be treated differently and carefully. Ultimately residential developers will pass on the cost to the consumer, and given house prices are already out of reach for large swathes of the population, any mandatory criteria which puts additional pricing pressure on house prices needs to be carefully implemented in ways that don't harm the consumer too much.

4.9 *Should the sunrise date apply to all buildings or be restricted to only some sectors such as houses?*

All buildings.

Yes, it should be applied to different types of buildings, but should give different lengths of transition periods for different building types.

Proposed rooftop solar requirements - new construction activities

4.10 *Should rooftop solar be a prerequisite for green screening criteria?*

Yes. While rooftop solar should be strongly encouraged and possibly incentivized within green taxonomy criteria, making it a mandatory prerequisite might not be practical for all buildings due to structural limitations, shading, or financial constraints.

4.11 *Should rooftop solar screening criteria be applied to all building use types or is it only appropriate for a limited selection of building use types, such as single-family dwellings?*

If you support limiting to select building use types, which types of buildings and why?

Limited selection of building use types.

While rooftop solar should be strongly encouraged and possibly incentivized within green taxonomy criteria, making it a mandatory prerequisite might not be practical for all buildings due to structural limitations, shading, or financial constraints.

4.12 *Are there other measures instead of or in addition to on-site solar that should be recognised?*

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4.13 *Are there better ways to screen for the contribution of rooftop solar for any building than currently proposed?*

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5. Additional Feedback

5.1 *If you have additional feedback, please share below:*

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