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Treasury consultation on climate-related financial disclosure

Submission

Commonwealth Steel Company Pty Ltd ABN 58 000 007 698 trading as Molycop

Climate Disclosure Unit Market Conduct Division
The Treasury
Langton Crescent
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By email: climatereportingconsultation@treasury.gov.au

Molycop welcomes the opportunity to provide the following submission to the Treasury in response to its consultation paper with respect to climate related financial disclosure (Consultation Paper) released in December 2022. As a globally diversified business with commercial relationships and interests in various markets, Molycop is directly aware of the proliferation of domestic regulatory regimes with respect to climate-related disclosures and the adjacent growth of standard-setting entities and commercially recognised standards.

While Molycop endorses the move toward standardised approaches to monitoring, measuring and reporting against sustainability metrics and disclosing climate-related risks, it is directly aware of operational complexity and potential regulatory uncertainty associated with aligning internal processes and approaches with overlapping international standards and navigating differing domestic regulatory regimes.

On this basis, Molycop submits that it is timely and necessary that the Treasury is now seeking input from industry on the design and implementation of standardised, and ideally internationally aligned, requirements for the disclosure of climate-related financial risks in Australia.

About Molycop

Commonwealth Steel Company Pty Ltd trading as Molycop operates an integrated Steel plant in NSW and produces grinding media, rail wheels and other steel products for the mining, construction, manufacturing and transportation sectors within Australia.

The long-term success of Molycop requires the integration of sustainability into all aspects of the organisation. Sustainability means that we do things efficiently and responsibly in terms of the environment, people and the economy. It is Molycop' s goal to make a positive contribution to society and create lasting benefits for stakeholders in a manner that is responsible, transparent, and respectful to the rights of all.

Molycop are committed to supporting local manufacturing with our business model centred around our local presence and being part of the community, which drives us to operate sustainably and to ensure we positively contribute to those that support us.

Molycop's approach to sustainability

Molycop is very aware of our climate responsibilities and is preparing our business to make the necessary commitments towards a science-based target (SBT) in line with the latest climate science necessary to meet the goals of the Paris Agreement and limit global warming to well-below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C. Molycop is currently undertaking the work to clearly define an emissions reduction pathway with targeted goals.

Molycop supports the proposed mandatory reporting on climate-related financial disclosure for large, publicly listed companies and financial institutions. Climate change is an immediate, multi-dimensional, threat and disclosure is an important tool for identifying and managing climate-related financial risks.

<u>EXECUTIVE SUMMARY</u>

- The transition to lower-carbon economies to mitigate the effects of anthropogenic climate change poses significant financial challenges and opportunities for capital market participants, corporates, regulators and governments.
- Appropriately designed, regulated and supported disclosure of financial risks associated with climate change by subject corporate entities is a critical tool to increase accessibility of transparent, accurate and relevantly complete data on the nature and scope of risk.
- Molycop acknowledges the increasing expectation across global capital markets for reliable and consistent disclosure of climate-related financial risks, supports the work of the Taskforce on Climate Related Disclosures (TCFD) in response to these trends and notes the substantive progress made in key global markets toward the implementation of TCFD aligned disclosure regimes.
- Molycop considers that, given the pace and focus of global developments, the implementation of an internationally aligned standardised disclosure regime in Australia is critical to ensure that Australia remains an attractive investment destination with competitive access to global capital markets.
- Molycop welcomes the Treasurer's recent announcements with respect to the development of a sustainable finance framework for Australia and broadly supports the proposed standardised mandatory reporting on climate-related financial disclosures for large, publicly listed companies and financial institutions.
- Molycop submits that, in order to avoid unintended adverse impacts on Australian domestic industry, any activity to apply additional disclosure obligations on Australian entities - particularly with respect to Scope 3 emissions – must occur in parallel with, and with direct consideration of, equivalent disclosure obligations imposed on imports of goods and services imported for home consumption in Australia, including by way of the design and implementation of an appropriate Carbon Border Adjustment Mechanism (CBAM).

Key recommendations

1. **Reporting on Scope 3 emissions by covered entities should be mandated and organisations who do not disclose aspects of their Scope 3 emissions based on materiality considerations should be required to explain the basis of their materiality decision to ensure transparency.**
2. **The Treasury should align Australian climate-related reporting obligations with international practices to avoid the risk of Australia lagging in climate reporting standards and associated emissions-reducing activities.**
3. **The Treasury should explore opportunities to align elements of the International Sustainability Standards Board (ISSB) draft standards, TCFD and relevant international standards such as GRI to promote a baseline of sustainability-linked information that meets the needs of a broader range of stakeholders.**
4. **The Treasury should collaborate with the Department of Climate Change, Energy, the Environment and Water (DCCEEW), and other relevant agencies, to consider how non-covered entities should report their Scope 3 emissions, including through similarly targeted reform of existing regulatory architecture, including customs obligations, or in the design and implementation of an Australian CBAM.**
5. **The Treasury should collaborate with relevant Government agencies to ensure that the reporting obligations of non-covered entities operating in Australia – particularly those that form part of import supply chains connected to foreign multi-national corporations – and mechanisms for verification and validation of information are equivalent in scope and substance.**

INTRODUCTION

Molycop's submission addresses the following key consultation questions:

Question 1: What are the costs and benefits of Australia aligning with international practice on climate-related financial risk disclosure (including mandatory reporting for certain entities)? In particular:

> *1.1 What are the costs and benefits of meeting existing climate reporting expectations?*
>
> *1.2 What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?*

Question 3: To which entities should mandatory climate disclosures apply initially?

> *3.1 What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively?*
>
> *3.2 Are there any other types of entities (that is, apart from large, listed entities and financial institutions) that should be included in the initial phase?*

Question 4: Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?

> *4.1 Are there particular considerations that should apply in the Australian context regarding the ISSB implementation of disclosures relating to: governance, strategy, risk management and/or metrics and targets?*
>
> *4.2 Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?*

Question 9: What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks?

Question 10: Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?

Question 11: What considerations should apply to ensure covered entities provide transparent information about how they are managing climate related risks, including what transition plans they have in place and any use of greenhouse gas emissions offsets to meet their published targets?

Question 13: Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?

> *13.1 How and by whom might any data gaps be addressed?*
>
> *13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?*

RESPONSE TO CONSULTATION TOPICS

Question 1: What are the costs and benefits of Australia aligning with international practice on climate-related financial risk disclosure (including mandatory reporting for certain entities)? In particular:

1.1 What are the costs and benefits of meeting existing climate reporting expectations?

As a major producer of specialty steel products and a significant participant in global steel markets, Molycop is acutely aware of our role in supporting Australia's emission reduction efforts.

Adhering with globally recognised sustainability standards and risk reporting frameworks requires substantive transformation within governance structures, operating models, technology systems and training and development of teams across organisations. The systemic changes required to meaningfully improve sustainability outcomes, and accurately report on achievements and residual risks requires material and continuous capital investment.

To implement Molycop's sustainability strategies, the business continues to invest directly in:

- Building a centralised and dedicated sustainability team with the required technical and commercial skills to drive our sustainability agenda and deliver tangible outcomes across our business, which we predict to grow substantially within the next 5 years;
- Sourcing, implementing and integrating a market-leading ESG management system within our existing operational technology systems to support our internal data collection and reporting initiatives; and
- Continuously improving the accuracy and specificity of our carbon footprint mapping programme and using the output of these activities to define and implement 30+ discrete sustainability-linked operational improvement projects across our organisation.

These initiatives are helping to place sustainability at the core of Molycop's corporate strategies and meaningfully connect lead indicators of environmental and commercial sustainability. This also provides Molycop with qualitative and quantitative information increasingly demanded by our finance parties, shareholders and our customers, many of whom are large publicly listed entities, to fulfil their own internal reporting obligations (including, but not limited to, Scope 3 emissions).

Molycop considers material continuous investment in sustainability initiatives (including data collection and reporting frameworks) to be an essential component of the necessary systemic transition of Australian and global markets.

However, realising the economic, social and environmental benefits of sustainability reporting requires a collaborative approach between reporting entities and government to develop domestic standards that are aligned with commonly accepted international information baselines and to adopt transparent processes for verifying and validating the accuracy and completeness of reported data.

Molycop suggests that the Treasury considers appropriate strategies mechanisms to support entities subject to the proposed disclosure regimes to implement internal mechanisms necessary to collect, analyse and prepare relevant disclosures and develop appropriate and trusted solutions to independently verify and validate reported data (discussed in response to Question 13).

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1.2 What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?

Molycop, like many of it's large, listed multinational customers, operates in a global economy, and as a producer of steel (a high-emitting industry), Molycop's operations are already connected to the global scope of emissions. As an exporter to various regions, including the United States and the European Union, Molycop is exposed to its customers' reporting and compliance standards.

The Treasury should consider aligning Australian climate-related reporting obligations with international practices to avoid the risk of Australia lagging in climate reporting standards and associated emissions-reducing activities.

Failing to align global baseline standards jeopardises Australian industry's ability to conform with ESG criteria and reputational risk parameters increasingly adopted by institutional investors and private capital allocators. This presents a material risk of limiting Australian companies access to international debt and equity capital markets and increasing the cost of funds.

Question 3: To which entities should mandatory climate disclosures apply initially?

3.1 What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively?

3.2 Are there any other types of entities (that is, apart from large, listed entities and financial institutions) that should be included in the initial phase?

Molycop acknowledges the Treasury's proposal that standardised climate-related financial disclosure requirements would initially apply to certain listed entities covered by the *Corporations Act 2001* (Corporations Act).

Molycop submits that the Treasury must consider the impact of any mandatory disclosure requirements imposed on Australian entities in the context of the dynamics of competition between the covered and non-covered entities – particularly in respect to domestic industries that are directly exposed to competition with imported goods and services.

This is particularly pertinent with respect to domestic steel markets, which are subject to significant competition with goods sourced for importation to Australia from large offshore producers who may, or may not, be subject to equivalent reporting obligations in home country markets by related entities in Australia, that fall outside the regulatory perimeter of the proposed Australian disclosure regime.

Not only does this pose risk of adverse competition impacts for Australian entities (particularly those operating in price sensitive downstream markets) but also presents material risk of regulatory circumvention (so called 'carbon leakage' and 'carbon offshoring'). Both circumstances are materially detrimental for Australia's national economic interests.

Molycop suggests that the Treasury considers collaborating with the Department of Climate Change, Energy, the Environment and Water (DCCEEW), the Australian Boarder Force (ABF) and the Department of Foreign Affairs and Trade (DFAT) to implement frameworks (i.e. an Australian CBAM) that align the quality of information from smaller proprietary entities, related to larger multinationals, with large, publicly listed organisations. This ensures that global value chains are appropriately considered in the context of domestic climate-related disclosures, that potential risk ‘black spots’ are avoided and opportunities to circumvent regulatory measures are effectively minimised.

Question 4: Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?

4.1 Are there particular considerations that should apply in the Australian context regarding the ISSB implementation of disclosures relating to: governance, strategy, risk management and/or metrics and targets?

4.2 Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?

Molycop notes the Treasury’s general intention to align domestic climate-related reporting requirements to the TCFD and, potentially, the standards being issued by the ISSB, for the purpose of statutory financial disclosures.

While Molycop does not have a particular view on the appropriate implementation approach to incorporate relevant standards into the regulatory architecture, it notes that a range of additional international sustainability-linked standards may also be relevant for analysis by the Treasury. These include, for example, standards issued by the Global Reporting Initiative and others, against which covered entities may already be collecting and reporting information relevant to the overarching obligations for climate disclosure (governance, strategy, risk management, targets and metrics).

While an appropriately structured regulatory financial risk disclosure regime is a positive step for Australia, the Treasury should seek to reduce reporting burdens, minimise duplication of effort and foster commonly understood terminology and harmonised approaches across financial standards and other sustainability reporting frameworks.

Molycop submits that this approach is consistent with the frameworks of formal collaboration in place between IFRS Foundation and the GRI for the purposes of aligning sustainability linked standards to meet ‘multi-stakeholder needs’.

Molycop recommends that the Treasury should explore opportunities in the design and implementation of the Australia’s climate related financial disclosure regime to align elements of ISSB draft standards, TCFD and GRI standards to adopt a domestic approach to financial disclosures which:

(a) is aligned with appropriate international sustainability reporting baselines;
(b) promotes cross-compatibility between reporting requirements; and
(c) is designed to meet the needs of a broad range of stakeholders.

Question 9: What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks?

Molycop endorses the Australia government's efforts toward long-term emissions reduction and support for decarbonisation as a core component of broader economic diversification policy.

Understanding climate related transition risk is a critical to effectively prioritising areas of focus, crystalising commitments into tangible outcomes and monitoring progress against stated aims. Introducing an appropriate mandatory disclosure regime for certain covered entities (as discussed above) will be an important further step in Australia’s climate change response.

Molycop notes that global momentum is moving toward mandating disclosure of material Scope 3 emissions (reflected in the US Securities and Exchange Commission's draft climate disclosure rules and the EU's draft European Sustainability Reporting Standards) and is consistent with the approach adopted by the draft standards published by the US Electronic Subcontracting Reporting System in the draft ISSB standards. We support the proposal to include Scope 3 emission disclosure requirements in the design of the proposed regime and encourage the Treasury to explore options to align associated Australian obligations with global approaches to ensure that Australian businesses can continue to meet the expectations of global commercial counterparties, finance parties, investors and regulators.

As a producer and supplier of steel products to many domestic entities who will be covered entities for the purposes of the proposed disclosure regime, Molycop considers that measurement, analysis and disclosure of Scope 3 emissions is a critical important metric to ensure holistic evaluation of climate risk across organisations. Further, Molycop is investing substantially to reduce the emissions intensity of its production operations and to provide customers with complete, accurate and reliable information to support Scope 3 emission reporting.

The broader economic benefits of reporting Scope 3 emissions should compel organisations to report their climate related data. Data transparency contributes to the strengthening of relationships with suppliers and improves collaboration – actions that can lead to cost savings and new revenue-generating opportunities. If Scope 3 disclosure is not mandated, Molycop suggest that organisations who do not disclose this data should therefore be mandated to provide their reasoning for not voluntarily releasing this information.

While Molycop will not immediately fall within the regulated cohort, the objectives of the regime are aligned with Molycop's sustainability strategies and internal approaches to measurement, management and continuous reduction of climate-related risk across its operations.

Though Molycop encourages the government's actions toward improving visibility of such disclosures across the proposed community of covered domestic entities, it submits that the government must acknowledge that efforts to impose reporting obligations, amongst other mechanisms, increase the cost of compliance and operational burdens on covered entities – many of which are exposed to competition with imported goods and services.

Accordingly, it is critically important that the government ensures that all efforts to impose additional disclosure obligations (and by extension governance, operational, information gathering and compliance requirements) do not create competitive disadvantages for domestic entities exposed to competition with imported goods and services that are not subject to equivalent obligations.

Molycop submits that the efforts of the Treasury with respect to the proposed domestic disclosure regime must occur in consultation with relevant stakeholders responsible for examining Australia's approach to climate-linked regulation of import trade, including:

- opportunities and benefits to align import related disclosures, particularly in relation to Scope 3 emissions, with domestic disclosure regimes and relevant international sustainability reporting baselines (including GRI, ISSB and TCFD as previously noted); and
- the design and implementation of an Australian Carbon Border Adjustment Mechanism (CBAM) to ensure, to the greatest extent possible, parity in regulatory treatment between domestic and imported goods.

Together, these mechanisms would deliver dual aims of:

a) improving visibility of Scope 3 emissions linked to consumption of imported goods; and
b) levy appropriate tariffs on subject goods to mitigate the risks of Australian entities offshoring carbon emissions to foreign markets where less stringent carbon policies and increased importation of carbon-intensive products to Australia.

Coordination on these matters is critical to ensure that Australian regulatory settings address trade related climate risks that won't be adequately addressed by the proposed climate related financial risk disclosure regime operating in isolation and, ultimately, to manage the risk of offshoring carbon and to maintain a 'level playing field' between Australian domestic industry and goods imported into Australia.

As reflected in the policy rationale associated with the design and implementation of a CBAM regime in the EU, the use of standardised reporting requirements (which are appropriately aligned with international sustainability metrics) is a pre-condition of setting and applying standardised price mechanisms on carbon emitted during the production of goods – whether produced domestically or in foreign jurisdictions and then imported into Australia.

Consequently, there is an opportunity for Australia to use the current consultation process to harmonise its approach to sustainability reporting as a foundation for various regulatory applications.

Molycop notes that there is strong stakeholder interest in the implementation of an Australian CBAM as an effective mechanism to manage trade competitiveness impacts associated with domestic emission regulations and to address potential 'carbon leakage'. Molycop welcomes the specific recognition of these interests by the DCCEEW outlines in the *Safeguard Mechanism Reforms Position Paper* (Position Paper) published in January 2023 and associated confirmation of a formal a review to commence in 2023 to explore policy option to further address carbon leakage.

Molycop supports the DCEEW's proposed approach with respect to the design and implementation of an Australian CBAM and will be actively engaging with the review process, once underway. Molycop suggests that the Treasury should explore opportunities to align approaches to climate related disclosures and information reporting obligations with the design elements of an Australian CBAM.

Question 10: Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?

Molycop operates across 12 manufacturing sites across 8 countries (Australia, Chile, Peru, Mexico, Indonesia, USA, Canada and Spain) and supports the alignment with international reporting standards and frameworks such as the GRI and TCFD.

Molycop also supports the DCEEW's proposed approaches outlined in its Position Paper which support a reduction in Australian emissions, whilst encouraging industries to further innovate and adopt smarter practises by setting consistent and transparent baselines and achieve an equitable distribution of the costs and benefits.

Question 11: What considerations should apply to ensure covered entities provide transparent information about how they are managing climate related risks, including what transition plans they have in place and any use of greenhouse gas emissions offsets to meet their published targets?

Ensuring that reporting entities meaningfully and appropriately adhere to information disclosure requirements is a global challenge associated with the implementation of international sustainability reporting regimes. This is particularly pertinent to the reporting of Scope 3 emissions in the context of disclosure regimes.

Molycop suggests that the experiences and practical approaches of other jurisdictions, such as New Zealand, may provide helpful guidance on these elements. Molycop notes, for example, that the requirements for climate-related disclosures in New Zealand specify that entities must provide a description of the methods and assumptions used to calculate or estimate their GHG emissions, and the limitations of those methods.

Molycop recognises that various reporting standards (e.g. based on the GHG Protocol Corporate Accounting and Reporting Standard, the Corporate Value Chain (Scope 3) Accounting and Reporting Standard or ISO 14064-1:2018 – Greenhouse gases) enable organisations to determine which of their Scope 3 emissions are included in their reporting on the basis of materiality. Whilst this is appropriate, where an organisation excludes Scope 3 emissions due to lack of materiality or relevance, the reason for this should be explained to create transparency.

Further, and subject to Molycop's earlier comments about the need for alignment between the 'two pillars' of reporting standards reflected by the ISSB and GRI (and their respective equivalents), Molycop submits that the global baseline standards as provided in the ISSB framework are suitable in the context of climate-related financial disclosures in Australia.

In particular, the ISSB has implemented a framework to assist organisations in the measurement of the Scope 3 emissions. The framework incorporates the use of reasonable and supportable information, including the use of estimation, without an excessive amount of expense or effort for the reporting entity.

Further, and as discussed in response to Question 3, Molycop recommends that the Treasury consults with DCCEEW, ABF and DFAT to consider how non-covered entities can report their Scope 3 emissions in an alternative regulatory architecture, in the context of customers declarations or a CBAM. Non-covered entities engaging in import trade should be required to disclose their emissions in accordance with an aligned framework to avoid 'standard shopping' and maintain transparency.

Question 13: Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?

13.1 How and by whom might any data gaps be addressed?

13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?

Whilst Molycop supports the Treasury's suggestion that Scope 3 emission reporting should be included in the design of Australia's disclosure regime, there are unique data collection, analytical collation and reporting challenges associated with Scope 3 emission disclosures.

Scope 3 emissions contribute to up to 90% of most entities carbon impact and are often outside their reasonable direct control. This presents practical difficulties in estimating, tracking, and reporting. However, the earlier the requirements to report on material Scope 3 emissions are introduced and mandated, the sooner organisations will invest the required effort in being able to measure, and therefore manage, their impact.

Whilst reporting supports action on emission reduction, the challenge facing many organisations in address the scale and complexity of actions to abate emissions should not be underestimated.

Reporting standards, such as the Greenhouse Gas Protocol, ease this burden by allowing organisations to use averages, proxies and other sources to calculate their Scope 3 emissions, while the ISSB has agreed to implement guidance and reliefs to support Scope 3 emissions reporting recognising the practical challenges facing entities seeking to adopt the ISSB framework as it applies to Scope 3 emissions.

Molycop's experience with sustainability monitoring and reporting against relevant steel industry standards is that access to credible (and commonly used) third-party providers of data validation and verification solutions (with respect to risk, impact and mitigants) greatly assists with the development and continuous improvement of processes and systems which are critical to ensuring the quality and accuracy of reporting outputs.

Molycop suggests that the Treasury should use the consultation process to explore and evaluate the extent to which there is relevant and an appropriate supporting infrastructure of private sector service providers (including in relation to the implementation of reporting systems and development and verification of reporting systems and outputs) available that meet the needs of covered entities. Further, it would be useful for the Treasury to explore possibilities for the government to collaborate with relevant private sector entities to provide transitional support to covered entities, where appropriate.

Molycop recognises the Government's commitment to fostering sustainable growth via initiatives like the National Reconstruction Fund which aims to provide targeted investment for renewables and low emissions technologies, among other key priority areas. We recommend that the Treasury considers funding initiatives, in tandem with climate-related financial disclosures, to support entities in implementing appropriate reporting infrastructure and engaging with independent consultants to address the complexity of emissions reporting.

<u>CONCLUSION</u>

Molycop welcomes the opportunity to contribute to the design and implementation of the Treasury's proposed climate related financial disclosure regime. As a globally differentiated business, which spans commercial relationships across various markets, Molycop is acutely aware of it's contribution to, and responsibly for, sustainability in Australia.

Molycop appreciates the Treasury's call for stakeholder input as to navigate the operational complexity and potential regulatory uncertainty associated with climate related reporting. Further, Molycop recognises that the Treasury's discussion of climate related financial disclosures is a significant step towards responding to the climate change challenge and aligning Australia's efforts with those of the international community.

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