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For institutional, professional and wholesale investors only

# SPOTLIGHT ON NET ZERO IN THE REAL WORLD

The implications for Australian companies, investors and  
regulators





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**William F. Halsey, an American Navy Admiral during WWII once said *“All problems become smaller when you confront them instead of dodging them...”***

**At our second annual Pathway to 2030 Forum in October 2023, I was honoured to moderate a panel of investors, sustainability experts and leading listed companies to discuss how we can all work together to tackle the enormous issue of Net Zero.**

We specifically brought together representatives from **Telstra, BlueScope Steel** and **Worley**, with **CSIRO** (Commonwealth Scientific and Industrial Research Organisation) to garner insight from organisations at different stages in their energy transition and emissions reduction pathway. While these are all Australian entities, their insight and experience are global in nature.

The panel discussed how we are all not short of ambition, skill or technology, but in order to improve the pace of energy transition pipeline fulfilment, we need to think differently to work together to get the required capital flowing globally. The panel offered thought-provoking perspectives on the critical elements to achieve this, including transition fuels and carbon offsets, collaboration across and within sectors, a shift away from the traditional way of delivering infrastructure projects, opportunities from the Inflation Reduction Act (IRA), and a focus on community and social licence to operate. From an investor perspective, we shared our views on active ownership as integral to success on Net Zero.

**We were privileged to have such extremely qualified panellists share their insights. These companies and organisations are at the forefront of tackling these risks and opportunities. We can learn much from respective pathways.**

*“Coming together is the beginning. Staying together is progress, and working together is success”.* Henry Ford

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## The current state of play

I asked panellist Warren Flentje to set the scene for this dynamic, but exceedingly complex issue globally. He opined that in Australia, at least, the debate has at last moved on from ‘why’ and ‘at what rate’ should we transition to a low carbon economy, to ‘how’ should we do it.

For a high carbon country, Australia’s progress has been positive, but modelling suggests that in the next couple of years, emissions from industrial sectors will exceed those from the electricity sector. Warren noted “we only have 70 or so months to 2030 and we need every sector playing their part if we are to make it.”

The key challenge from all panellists was the need for more infrastructure, such as transmission lines and long duration storage. Lack of access has already been documented in delaying final investment decisions for many of the renewable projects in the pipeline.

## Involving the whole supply chain

The scale of the problem truly is one that individual companies cannot solve on their own. It’s going to require collaboration, up and down the value chain, including governments, emitting companies, suppliers and investors. Warren discussed that as success will be very reliant on new processes, unproven at scale, all parties will need to embrace this risk.

**Telstra** is one of Australia’s largest energy users (accounting for nearly 1% of Australia’s overall electricity needs), but an early mover in mobilising the value chain. Tom Penny spoke at the Forum about Telstra’s first power purchase agreement (PPA) using a consortium approach, partnered with several other corporates to get scale. They are also a direct investor in renewable energy generation, investing in solar and wind farms, and more recently battery assets and green hydrogen pilot projects, effectively as a hedging mechanism for their energy bill. Another interesting point was how Telstra are working closely with customers and suppliers to reduce Scope 3 emissions through technology transfer, as they see it as more cost and time effective than trying to go it alone.

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## Thinking differently about project delivery

Albert Einstein said that *“We cannot solve our problems with the same thinking that we used when we created them”*. Einstein’s famous quote still rings true, over a century later.

Given the scale and speed required for infrastructure build, a key discussion at the Forum was around what can we do differently.

**Worley** provide Net Zero project delivery and asset services to some of the most carbon intensive sectors globally. Sue Brown discussed the work the company has been doing with Princeton University over the last three years on improving the discipline of project delivery, and the challenges they have faced with gaining industry level collaboration on Net Zero. They specifically found that the current ‘stage gating’ process just moves too slowly for success, and that there are different levers that can be pulled to accelerate project delivery and compress delivery schedules by up to 40%.

### Sue shared her levers in more detail

- 1 Broaden the definition of value to include social and environmental value. Communicate that with community stakeholders.
- 2 Better leverage the technology that is already at our disposal.
- 3 Standardise low carbon technologies (such as batteries) to provide certainty to supply chains.
- 4 Keep all technology options open and don’t take ideological positions that cut off options too early.
- 5 Collaborate up, down and across the supply chain, cross pollinate and share learnings within industries and sectors to accelerate progress for all.

## Transition fuels to speed up the pathway

Another key issue that we discussed was that when technology needs time to progress, you also need a solution for the transition period.

Iron ore mining is an important industry for Australia’s economy and is a necessary enabler of the transition. However, according to the **CSIRO**, the process of turning iron ore into steel contributes around 7% of global greenhouse gas emissions. 70% of these emissions can be attributed to blast furnaces in China, but as Australia is the largest exporter of iron ore, we have a stake in the industry’s transition.

‘Green Steel’ refers to steel produced with methods to reduce emissions and waste in the production process and renewable energy. I asked Anna Matysek to share her company’s views on the use of transition fuels to help with the technical and economic challenges Green Steel still has.

**BlueScope Steel** currently use different types of steel making technologies within their global asset base, electric arc furnace (EAF) in the US, iron sands in New Zealand, and a blast furnace process in Australia. The company has set clear decarbonisation pathways for all their assets, and an ultimate aim to use green hydrogen to produce iron. But they are considering transition fuels for some more immediate success.

Anna shared how BlueScope has looked at transitioning the Australian steelworks to hydrogen, but at current capacity and technology this would use 15x their current electricity consumption. This isn’t yet sustainable or economic until more cost-effective renewable capacity and electricity transmission is available. As such, their emissions pathway will start with converting furnaces to natural gas, which cuts emissions by more than half, and also creates latent demand for green hydrogen, as it can be introduced into the process over time as costs come down.

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## The opportunities and threats from the Inflation Reduction Act (IRA)

In a *The Australian* newspaper article in 2023, Jennifer Westacott, BCA chief executive declared, *“Forget US President Joe Biden’s age. He will become one of the most important US presidents in the past half century because he is defining a new age... This is the clean-energy equivalent of the New Deal of President Franklin Roosevelt.”*

I find this an interesting parallel, and the Forum spent time discussing if the IRA, similar to Roosevelt’s 1920s plan to get America back on track, would end up leaving other regions behind, or present more opportunities.

Anna regards the IRA as a game changer for the steel industry. They are already seeing investments and projects move from Europe and Canada into the US because of government funding. Despite this, she believes that Australia will not miss out, and remains a prized location for investment given our stable geopolitics, renewable resources, and highly educated workforce.

As a scientist, Warren finds the IRA exciting. He concurs that people think it may lead to a brain drain elsewhere, but to him it is great to see growing investment into research and technology development. He believes that it will increase collaboration between government counterparts around the world.

We also discussed how the IRA is an important opportunity for Australia’s critical minerals industry – e.g., lithium, copper, nickel, cobalt, rare earths. The IRA will provide incentive to work directly with the market and establish a protected supply chain.

Within our discussions, an interesting point that Sue shared was how IRA funding will be associated with a ‘social licence operate’. In a real shift of culture, projects will be rated on their ability to create social and environmental value. This is an important signpost that governments are broadening the value of projects beyond just the financials.

## Carbon credits as part of the solution

Investors often have had a cynical view about carbon credits, so I was interested in hearing about this from a practitioner perspective.

Tom spoke about how Telstra is a significant player in the voluntary carbon credit arena. While these credits don’t count towards their headline commitments, they are getting to a point where to contribute beyond value chain mitigation, they need to remove carbon from the atmosphere rather than just avoid it. They have formalised guidelines on permitted types of credits and have built due diligence requirements for credibility and integrity. Telstra are also now involved in generating their own credits. Tom shared the details of a pilot *carbon farm scheme* in regional NSW (New South Wales) where they are working with the community to plant more than 150,000 trees and using new technology such as drone planting in hilly areas and Internet of Things (IOT) monitoring to improve growth and viability. They are using this project to work out whether it’s scalable to accelerate action elsewhere. Harking back to ‘social licence’ discussions earlier, this kind of activity is also a great example of how co-development with local communities can enable more social value.

Anna explained that while BlueScope isn’t using offsets yet, they are seeing demand for them from their customers who are looking to front run access to green steel. BlueScope is exploring the potential to staple quality offsets to products where it meets a customer demand.

This is a trend in the offset space that I think we will likely see in many industries globally, where companies use emissions reductions from within their own supply chain to create low carbon embodied products for their customers.

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## Importance of carbon capture and storage

Warren also shared how important it is that we don't just focus on decarbonisation strategies, but also on long-term, high-quality permanent storage solutions. We need progress on both.

Warren spoke of some of the ways that the scientific community are seeing progress in carbon capture. The CSIRO have recently established their [CarbonLock Future Science](#) platform, which is looking to dramatically expand the capacity of the biosphere to absorb CO<sub>2</sub>, not just through traditional vegetation, but also methods like mineral carbonation.

Sue shared Worley's experience so far with carbon capture projects, and how they are working with [Occidental](#) in delivering direct air capture (DAC) technology. DAC effectively sucks air from the atmosphere away from the source of emissions, so good for hard-to-abate sectors. Occidental's pilot facility in Texas will be the largest scale DAC in the world and is designed to annually sequester at least half a million tonnes of CO<sub>2</sub>. These kind of projects should do well from IRA funding.

## The real challenge for investors

Investors like us (Martin Currie Australia (MCA) have a key role to play in the shape and speed of the transition. While returns available from the heavy emitters may be attractive today, as active investors, we must hold our investee companies to account on Net Zero and fund the companies who are moving in the right direction. I am concerned that the rise in passive investing and managers who outsource engagement and proxy voting to third party advisors exacerbates a lack of accountability by the market.

MCA believe that direct active ownership is key to our Net Zero contribution. We are using the strong relationships between our investment decision makers and companies to encourage real change, better capital allocation decisions, and ultimately, as we believe more sustainable business practices are drivers of risk and return, long-term value for our clients.



A 90 minute recording of the Forum is available on our [website](#).

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## Can we meet our 2030 and 2050 targets?

My final question to the panel was if Australia, and other regions can really meet the ambitious greenhouse gas emission reduction targets set at many countries at COP26.

The conclusion was that we are not short on ambition and technical ability, but it is not going to be an easy run to the finish if we don't change our way of delivering on projects.

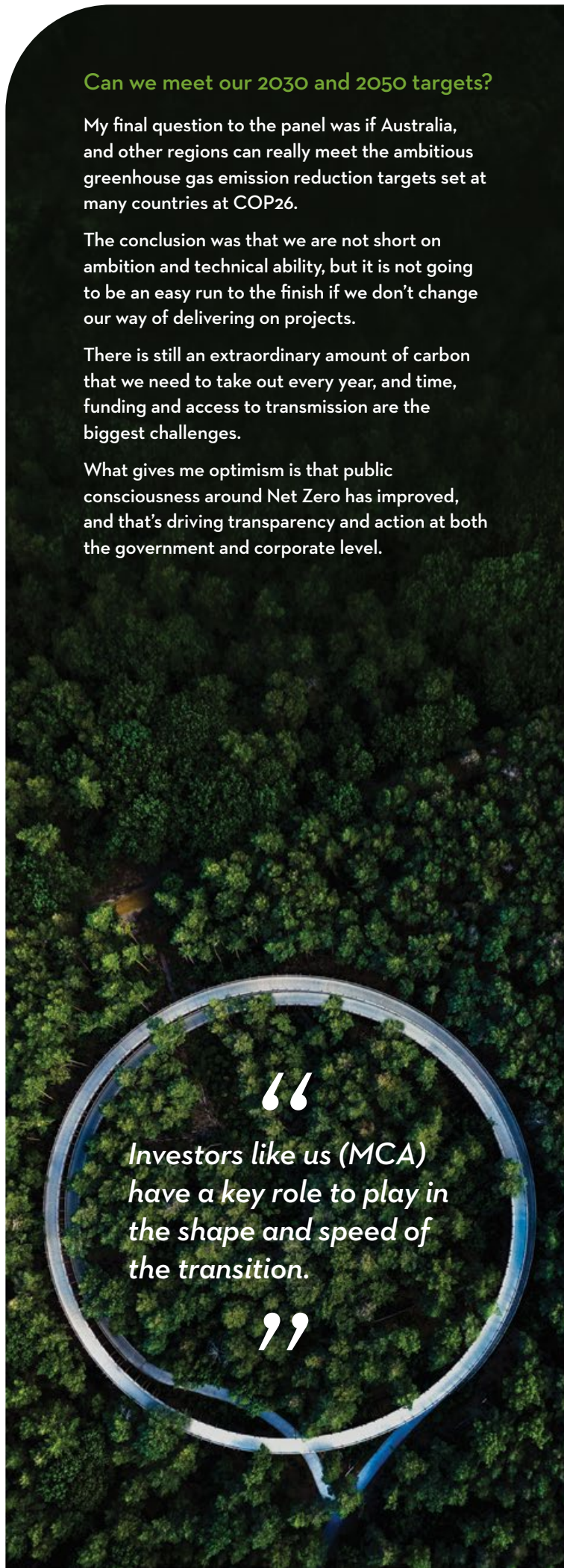
There is still an extraordinary amount of carbon that we need to take out every year, and time, funding and access to transmission are the biggest challenges.

What gives me optimism is that public consciousness around Net Zero has improved, and that's driving transparency and action at both the government and corporate level.

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*Investors like us (MCA) have a key role to play in the shape and speed of the transition.*

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