

AGM date and location: 17 December 2021, Melbourne, Australia

Contact: Dan Gocher | Director of Climate and Environment | dan@accr.org.au

## About ACCR

The [Australasian Centre for Corporate Responsibility](#) is a philanthropically-funded NGO that monitors environmental, social and governance (ESG) practices and performance of listed companies. We undertake research and highlight emerging areas of business risk through private and public engagement, including the filing of shareholder resolutions.

## Background

ACCR has engaged with Incitec Pivot (IPL) on its decarbonisation commitments and lobbying related to climate and energy policy for several years.

This is the first ever shareholder resolution filed with IPL.

## Ordinary resolution on Paris-aligned targets

Shareholders request the Board disclose, in annual reporting from 2022:

1. Short, medium and long-term targets for reductions in our company's Scope 1, 2 and 3 emissions (Targets) that are aligned with articles 2.1(a) and 4.1 of the Paris Agreement;<sup>1</sup>
2. Details of how our company's capital expenditure, including material investments in the development of oil and gas reserves, will be aligned with the Targets; and
3. Details of how the company's remuneration policy will incentivise progress against the Targets.

Nothing in this resolution should be read as limiting the Board's discretion to take decisions in the best interests of our company, or to limit the disclosure of commercial-in-confidence information.

## Reasons to support this resolution

ACCR welcomes IPL's first climate change report and its commitment to achieving net zero operational emissions as soon as practicable, and before 2050 if possible.<sup>2</sup> ACCR acknowledges that

<sup>1</sup> Article 2.1(a) of The Paris Agreement states the goal of "Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change."

Article 4.1 of The Paris Agreement: In order to achieve the long-term temperature goal set out in Article 2, Parties aim to reach global peaking of greenhouse gas emissions as soon as possible, recognizing that peaking will take longer for developing country Parties, and to undertake rapid reductions thereafter in accordance with best available science, so as to achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century, on the basis of equity, and in the context of sustainable development and efforts to eradicate poverty.

<sup>2</sup> Incitec Pivot, Climate Change Report 2021, p4

IPL operates in a sector with emissions that are widely considered hard-to-abate.

ACCR believes there are a number of reasons to support this proposal:

- IPL's 2025 and 2030 targets are not aligned with the Paris Agreement goal of limiting global warming to 1.5°C above pre-industrial temperatures;
- IPL intends to rely heavily on carbon capture utilisation and storage (CCUS) at its Waggaman ammonia plant. Enhanced oil recovery (EOR) is a form of CCUS being pursued in Louisiana<sup>3</sup> and it is possible that CO<sub>2</sub> generated by IPL will be used for EOR. If so, this will merely transfer Scope 1 emissions to Scope 3, by facilitating increased fossil fuel production and leakage of CO<sub>2</sub>, with observed CO<sub>2</sub> retention rates from EOR being as low as 28%.<sup>4</sup>
- IPL has not sufficiently explained why only two of its operating ammonium nitrate plants are suitable for retrofitting with nitrous oxide (N<sub>2</sub>O) abatement technology;
- IPL is relying on the electricity grid to decarbonise rather than directly sourcing renewable electricity through power purchasing agreements (PPAs) or on-site renewable energy installations;
- IPL has not set targets for its Scope 3 emissions, and could be taking stronger action to reduce those emissions;
- IPL has not disclosed the capital expenditure it will allocate to meet its emissions reduction targets, or what the cost of more ambitious targets may be;
- There is a lack of detail in IPL's disclosures that limits shareholders' ability to assess the current plan and targets, particularly relating to the key assets that drive the company's emissions footprint.

IPL has linked the achievement of its emissions reduction targets to both short-term incentives (STI) and long-term incentives (LTI), but the quantum of these incentives remains unclear.

IPL has also committed to giving shareholders a non-binding vote on its climate plan in 2022 ('Say on Climate').<sup>5</sup> Supporting this resolution is complementary to the 2022 vote, as it provides shareholders with an opportunity to set expectations in advance.

<sup>3</sup> Global CCS Institute, Developing CCUS Projects in Louisiana and the Gulf Coast, November 2020

<sup>4</sup> Olea, R., "CO<sub>2</sub> retention rates in enhanced oil recovery", Journal of Petroleum Science and Engineering, vol 123, p23-28, 2015

<sup>5</sup> Incitec Pivot, Climate Change Report 2021, p13

## Emissions performance

### Operational emissions

IPL's operational greenhouse gas (GHG) emissions have increased 26% since 2015,<sup>6</sup> while the emissions intensity of its ammonia production improved by 8% over the same period.<sup>7</sup> This improvement is largely due to energy efficiency projects and the more efficient ammonia plant in Waggaman, Louisiana, which came online in 2016.

IPL's operational emissions were down 13.9% between 2020 and 2021, due to lower production. While IPL doesn't publish production numbers, energy use (which is the most appropriate proxy for production) was down 13.6% over the same period, which was consistent with the decline in emissions. This decline was largely driven by unplanned outages at Waggaman in April-May<sup>8</sup> and August, due to Hurricane Ida.<sup>9</sup>

Subject to plant performance, ACCR expects IPL's emissions to recover to 2020 levels in 2022.

### Scope 3 emissions

IPL reported its value chain emissions (Scope 3) for the first time in 2020, inclusive of material upstream and downstream emissions.<sup>10</sup> IPL's Scope 3 emissions have declined 18.6% between 2018 and 2021.<sup>11</sup> However, it is likely that its Scope 3 emissions were significantly higher in 2021 than 2015 due to increased production (Waggaman started production in 2016).

IPL previously reported the share of energy it sources from fossil fuels (excluding natural gas and diesel used as feedstock) was 95% in 2020, which was unchanged since 2015.<sup>12</sup>

## Emissions targets

In November 2021, IPL announced updated emissions reduction targets:<sup>13</sup>

- Reduce operational emissions by 5% by 2025, on 2020 levels (brought forward from 2026);
- Reduce operational emissions by 25% by 2030, on 2020 levels;
- Ambition to achieve net zero operational emissions as soon as practicable, and before 2050 if possible, without carbon leakage, where emissions are shifted from Scope 1 and 2 to its upstream value chain (Scope 3).

The 2025 and 2030 targets are not aligned with the goal of the Paris Agreement to limit warming to 1.5°C. While the Science Based Target initiative (SBTi) has not published a sectoral decarbonisation approach for the chemicals sector, an absolute contraction approach consistent with limiting global warming to 1.5°C, which is “strongly

encouraged”<sup>14</sup> for companies operating in developed countries, would require IPL to:<sup>15</sup>

- Reduce operational emissions by 21% by 2025, on 2020 levels;
- Reduce operational emissions by 42% by 2030, on 2020 levels.

IPL competitor Orica has committed to reduce its operational emissions by at least 40% by 2030, on 2019 levels.<sup>16</sup>

IPL has not set targets or goals to reduce its Scope 3 emissions, but it has “investigated opportunities” to do so (see below).

It is worth noting that by setting operational rather than equity share Scope 1 and 2 targets, IPL is excluding emissions from non-operated joint ventures such as Queensland Nitrates, which are treated as Scope 3 and therefore not covered by any emissions reduction target.

## Decarbonisation pathway

### Operational emissions (Scope 1 & 2)

IPL's potential pathway to net zero by 2050 identified the following decarbonisation opportunities/technologies:<sup>17</sup>

- Carbon capture and storage/utilisation and nitrous oxide (N<sub>2</sub>O) abatement (42% of operational emissions);
- Grid decarbonisation and PPAs (12%);
- Hydrogen and other alternative feedstocks (35%);
- Offsets 10%;
- Other (1%).

IPL is investigating CCUS at its Waggaman ammonia plant in Louisiana, USA.<sup>18</sup> Elected officials in Louisiana are very supportive of CCUS, introducing the SCALE Act in March 2021, with the intention of making Louisiana “a significant national hub” for CCUS.<sup>19</sup>

There are, however, significant concerns with this technology. IPL itself acknowledges that its deployment of CCUS is subject to “economic feasibility”.<sup>20</sup> If captured CO<sub>2</sub> is sold for EOR, then IPL emissions merely shift from its operational footprint to its value chain, by facilitating fossil fuel production.

IPL intends to install abatement catalysts for N<sub>2</sub>O emissions (with 100 year global warming potential of 265<sup>21</sup>) at its Moranbah, Queensland and Louisiana, Missouri ammonium nitrate manufacturing plants.<sup>22</sup> IPL has not disclosed why its other operating ammonium nitrate plants (Cheyenne and St Helens) are not suitable for this technology. IPL has also not disclosed the cost

<sup>6</sup> Incitec Pivot, Climate Change Report 2021, p51

<sup>7</sup> Incitec Pivot, Climate Change Report 2021, p50

<sup>8</sup> Incitec Pivot, ‘Waggaman Ammonia Plant Update’, 10 May 2021

<sup>9</sup> Incitec Pivot, ‘Waggaman Update’, 13 September 2021

<sup>10</sup> Incitec Pivot, Sustainability Report 2020, p19

<sup>11</sup> Incitec Pivot, Climate Change Report 2021, p51

<sup>12</sup> Incitec Pivot, Sustainability Reports 2017-20

<sup>13</sup> Incitec Pivot, Climate Change Report 2021, p5

<sup>14</sup> Science Based Target Initiative, SBTi Corporate Manual, June 2021

<sup>15</sup> Science Based Target Initiative, Science-based Target Setting Tool, Version 1.2, [link](#)

<sup>16</sup> Orica, Sustainability Report 2020, p1

<sup>17</sup> Incitec Pivot, Climate Change Report 2021, pp18-19

<sup>18</sup> Incitec Pivot, Climate Change Report 2021, p5

<sup>19</sup> Bill Cassidy, US Senator for Louisiana, ‘Bipartisan group introduces nation’s first comprehensive CO<sub>2</sub> infrastructure bill’, 18 March 2021, [link](#)

<sup>20</sup> Incitec Pivot, Climate Change Report 2021, p5

<sup>21</sup> Clean Energy Regulator, Global Warming Potentials, July 2020

<sup>22</sup> *ibid.*

or timing of upgrading Moranbah and Louisiana, noting that Moranbah is next due for a turnaround (scheduled outage) in FY25.<sup>23</sup>

IPL has identified its purchased electricity and self-generated gas-fired electricity as opportunities to decarbonise approximately 12% of its operational emissions, but not until after 2030.<sup>24</sup> IPL can and should investigate options to decarbonise these emissions immediately.

On 8 November 2021, IPL announced that it would close its Gibson Island plant at the end of December 2022, due to its inability to secure an affordable long-term gas supply contract.<sup>25</sup> While IPL does not report facility-level emissions data, under Australia's safeguard mechanism, Gibson Island's emissions baseline is 503 kt CO<sub>2</sub>e.<sup>26</sup> In 2019-20, Gibson Island reported emissions of 374 kt CO<sub>2</sub>e, or approximately 9.4% of IPL's 2020 emissions. It is unclear whether the closure of Gibson Island will be included in the 2025 and 2030 emissions reduction targets, or be additional to those targets.

IPL has recently announced partnerships with Fortescue Future Industries, and Keppel Infrastructure and Temasek to investigate green ammonia production,<sup>27</sup> but it is yet to disclose sufficient detail on these plans to assess their merits.

### **Scope 3 emissions**

Fertiliser use represents 49% of IPL's Scope 3 emissions. IPL states that its Enhanced Efficiency Fertiliser range may reduce GHG emissions by up to 73%.<sup>28</sup> While IPL is working with regulatory bodies to generate carbon credits from the use of these products, it should also consider supplying these products as the standard rather than as a specialty range.

Purchased goods represent 23% of IPL's Scope 3 emissions. IPL should be working with its suppliers to reduce their emissions, and commit to shifting to suppliers with Paris-aligned emissions reduction targets.

## **Capital expenditure**

The majority of IPL's capital expenditure is allocated to sustenance. In 2021, just A\$51.2 million (14%) was allocated to minor growth capital including "plant efficiency projects and other projects supporting volume growth and technology investments".<sup>29</sup>

IPL has not disclosed how much capital it intends to allocate to decarbonisation initiatives beyond energy efficiency.

In 2020, IPL participated in a A\$2.7 million solar hydrogen feasibility study into renewable ammonia production at Moranbah, Queensland,<sup>30</sup> supported by A\$980,000 in funding from the Australian Renewable Energy Agency (ARENA).<sup>31</sup> IPL intends to use

the findings from this study to develop "potential pathways to net zero operational emissions by 2050".<sup>32</sup>

IPL has a 50% stake in the Range (coal seam) Gas project in the Surat Basin, Queensland. The project contains an estimated 270 petajoules (PJ) of 2C Contingent gas resource (IPL share: 135 PJ).<sup>33</sup> Three pilot wells were drilled and commissioned in 2021, and the project is expected to deliver first gas to market in 2024.<sup>34</sup> This is despite the International Energy Agency's recently published 'Net zero by 2050' report concluding that no new coal, gas or oil developments could proceed beyond this year, in order to limit global warming to 1.5°C.<sup>35</sup>

## **Remuneration**

IPL recently updated its remuneration structure to link both short-term incentives (STI) and long-term incentives to emissions reduction targets.

In FY22, 10% of the senior executives' STI scorecard will be determined by ESG-related strategic objectives.<sup>36</sup> It is unclear whether that 10% will be determined by emissions reductions and/or associated initiatives alone, or a broad range of ESG activities.

The 2021-24 long-term incentive will also include a 10% ESG component intended to drive "IPL achieving its 2025 and 2030 targets on climate change and focus on investing in new technologies" to enable long-term emissions reductions.<sup>37</sup>

These updates to the remuneration structure are welcome, but further transparency on emissions-related incentives would be useful for shareholders.

## **Conclusion**

In late 2020, IPL was added to Climate Action 100+ initiative (CA100+), a global coalition of institutional investors engaging with carbon-intensive companies.<sup>38</sup> ACCR expects that IPL will be assessed in the CA100+ Net zero company benchmark in early 2022, which expects companies to set short-, medium- and long-term emissions reduction targets aligned with the Paris Agreement. Companies are also expected to align capital expenditure and remuneration with those targets.

ACCR believes there is sufficient reason to vote for this proposal, and that support would be complementary to the forthcoming 'Say on Climate' vote in 2022.

<sup>23</sup> Incitec Pivot, Full year results presentation, 15 November 2021

<sup>24</sup> Incitec Pivot, Climate Change Report 2021, p45

<sup>25</sup> Incitec Pivot, 'Gibson Island manufacturing operations to cease in December 2022', 8 November 2021

<sup>26</sup> Clean Energy Regulator, Safeguard facility reported emissions 2019-20, 11 August 2021, [link](#)

<sup>27</sup> Incitec Pivot, Climate Change Report 2021, p5

<sup>28</sup> Incitec Pivot, Climate Change Report 2021, p21

<sup>29</sup> Incitec Pivot, Annual Report 2021, p11

<sup>30</sup> Incitec Pivot, Sustainability Report 2020, p4

<sup>31</sup> ARENA, 'Renewable hydrogen could power Moranbah ammonia facility', 30 September 2019

<sup>32</sup> Incitec Pivot, Sustainability Report 2020, p4

<sup>33</sup> Central Petroleum, 'Range Gas Project Pilot Update, Pilot Expansion to Accelerate Testing', 24 August 2021

<sup>34</sup> Central Petroleum, FY2021 Annual Results and Business Update, 21 September 2021

<sup>35</sup> International Energy Agency, 'Net zero by 2050', May 2021

<sup>36</sup> Incitec Pivot, Annual Report 2021, p41

<sup>37</sup> *ibid.*

<sup>38</sup> Climate Action 100+, 'Climate Action 100+ adds to focus list of companies', 18 November 2020

**Table 1. Energy use, operational and value chain GHG emissions, 2015-21 (Mt CO2e)**

	2015	2016	2017	2018	2019	2020	2021
Energy use (TJ)	N/A*	N/A	N/A	73,734	64,996	70,071	60,629
Scope 1 (Mt CO2e)	2.35	2.45	2.75	4.04	3.47	3.66	3.11
Scope 2 (Mt CO2e)	0.36	0.31	0.34	0.33	0.31	0.30	0.30
<b>Scopes 1+2 (Mt CO2e)</b>	<b>2.70</b>	<b>2.77</b>	<b>3.09</b>	<b>4.37</b>	<b>3.78</b>	<b>3.96</b>	<b>3.41</b>
Scope 3 (Mt CO2e)	N/A*	N/A*	N/A*	7.72	6.29	6.00	6.28
<b>Scopes 1+2+3 (Mt CO2e)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12.08</b>	<b>10.07</b>	<b>9.96</b>	<b>9.69</b>

Source: Incitec Pivot, Climate Change Report 2021, Sustainability Report 2017

\*Not disclosed

**Table 2. Capital expenditure, 2015-21 (A\$m)**

A\$m	2015	2016	2017	2018	2019	2020	2021
Major growth capital	256.4	215.2	83.1	-	-	-	-
Minor growth capital	16.4	29.8	52.0	64.6	55.2	60.2	51.5
Sustenance	100.0	190.5	184.6	253.8	246.3	218.2	303.8
Lease buy-out	-	-	-	6.9	46.6	-	-
<b>Total</b>	<b>372.8</b>	<b>435.5</b>	<b>319.7</b>	<b>325.3</b>	<b>348.1</b>	<b>278.4</b>	<b>355.0</b>

Source: Incitec Pivot, Annual Reports 2016-21

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