CarbonNet Project

**EY Regional economic benefit assessment – gippsland**

february 2021

ACCESSIBLE VERSION

# Executive Summary

1. The construction of CarbonNet and resulting activity from CCS enabled industries has the potential to provide a significant economic boost to Victoria.

* **$896m:** The CarbonNet project has the potential to provide an estimated $896m boost annually to Victoria’s Gross State Product (GSP) annually during the construction phase.
* **2,707 jobs:** The CarbonNet project could create an average of 2,707 total jobs per annum during construction phase for Victoria with the majority of jobs in Gippsland.
* **$1,056m:** CarbonNet’s CCS industries have the potential to increase Victoria’s GSP by $1,056m annually, once it becomes operational, driven primarily by the production of CCS enabled industries.
* **1,176 jobs:** CarbonNet’s CCS industries could create an additional 1,176 jobs per annum for CCS enabled industries while operational. This figure includes both direct (through the operation of CarbonNet and CCS enabled industries) and indirect employment supported by the project.

1. CarbonNet and CCS can help to achieve sustainable industry development and economic growth for the Latrobe and Wellington LGAs

CCS is expected to facilitate long-term economic benefits for the region in terms of its impact on Gross Regional Product (GRP) and employment.

As shown in the figure below, the impact of the project is expected to be most significant in the final stages of construction (2030/31) and followed by a sustained boost to GRP and employment through to 2061.

**Figure 1 – Gross Regional Product and Employment**

1. **Flow on impacts of CarbonNet’s CCS industries will be highly beneficial for Victoria.**

**Figure 2 – Economic flow on effects breakdown**

* Direct project spending will flow throughout the Victorian economy, Gippsland will see most benefit with 16% of total benefits provided outside of Latrobe and Wellington LGAs.

1. **CarbonNet can provide significant environmental and social benefits.**

* The project will enable the decarbonisation of industry and help to achieve a low emissions future.
* The attraction of new business will provide agglomerationbenefitsthrough knowledge sharing and other spill-over impacts.
* The project has the capacity to create new jobs and training opportunities which will ensure sustainable growthfor the region.

CONTENTS

[Executive Summary 1](#_Toc152846938)

[Introduction 5](#_Toc152846939)

[Background 5](#_Toc152846940)

[Location of the CarbonNet project 5](#_Toc152846941)

[Economic profile of the Gippsland region 7](#_Toc152846942)

[Potential commercial opportunities enabled by CarbonNet 8](#_Toc152846943)

[Approach 9](#_Toc152846944)

[Approach overview 9](#_Toc152846945)

[Regional assumptions for economic modelling of CarbonNet 9](#_Toc152846946)

[Modelling scenarios and assumptions 11](#_Toc152846947)

[Economic benefits of CarbonNet 12](#_Toc152846948)

[Expenditure of CCS enabled industries. 12](#_Toc152846949)

[Economic impact results summary (Medium scenario) 13](#_Toc152846950)

[Economic impacts for Latrobe and Wellington 14](#_Toc152846951)

[Economic impacts for Victoria 16](#_Toc152846952)

[Industry employment impacts 17](#_Toc152846953)

[Scenario results for Latrobe and Wellington 18](#_Toc152846954)

[Scenario results for Victoria (State-wide impacts) 20](#_Toc152846955)

[Environmental and social benefits 22](#_Toc152846956)

[Environmental and social benefits overview 22](#_Toc152846957)

[Enabling a net-zero emissions future by capturing 7 million tonnes of CO2 per annum 22](#_Toc152846958)

[Industry development through clustering 23](#_Toc152846959)

[Creating sustainable employment and educational opportunities 24](#_Toc152846960)

[Case studies 26](#_Toc152846961)

[New developments in CCS 26](#_Toc152846962)

[CCS projects around the world 27](#_Toc152846963)

[Key CCS case studies 28](#_Toc152846964)

[Sleipner – Norway, North Sea 29](#_Toc152846965)

[ACTL – Canada 30](#_Toc152846966)

[Porthos – The Netherlands 30](#_Toc152846967)

[Wabash – USA 31](#_Toc152846968)

[Appendices 33](#_Toc152846969)

[Appendix A - CGE modelling framework 33](#_Toc152846970)

[Appendix B - Dynamics of EYGEM 33](#_Toc152846971)

[Appendix C – Key CGE Modelling Assumptions 34](#_Toc152846972)

[Appendix D – Employment by industry impacts 35](#_Toc152846973)

# Introduction

## Background

### About the project

The CarbonNet Project (CarbonNet or the Project) is investigating the potential for establishing a commercial-scale carbon capture and storage (CCS) network in Gippsland (in the Latrobe and Wellington LGAs). CCS involves capturing carbon dioxide (CO2) released by industrial processes, compressing it and then transporting it to an injection site to be sequestered deep underground for safe, long-term storage in suitable geological formations. The network would bring together multiple CO2 capture projects, transporting CO2 via a shared pipeline and injecting it into deep underground, offshore storage sites in Bass Strait.

The project was established by the Victorian government in 2009 and has been jointly funded by the State and Commonwealth since 2010. Since 2010 CarbonNet has completed extensive investigations which have been subject to independent review and certification, including detailed modelling of potential CO2 storage sites in Bass Strait. The project also secured legal access to offshore sites enabling further field activities to take place to confirm the viability of multiple locations.

The project is currently in Stage 3: Project Development and Commercial Establishment, and the drilling of an offshore appraisal well in 2019-20 at the Pelican site in Bass Strait.

The primary focus of this stage of the project is now defining the commercial structure and underlying principles to attract private sector investment. Various investment scenarios are being examined to understand the potential impacts of a CCS service to industry in Gippsland, such as the Hydrogen Energy Supply Chain (HESC) project.

### Purpose of the analysis

The purpose of this report is to provide a detailed economic assessment that captures both the direct and indirect economic benefits related to the construction of the CarbonNet project and the operation of enabled industries, based on a range of key assumptions regarding the level of commercialisation of the project developed in close consultation with the CarbonNet team.

The analysis provided in this report is intended to assist CarbonNet in communicating the broader economic benefits of the project to key stakeholders and the community.

## Location of the CarbonNet project

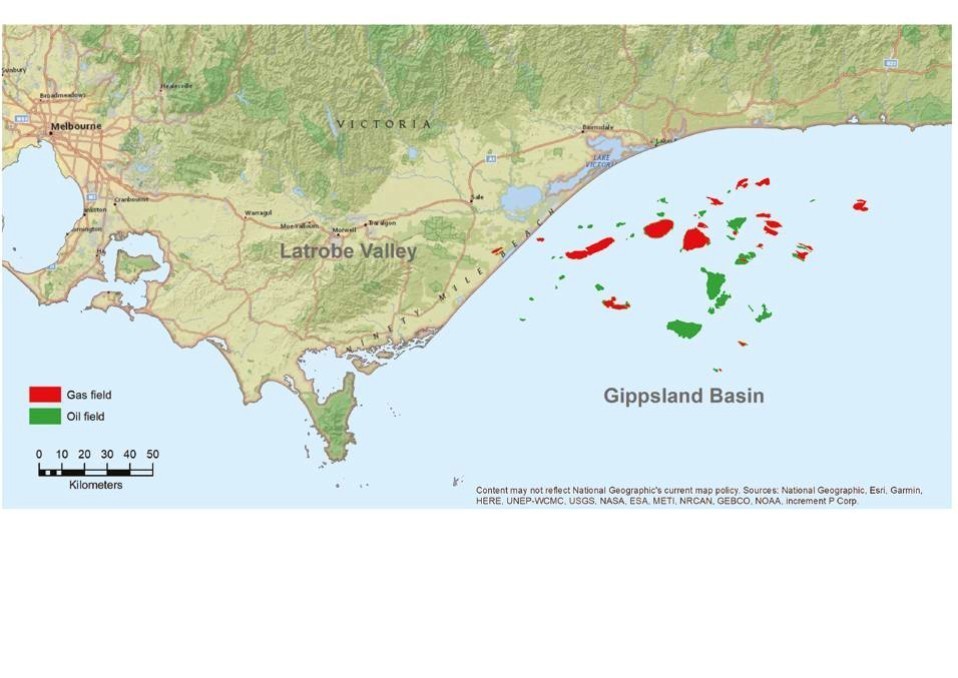
### Why Gippsland?

In 2009 the Gippsland region was identified as the most attractive region for CCS in Australia by the national Carbon Storage Taskforce. Victoria has the opportunity to lead the rest of Australia in contributing to Australia’s emissions mitigation commitments and in establishing Australia’s first CCS industry hub.

The Gippsland Basin is a world-class hydrocarbon producing region with well understood geology and significant subsurface storage potential in both unfilled structures and oil and gas reservoirs when depleted, with an estimated potential storage capacity exceeding 31,000,000 MT. This estimate of capacity is informed by extensive oil and gas exploration and production across the Gippsland Basin over the past 50 years, which has produced an extensive open-source geological data archive of the Basin.

CarbonNet has used this archive to assess CCS prospectivity across the Gippsland Basin. CarbonNet has demonstrated that the Gippsland Basin compares most favourably in a global context with excellent high injectivity reservoirs, proven multiple seals, large structural closures and no pressure issues due to an extensive offshore aquifer system.

**Figure 1 – CarbonNet Project regional context**



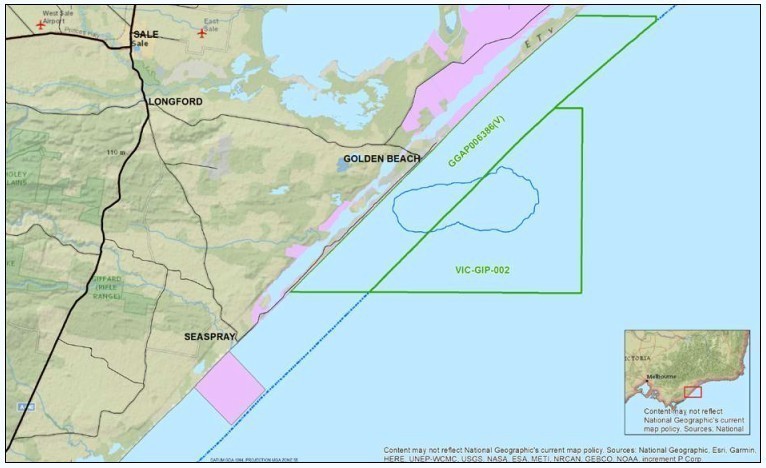
### The Pelican Site

Detailed 3D geological models of the Basin enabled geologists and reservoir engineers to analyse a number of sites and to predict the behaviour of CO2 throughout the storage process, from injection to migration and stabilisation.

Initially, 14 sites were identified in the nearshore area. This was eventually reduced to three, with Pelican prioritised as CarbonNet’s initial carbon dioxide (CO2) storage site. Located in the offshore Gippsland Basin in Bass Strait, Pelican is a very large, dome shaped geological structure that has many rock layers.

The porous layers of sandstone, approximately 1.5km below the seabed, act like a sponge to store the CO2, while layers of shale and coal form the barriers to trap the CO2 – the same way oil and gas has been trapped in Bass Strait naturally for millions of years. Pelican is large enough to store at least five million tonnes of CO2 per year for 25 years.

**Figure 2 – Greenhouse gas permits for the offshore Pelican site**



## Economic profile of the Gippsland region

Situated in south-east Victoria, the Gippsland region is comprised of six local government areas (LGAs), or shires: East Gippsland, Wellington, Baw prospectively, Latrobe, South Gippsland and Bass Coast. The Gippsland region has a population over 286,000, and in 2019 the Gross Regional Product (GRP) was $17.7b, which accounts for approximately 3.9% of Victoria’s Gross State Product (GSP). There are approximately 105,700 workers employed in the region, with the highest employing industries being health care, retail trade and construction.

The Gippsland region hosts a wide array of processing facilities and gas pipelines, while the Gippsland Basin is Victoria's most productive petroleum province. Exploration since the 1960s has yielded several world class oil and gas fields as well as numerous small and medium sized fields. One notable example is the Kingfish oil field, which was discovered in 1967 and remains Australia's largest petroleum discovery.

The region is considered a traditional energy powerhouse and produces the majority of Victoria’s electricity from Latrobe Valley’s brown coal-fired generators, as well as 97% of Victoria’s natural gas, and 14% of Australia’s oil from Bass Strait’s extensive gas and oil fields. Gas produced from the Gippsland Basin services Melbourne, regional centres across Victoria as well as the wider east-coast gas market.

However, with the changing energy landscape, traditional electricity generation methods are challenged by the need to lower greenhouse gas emissions. All of Latrobe Valley’s coal-fired power stations are scheduled to close by 2048, which will see significant changes to the industrial and employment landscape in the Latrobe Valley and wider Gippsland.

The CarbonNet project represents a significant opportunity for the region, with potential for CCS to be established in the Bass Strait. The project would provide both a short-term economic boost during construction, and also help to activate and support both existing and emerging industries. By providing industry with an incentive to locate within the region, the project has the potential to serve as a cornerstone on which the region’s existing assets and natural advantages can be leveraged.

* **$17.7b** **Gross Regional Product**(3.9% of VIC GSP)
* **105,700 Workers employed.** (3.9% of total VIC employment)

### Focus areas - Emerging Sectors

**Healthcare and social assistance** which accounts for the highest number of jobs in the region, with demand likely to increase due to an ageing population.

**Advanced Manufacturing** Skilled and qualified workforce and opportunities for industry to leverage advancements in science and tech in the region.

**Food and Fibre** the projected increase in global demand for food and fibre represents an exciting opportunity for the region; however, climate change remains a key challenge for industry.

**Energy** The changing energy landscape is causing traditional electricity generation methods to be challenged by the need to lower greenhouse gas emissions.

**Resources and mining** the transition towards low-emissions future represents a challenge in terms of both rehabilitating and transforming existing industry.

**Knowledge Industry and Professional services** a growing number of business incubators and co-working spaces proving successful in growing traditional and developing new industries.

## Potential commercial opportunities enabled by CarbonNet

The CarbonNet Project is establishing a commercial scale Carbon Capture and Storage (CCS) network in Gippsland, Victoria, with the vision of the project being to develop a world class, commercially viable CCS hub in Gippsland that provides a safe, competitive, flexible solution for Victoria to manage its future carbon emissions from industrial sources, while supporting economic development opportunities.

Successful implementation of this project will lead to a commercial scale carbon transportation and storage system, introducing new industries, creating new jobs for the Latrobe Valley, and enabling significant reduction in CO2 emissions in Victoria. The most prospective of these opportunities are outlined in the figure below.

### CO2 capture and storage

* **Hydrogen:** With carbon capture and storage, hydrogen can be produced directly from coal with near-zero greenhouse gas emissions.
* **Fertiliser:** CCS will provide a cost-effective opportunity for the commercial fertiliser industry to decarbonise operations.
* **Waste to Energy:** CCS provides a pathway for the WtE industry to achieve negative CO2 emissions while producing the power and handling the waste produced by our growing populations and economies.
* **Gas processing:** CCS is well suited to natural gas processing as CO2 is removed from gas before it can be transported or used.
* **Horticulture:** CCS will allow the horticulture industry to utilise CO2 in greenhouses which will help to improve productivity of the industry.

### Hydrogen Energy Supply Chain (HESC) project

The Hydrogen Energy Supply Chain (HESC) project will require a CCS service for commercial scale development.

The current HESC pilot project is a world-first, demonstrating hydrogen production from brown coal and safe and efficient transport of liquefied hydrogen to Japan. Producing hydrogen from brown coal is currently the most cost-effective way of doing so, and Victoria has an opportunity to be a significant player in the emerging global hydrogen economy.

From a social perspective, exploring an integrated hydrogen supply chain in the Latrobe Valley has great potential to bring an entire new industry to this region. This will help local communities transition to a clean energy future.

# Approach

## Approach overview

The purpose of this study was to provide an independent assessment of the potential economic benefits of the CarbonNet project to Victoria and to help communicate the scope and extent of these benefits to the community. To achieve this, EY has undertaken a detailed economic impact assessment using Computable General Equilibrium (CGE) modelling. The economic modelling utilised EY’s in-house EYGEM model to estimate the potential impact of the CarbonNet project and CCS enabled industries on economic output and employment within the Latrobe and Wellington LGAs, as well as the rest of Victoria. The analysis is supported by a qualitative assessment of the potential social and environmental benefits of the project to provide a comprehensive assessment of the CarbonNet project. The figure below provides a summary of the approach undertaken.

* + - 1. **Define the scope of the CarbonNet project.**
* EY worked closely with the CarbonNet team in defining the scope and scale of the CCS enabled industries.
* Developed appraisal framework that describes the potential impacts and benefits of the project.
* Developed relevant scenarios to represent varying levels of investment and utilisation of the project.
* Consulted with DJPR and other key stakeholders to gather data and to validate key modelling assumptions.
  + - 1. **Gather and refine model inputs.**
* Define key regions for analysis.
* The key inputs to estimate the economic impact of the project are:
  + Capital expenditure.
  + Operating expenditure.
  + Industry expenditure.
* The economic modelling has been informed by data gathered by the CarbonNet team through the investigative process.
* Projected industry expenditure has been estimated based on consultation with industry and validation against publicly available benchmarks.
  + - 1. **CGE modelling and scenario analysis.**
* Calibrate and validate model to ensure that the model accurately reflects the economic environment of the defined regions of analysis.
* Identify key sensitivities and defined appropriate scenarios to estimate the impact of key uncertainties (e.g. capacity, utilisation, pricing).
* In addition to testing the various sensitivities described in step 2, additional scenario analysis was also undertaken to understand the impact of changes to various input assumptions of the CGE model such as the employment elasticity.
* For further details on the in-house CGE EYGEM model, refer to Appendices A, B and C.
  + - 1. **Assess broader social and environmental benefits of the project**
* It is acknowledged that the economic impact analysis does not fully capture the total value that Victoria will receive from the CarbonNet project.
* Therefore, a qualitative assessment has been undertaken to examine the broader social and cultural benefits of the project, and their potential contribution to Victoria.

## Regional assumptions for economic modelling of CarbonNet

### Regions defined in the CGE model

An important assumption in the CGE model is the location of activity as this will dictate which regions will be ‘shocked’. Key regions have been defined within the CGE model based on the local government area (LGA) where activity is anticipated to be undertaken.

Based on consultation with the CarbonNet team, the following activities and corresponding regions have been defined within the model:

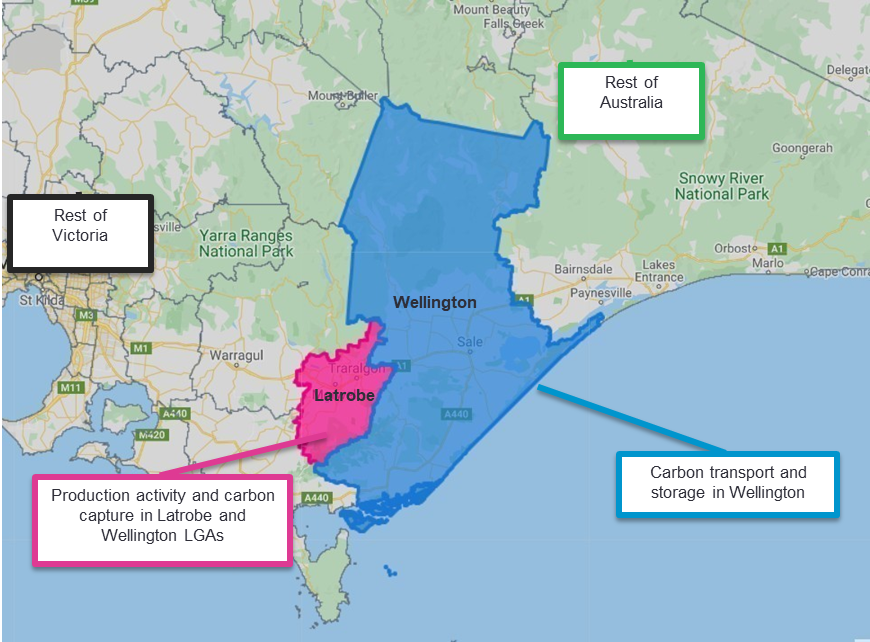
* **Customer activity (i.e. production of hydrogen, fertiliser etc) and carbon capture** is assumed to occur across the Wellington and Latrobe LGAs.
* **Carbon dioxide transport and storage** is assumed to occur in the LGA of Wellington (although storage will technically happen off the coast)

Within the CGE model, four separate regions have been defined which allows the economic flows between regions to be modelled and estimated. The regions that are defined within the EYGEM model are:

* Latrobe
* Wellington region
* Rest of Victoria (RoVIC)
* Rest of Australia (RoA)
* Rest of World (RoW)

For the purposes of this report, only the economic impact for the Latrobe and Wellington region and Victoria have been presented.

**Figure 3 – Economic modelling regions**



## Modelling scenarios and assumptions

A critical component of the economic analysis is to identify the implications and impacts of different project specifications in order to understand the range of potential impacts. The modelling is based on three scenarios developed to represent varying levels of capital investment, and operational activity, in particular the balance between export and domestic use.

The ‘Medium scenario’ represents a forward view where the HESC project operates at anticipated full capacity, with a total of 4.2Mt of CO2 to be stored per annum. The HESC project is joined by two other customers, producing a combination of hydrogen, fertiliser and natural gas, for a total annual storage requirement of 7Mt of CO2.

Two additional scenarios were also developed to understand the sensitivity of the project to changes in customer output and annual storage requirements. In the “Low Scenario” sensitivity, we test the impact of reduced customer demand and two other customers producing a combination of hydrogen, fertiliser and natural gas for a total annual output of 3Mt of CO2. In the “High Scenario” sensitivity, we test three customers being retained with output matching the medium scenario, with another customer contributing additional fertiliser and hydrogen production with 4Mt of annual CO2 to be stored, and a further 1Mt of CO2 from waste to energy and biomass electricity production.

Each of these scenarios have been modelled using EY’s CGE tool, with the outputs used to understand both the direct and indirect impacts to the local economy and to Victoria.

| Low scenario |
| --- |
| Foundation customer for establishment of CarbonNet and 2 other participants, producing a lower amount of CO2. |
| Markets   * Hydrogen for domestic supply * Fertiliser for domestic supply * Gas processing for domestic supply |
| Utilisation   * 3MT per annum |

| Medium scenario |
| --- |
| Foundation customer for establishment of CarbonNet and 2 other participants (assumes Foundation customer operating at full capacity). |
| Markets   * Hydrogen for export and domestic * Fertiliser for domestic supply * Gas processing for domestic supply |
| Utilisation   * 7MT per annum |

| High scenario |
| --- |
| Retain customers in Medium, with one additional customer that expands the capacity of the CCS facilities. |
| Markets   * Hydrogen for export and domestic * Fertiliser for domestic and export * Gas processing for domestic supply * Waste to energy for domestic supply |
| Utilisation   * 12MT per annum |

# Economic benefits of CarbonNet

## Expenditure of CCS enabled industries.

A key component of the economic modelling is to establish the projected expenditure profiles of CCS enabled industries so that economic impacts of these expenditures can be modelled. These expenditures include both the upfront capital investment related to the construction of the necessary infrastructure (construction phase), and the ongoing production expenditure of each of the enabled industries (operational phase).

EY has worked closely with the CarbonNet team to develop the following expenditure profiles based on the proposed scope of the project, while also utilising key industry benchmarks to estimate the production expenditure from industries that would be activated by the CarbonNet project. The table below provides a summary of the capital and expenditure profiles for the medium scenario, while Figure 4 provides a time series comparison of the expenditure profiles between the different scenarios modelled.

| Capital investment  (Medium scenario) | Production value  (Medium scenario) |
| --- | --- |
| $11.b over 6 years  The construction of the projects (CarbonNet and enabled projects) is estimated to be $11.1b over 6 years.  The capital expenditure profile is presented in Figure 3, representing the total cost of construction including the carbon transportation (pipeline) in Wellington, the construction of fertiliser manufacturing plants, the construction for the natural gas extraction, and the construction of bioenergy plants (in the high scenario). | **$1.2b p.a. in opex**  The operational phase of CarbonNet is assumed to begin immediately after construction is complete in 2030-31.  The key operating expenditure streams will include production of hydrogen exports from the foundation customer, production of fertiliser in Latrobe for both export and domestic consumption and the generation of electricity through the biomass plants to be sold domestically.   * **$960m p.a. value in Latrobe** * **$230m p.a. in Wellington** |

**Figure 4 – CarbonNet Capex and Opex Profile – Medium Scenario**

### Low Scenario

* $5.0 billion in capital investment
* $591 million p.a. in production value

### High Scenario

* $19.3 billion in capital investment
* $1.6 billion p.a. in production value

## Economic impact results summary (Medium scenario)

The economic analysis demonstrates that the CarbonNet project has the potential to provide a significant economic impact to the Latrobe and Wellington LGAs by providing a substantial boost to the Gross Regional Product (GRP) of the region during both the construction and operational phases of the project, while also creating new employment opportunities within the region.

Additionally, the flow-on impacts from the project are expected to provide further economic benefits throughout the rest of Victoria, generating additional economic activity and employment opportunities across the State.

From a whole of Victoria perspective, CarbonNet is projected to provide an additional $896m to the Gross State Product (GSP) and 2,707 jobs annually during the construction phase of the project.

Once CarbonNet becomes operational, the activity of CCS enabled industries is projected to increase Victoria’s GSP by $1,056m annually, while also supporting an additional 1,176 jobs each year during the operational phase. This employment impact includes both the direct (i.e. employment related to the operation of CarbonNet and CCS enabled industries) and indirect jobs that will be created as a result of the project.

The following figures provide a summary of the average annual economic impact provided by the project during each phase of the project’s lifecycle.

**Figure 5 – Economic impact on Gross Regional Product (Medium scenario) – Average annual impact**

### Construction Phase FY26 – 31

###### Boost to GDP

Wellington $207 million, Latrobe $456 million, Rest of Victoria $233 million, Victoria total $896 million

### Operational Phase FY31 – 61

###### Boost to GRP

Wellington $248 million, Latrobe $682 million, Rest of Victoria $126 million, Victoria total $1,056 million

**Figure 6 – Economic impact on employment (Medium scenario) – Average annual impact**

### Construction Phase FY26 – 31

###### Jobs Created

Wellington 331, Latrobe 1,632, Rest of Victoria 744, Victoria total 2,707

### Operational Phase FY31 – 61

###### Jobs Created

Wellington 395, Latrobe 703, Rest of Victoria 78, Victoria total 1,176

## Economic impacts for Latrobe and Wellington

### Impact on economic growth (Gross Regional Product)

EY’s economic modelling shows a strong positive impact of the CarbonNet project (medium scenario) on the Gross Regional Product (GRP) of Latrobe and Wellington local government areas (LGAs).

The construction phase of the project provides for a strong boost to GRP in each of the regions, as to be expected for such a significant investment pipeline, with a peak combined increase in GRP of over $1.5b in 2030/31. Over this period, the majority of the capital investment and hence the greatest share of the economic benefits accrues to the Latrobe region.

Once the operational phase of the project commences the impact to GRP maintains a strong impact of approximately $1.3b to 2038/39 above the levels expected without the CarbonNet project. As shown in the figure below, the Latrobe region will see a more significant impact on GRP over this period, largely due to increased output of high productivity industries already established within the region.

**Figure 7 – GRP impacts in Latrobe and Wellington (Medium scenario)**

### Impact on regional employment (FTE)

Economic modelling of the CarbonNet project scenario shows a strong positive employment impact (measured by FTE) in both the Latrobe and Wellington LGAs.

During the construction phase of the project (under the medium scenario) the total number of local jobs (direct and indirect jobs) created increase sharply, peaking at 2,342 in Latrobe and 959 in Wellington, with employment concentrated in the construction industry.

During operations the structural differences in the customer base between the regions distributes benefits more broadly, and while a greater share of the GRP impacts fall to the Latrobe region, Wellington enjoys a greater share of the employment benefits, largely due to the presence of more labour intensive industries in the region.

During the initial operational phase between 2030 to 2038, modelling shows that approximately 1,500 direct and indirect jobs will be added to Wellington and Latrobe. While the majority of GRP impact will occur in Latrobe (as shown on Figure 7), Wellington will account for a greater proportion of the jobs created due to the capital intensive nature of the industries impacted in the Latrobe region.

While the modelling suggests a reduction in economic activity between 2038 and 2055 due to the assumed lifespan of CarbonNet foundation customers, based on global trends it is expected that new industries would emerge focused on carbon negative opportunities - biomass and direct air capture. This is supported by a recent report by IEA\* which highlights the need for carbon removal approaches to achieve net negative emissions after 2050.

**Figure 8 – Employment impact in Latrobe and Wellington (Medium scenario)**

\*<https://www.iea.org/commentaries/going-carbon-negative-what-are-the-technology-options>

## Economic impacts for Victoria

### Impact on economic growth (Gross State Product)

EY’s economic modelling shows a strong positive impact of the CarbonNet project (medium scenario) on the Gross State Product (GSP) of the State of Victoria.

The construction phase of the project provides a strong positive impact to GSP, peaking at $1.8b in 2030/31.

After operations commence in 2030, the impact to GSP stabilises at approximately $1.5b to 2038/39, once again moderating over time as selected customers are assumed to reach end of life, in the same way as was observed previously for the combined Wellington and Latrobe region.

In the high growth scenario (see page 20), GSP follows a similar pattern, peaking at over $1.8b and then stabilising at approximately $1.6b for the start of the operational phase, and moderating as select customers cease operations.

### Impact on State-wide employment (FTE)

Economic modelling of the CarbonNet project scenario shows a strong positive employment impact (measured by FTE) in at the state-wide level.

During the construction phase of the project (under the medium scenario) the number of Victorian jobs increase sharply, peaking at 3,862, with employment concentrated in the construction sector.

During the initial operational phase between 2030 to 2038, modelling shows that approximately 1,500 jobs will be added (with 55% going to Latrobe and 45% to Wellington), with a significant portion of these occurring in the gas industry.

Between 2038 and 2055, as the project’s operational expenditure reduces, the number of additional jobs associated with CarbonNet reduces to approximately 1,000 FTE across the State, reducing to below approximately 900 after 2055.

In the high growth scenario, employment growth is expected to peak at 6,119 across the state (centred in Latrobe and Wellington), then maintain approximately 1,600 FTEs through the operational phase to 2038, dropping to similar levels estimated for the medium CarbonNet scenario beyond 2055.

**Figure 9 – GSP and employment impact in Victoria**

## Industry employment impacts

CarbonNet is projected to drive strong growth in employment not only in Wellington and Latrobe, but with subsequent spill over benefits to the rest of the Victorian economy.

During the construction phase the Latrobe region experiences the greatest increase in economy wide employment driven by the high level of construction activity in that region, with an average of 1,632 more full time equivalent jobs over that period. Due to high level of capital expenditure and significant demand for labour during this period, it is expected that some labour will come from other industries as workers are attracted to new opportunities in the construction sector. However, the analysis suggests there will be no job losses across the region and that the CarbonNet project has a net positive impact on the economy and jobs market.

During the operational phase of the project impacts to other industries are expected to subside, with the employment likely to be spread across industries in line with increased demand amongst CCS enabled industries.

As shown in Figure 11 below, all regions of Victoria are expected to benefit, with the benefits sustained over both the construction and operations phases.

**Figure 10 – Average employment impacts by key industry sectors (Wellington and Latrobe)**

Figures are displayed on a bar graph.

* Construction Phase: Gas 50, Chemicals 20, Construction 1500, Trade 500
* Operational Phase: Gas 100, Chemicals 80, Construction 80, Trade 290

**Figure 11 – Average employment impacts by project phase – Medium Scenario**

**Construction – 2025/26 to 2030/31 Operations – 2031/32 to 2060/61**

Average employment impacts by project phase – Medium scenario. The bar graph showing employment impacts for Wellington, Latrobe, Region, Rest of Vic and Victoria for the Construction Phase and Operational Phase. 

Figures are as follows. For construction, Wellington 331, Latrobe 1,632, Region 1,963, Rest of Vic 744, and Victoria 2,707. For operations Wellington 395, Latrobe 703, Region 1,098, Rest of Vic 78, and Victoria 1,176.

Scenario results for Latrobe and Wellington

### Impact on GRP

**Low scenario**

In the low scenario, the construction phase of the project creates strong growth in GRP in the Wellington and Latrobe regions, driven by high levels of capital expenditure. After the commencement of the operational phase of the project, the impact to GRP stabilises at approximately $900m in the years 2030 to 2038. As some customers reach end of life the increment reduces to approximately $400m and then further to $330m as the operational expenses fall further in Latrobe.

**Medium scenario**

Similar to the low scenario, upfront growth in GRP is due to the high capital expenditure in the construction phase, but as CarbonNet moves into operation, there is a greater impact to the GRP due to the increased operational expenditure. Now the project peaks with an impact of $1.5b in the years 2030 to 2038, but this does fall to $930m and fall further to under $720m due to the same type of reductions made in the low scenario.

**High scenario**

In the high scenario, the GRP follows the same shape as the two previous scenarios, but again due to the higher operational expenses, there is a greater GRP impact for all year, with the peak of $1.8b. Once the operational expenses fall, the GRP is also expected to fall.

**Figure 12 – GRP impact in Latrobe/Wellington ($m)**

### Impact on Employment (FTE)

**Low scenario**

Under the Low Scenario there is strong employment opportunities generated in the Wellington and Latrobe regions during construction phase of the project. The heavy reliance on the construction sector during this phase drives a proportionately high level of employment compared to the sustained increase observed in the operations phase, peaking at over 1,800 FTE in 2029/30. Once ongoing operations commence the level of employment in the region remains above baseline levels, with approximately 1,000 additional FTE employees in the combined region to 2038/39, reducing as customer projects reach end of life over the modelling period.

**Medium scenario**

The medium scenario follows the same profile as the low scenario as a result of the similar make-up of the capital and operational expenses. The number of FTEs peak at 3,000 in 2029/30 and then remains between 720 to 1,500 during the operational phase.

**High scenario**

In the high scenario, again the employment impact curve follows the same profile as the previous scenarios, now with a peak FTE of 4,900 in 2030. As with the other scenarios, the number of FTEs steadily decline during the operational phase due to a projected reduction in operational expenditure in later years.

**Figure 13 – Employment impact in Latrobe/Wellington (FTE)**

## Scenario results for Victoria (State-wide impacts)

For each scenario modelled, there are flow on effects due to the economic activity in Latrobe/Wellington. The creation of new jobs in Latrobe/Wellington results in changes to the employment in the rest of Victoria, due to the limited supply of labour, and impacts to the output of industries due to supply chains.

**Low scenario**

Overall, Victoria’s GSP and employment increases as a result of the CarbonNet project, with the increase being driven by Latrobe/Wellington region. In the construction phase of the project, the rest of Victoria experiences an overall increase in GRP, driven by greater construction and recreational output.

The Low Scenario sees a peak increase in employment of 1,881 FTE across the state, compared to 1,641 FTE in the Wellington and Latrobe regions alone, an increase of 272 FTE in the Rest of Victoria region. Victorian GSP peaks at an increase of $1,056m compared to $985m in the Wellington and Latrobe region alone, with an increase in economic activity of $71m at the peak for the Rest of Victoria.

**Medium scenario**

Due to the mix of capital expenditure and operational expenditure, the flow on effects into the rest of Victoria are similar to the previous scenario. However, due to the higher capital expenditure in Latrobe and rest of Victoria, the GRP for the rest of Victoria remains higher than the base for the entire project horizon (until 2061) and the drop in FTE in the rest of Victoria is smaller than that in the low scenario due to smaller losses of employment in the manufacturing industry.

In the Medium scenario the peak Victorian employment is 3,862 FTE compared to 2,922 FTE in the Wellington and Latrobe region, while the peak GSP impact is $1,804m versus $1,540m in the Wellington and Latrobe region.

**High scenario**

The high scenario has the highest capital and operating expenditure for the Latrobe region, so as a result, the GRP and employment is significantly higher than the other scenarios. However, due to the higher employment in the Latrobe region, this causes greater losses in FTE in both Wellington and the rest of Victoria. Within the rest of Victoria, there is a shift in employment to construction, trade and other services/government away from manufacturing.

In the high scenario, employment is projected to peak at 6,119 FTE across Victoria compared to 4,930 FTE in the project region, and a peak Victorian GSP increase of $2,133m compared to a peak of $1,822 in the Wellington and Latrobe region which demonstrates the significant flow on impacts the project can have on the rest of Victoria.

**Figure 14 – GSP impact in Victoria**

**Figure 15 – Employment impact in Victoria**

# Environmental and social benefits

## Environmental and social benefits overview

In addition to the significant economic benefits described, CarbonNet will provide a range of significant environmental and social benefits that are unable to be captured in the economic modelling, but nevertheless will have a significant impact for both the local community, and more broadly across Victoria. These benefits, outlined in the figure below, and discussed further on subsequent pages, are an important consideration when ultimately weighing up the costs and benefits of the project.

### Enabling a low emissions future

Carbon capture and storage (CCS) technologies are essential to achieving global climate goals and their role has become even more essential with the net-zero emissions ambition of the Victorian Government.

The CarbonNet project is expected to capture approximately **7M tonnes** of carbon dioxide emissions per annum (on average) over the life of the project.

### Industry development through clustering

CarbonNet will provide critical infrastructure for industry, and both attract and encourage decarbonised industries to locate within the Gippsland region.

These new businesses to the region will provide flow-on benefits through agglomeration and clustering – including increased productivity and efficiency, increased transactions and interactions between firms, increased competition, innovation and knowledge creation.

### Creating sustainable employment and educational opportunities

The attraction of industry activity to the region will help to create on-going employment opportunities for the local community, along with additional training and development opportunities.

These opportunities will stem mainly from the construction of CarbonNet, the operation of CarbonNet and the start-up and operation of enabled industries.

## Enabling a net-zero emissions future by capturing 7 million tonnes of CO2 per annum

Carbon capture and storage (CCS) technologies are essential to achieving global climate goals and their role has become even more essential with the state’s net-zero emissions ambition. Climate change remains one of the most complex challenges the world is facing, and the sooner emissions can be reduced, the better the chance of fending off its worst impacts.

There are currently 26 commercial CCS facilities in operation, and a further 39 in various stages of development (GCCSI Annual Status Report 2020). CCS has versatile applications that can be used to decarbonise energy-intensive industries such as power, steel, cement, and fertiliser production. It can also reduce CO2 emissions already in the air by delivering negative emissions through direct air capture (DAC) and bioenergy with CCS (BECCS).

Emissions intensive industries contribute a relatively large share to economic output and are the backbone of many national economies. As a result of their capital intensity, the proportion of GDP they account for is much higher than their contribution to employment. For example, while the chemicals sector accounts for less than 0.5 per cent of total employment, it contributes 1.4 per cent of global GDP.

Investment in clean energy innovation, including CCS has multiple benefits for society, including supporting economic growth and addressing the externalities created by emissions and climate change (Figure 16).

Consistent with the Medium scenario modelled, the CarbonNet project is expected to capture approximately 7M tonnes of carbon dioxide emissions per annum (on average) over the life of the project.

By supporting the transformation of industry to a net zero economy, CCS can support a just transition for the local economies and communities that rely on emissions intensive industries for employment and income.

## Carbon capture and storage benefits

* **CCS reduces GHG emissions cost effectively.**Part of the portfolio of technologies needed to meet GHG emissions reduction targets at the lowest cost.
* **CCS transforms industry and creates jobs**.Supports high paying jobs and employment retention and creates new employment opportunities in the CCS industry.
* **CCS enables reliable, low carbon electricity supply.**Reduces total system costs of near zero electricity supply by providing reliable, dispatchable generation capacity when fitted to flexible fossil fuel power plants.
* **CCS extends the lifetime of infrastructure.**Utilises existing infrastructure that would otherwise be decommissioned, helping to defer shut-down costs.
* CCS improves air quality.Reduces the air pollution when used for hydrogen production that fuels transport or when fitted to a plant that does not already have pollutant controls.
* **CCS unlocks clean growth.**Provides knowledge spill overs that can support innovation-based economic growth.

## Industry development through clustering

The carbon capture and storage network that will be established through CarbonNet will provide critical infrastructure for industry and both attract and encourage decarbonised industries to locate within the Gippsland region. CarbonNet will therefore act as a catalyst which will enable the creation of a ‘hub’ for these industries. As more businesses locate and operate within close proximity to each other, further mutual benefits will arise as firms take advantage of natural economies of scale and synergies, with a ‘hub’ structure helping to make the development of infrastructure more cost-effective, while also promoting efficiencies from economies of scale, fostering innovation, and promoting sector coupling.

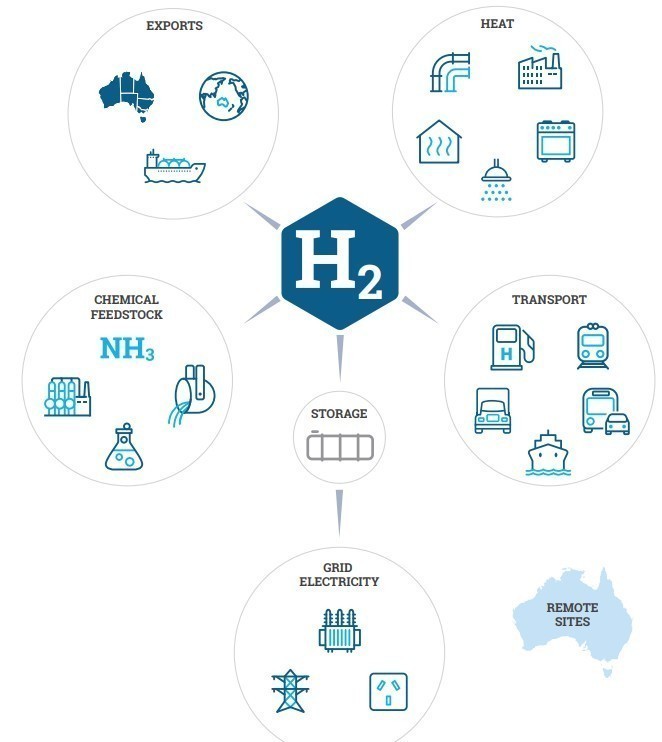
This ‘hub’ or ‘cluster’ model is a key component of Australia’s National Hydrogen Strategy which sets a vision to create a clean, competitive and safe hydrogen industry, and to make hydrogen Australia’s next energy export. On 1 February 2021, it was announced that the Gippsland Hydrogen Cluster, which has over 65 members, was awarded $250,000 in seed funding from NERA to aid the creation of an industry cluster that will foster cooperation, aid the development of supply chains and support the commercialisation of new technologies.

The cluster will also help to maximise economic benefits by ensuring Australian companies are well placed to supply new technology, products and services to Australia's hydrogen industry and export markets. As shown in the following figure, there are a wide range of potential uses for hydrogen, and therefore the establishment of a Hydrogen Industry Cluster will make the development of supply chain infrastructure more cost effective by aggregating these various users of hydrogen into one area.

Following a similar model, it is expected that CarbonNet will provide significant benefits for firms through clustering in terms of:

* Common use infrastructure
* Increased productivity and efficiency through utilisation of Gippsland’s unique knowledge assets, expertise and strength across the energy industry
* Greater transactions and interactions between firms, resulting in rapid diffusion of best practices
* Ongoing rivalry with similar firms resulting in strong incentives to improve and innovate
* Knowledge creation from the presence of suppliers and networks
* Lower start-up costs for new companies because of available skills, suppliers, etc.

**Figure 17 - Potential uses of Hydrogen**



Source: Commonwealth of Australia, Australia’s National Hydrogen Strategy

## Creating sustainable employment and educational opportunities

One of the key benefits of CarbonNet is the creation and support of the employment opportunities for the Victorian economy. As outlined below, CarbonNet will help to create new jobs through four key streams, each of which has its own diverse range of required skills. These four key streams include:

* Construction of CarbonNet
* Construction of CCS enabled industries
* Operation of CarbonNet
* Operation of enabled industries

In addition to the employment opportunities created the presence of CarbonNet is also anticipated to increase skills and knowledge in Victoria with the development of a coal to other (CTX) industry and the use of CCS technology. The presence of the proposed CTX industries in the Latrobe Valley provides comparatively greater opportunities for engineering students and professionals through the existence of real-life problems to solve and the opportunity to work in a new and growing industry.

The attraction of skills to new industries will improve the knowledge base of engineers, scientists and researchers in Victoria, and by enhancing the skills and innovative capacity of Victoria, that is likely to create positive effects beyond those impacts already measured.

### Construction of CarbonNet and enabled industries

The construction of CarbonNet will require a substantial construction workforce which will provide a significant number of jobs to local construction workers.

However, these jobs will be temporary, lasting only for the construction phase of the project’s development.

**Example of skills required:**

* Labourers
* Plant and machinery operators
* Civil engineers
* Pipeline engineers

### Operation of CarbonNet

CarbonNet will provide the capability to capture, transport and store carbon emissions within an integrated network.

The operation of CarbonNet will require a relatively diverse range of skills, with the jobs created to be long-lived, lasting for the duration of the capture plants operation.

**Example of skills required:**

* Specialist engineers (e.g. chemical, mechanical, pipeline)
* Geoscientists
* Researchers

### Operation of enabled industries

The deployment of CarbonNet will also enable high-value industries to continue to make a sustained contribution to economies by enabling them to make the transition to a net-zero emissions economy.

These industrial sectors are expected to co-locate in the region to access to infrastructure such as port and rail, and the necessary inputs to production such as energy resources, feedstocks and skilled workers.

**Example of skills required:**

* Industry dependent

# Case studies

## New developments in CCS

*New projects in early development demonstrate further innovation and advancement.*

### Northern Lights - Norway

*Part of a CCS chain comprising central storage of CO2 from multiple sites in Norway and Northern Europe.*

**Country:** Norway

**Size:** 1.5 MTPA

**Industry:** Cement/waste-to-energy

**Stage of operation:** Development

The Northern Lights project is part of the Norwegian full-scale CCS project. The full-scale project includes capture of CO2 from industrial capture sources in the Oslo-fjord region (cement and waste-to-energy) and shipping of liquid CO2 from these industrial capture sites to an onshore terminal on the Norwegian west coast. From there, the liquified CO2 will be transported by pipeline to an offshore storage location subsea in the North Sea, for permanent storage.

### Acorn CCS – UK

*Leveraging existing oil and gas pipeline infrastructure to deliver efficiencies and cost savings.*

**Country:** The UK

**Size:** 0.2 MTPA (15 MTPA in the long run)

**Industry:** Gas/power generation

**Stage of operation:** Detailed engineering (development)

Acorn CCS will transport CO2 from UK industry for permanent sequestration in saline formation in the North Sea. Acorn CCS is designed to be built quickly, taking advantage of existing oil and gas infrastructure and a well understood offshore CO2  storage site.

Through the Acorn Hydrogen project, North Sea natural gas would be reformed into clean hydrogen, with CO2 emissions safely mitigated through the Acorn CCS infrastructure. Hydrogen would be used in transport applications, and in the gas grid to decarbonise heating in our homes and industries.

### Zero Carbon Humber – UK

*Large scale multi-site CCS to generate up to 100,000 jobs in the UK’s largest cluster of industrial CO2 emitters.*

**Country:** The UK

**Size:** 0.9 MTPA (16 MTPA in the long run)

**Industry:** Power Hydrogen Chemicals

**Stage of operation:** Feasibility study

Zero Carbon Humber is a partnership to build the world's first net zero industrial cluster and decarbonise the North of England.

Zero Carbon Humber plans to capture carbon dioxide at scale from industry around the estuary via pipelines that transport the emissions to permanent storage in naturally occurring aquifers under the southern North Sea.

The anchor project for Zero Carbon Humber is the Equinor-led Hydrogen to Humber (H2H) Saltend, which will establish the world’s largest hydrogen production plant with carbon capture at px Group’s Saltend Chemicals Park.

## CCS projects around the world

The Global CCS Institute (GCCSI) Annual Status Report 2020 shows that global capture and storage capacity has increased by 33% since 2019.

There are currently 65 commercial CCS facilities, with almost 40 million tonnes of carbon dioxide being captured annually from the 26 commercial CCS facilities currently in operation.

Of the other facilities:

* Two have suspended operations – one due to the economic downturn, the other due to fire
* Three are under construction
* 13 are in advanced development reaching front end engineering design (FEED)
* 21 are in early development.

CarbonNet is one of the largest and most advanced of these emerging projects.

## Key CCS case studies

A range of existing CCS projects have been researched as case studies to better understand the potential economic, environmental and social benefits of CCS in Victoria.

These example projects demonstrate key impacts, considerations and lessons applicable to the CarbonNet context.

Initiatives were selected according to the following considerations:

**Stage of development:** Projects that are in operation and in advanced development are a more accurate and reliable comparison with available data on social, economic and environmental impacts.

**Size:** Projects of a similar annual storage capacity (1-5 million tonnes per annum) to CarbonNet were prioritised.

**Industry:** Case studies selected focus on the hydrogen production, fertiliser production and power generation industries.

**Age:** Given rapid pace of technological advancements made in CCS technology and infrastructure, newer projects are more likely to reflect similar conditions and impacts as CarbonNet and have been selected for comparison.

### Sleipner – Norway, North Sea

*The world's first commercial* CO2 *storage project.*

**Country: Norway, North Sea**

**Size:** 0.9 MTPA

**Industry:** Gas Processing

**Stage of operation:** Operation

### ACTL Sturgeon – Canada

*Building knowledge to stimulate innovation and investment attraction.*

**Country:** Canada

**Size:** 1.8 MTPA (up to 15 MTPA in the long term)

**Industry:** Hydrogen/fertiliser

**Stage of operation:** Operation

### Porthos - Netherlands

*Innovating and future-proofing infrastructure to deliver economic benefits and industry efficiency*

**Country:** The Netherlands

**Size:** 2-2.5 MTPA

**Industry:** Various/Hydrogen

**Stage of operation:** Advanced development

### Wabash - USA

*Producing affordable and competitive low-carbon products*

**Country:** USA

**Size:** 1.5 – 1.75 MTPA

**Industry:** fertiliser

**Stage of operation:** Advanced development

## Sleipner – Norway, North Sea

*The world's first large scale commercial CO2 capture and storage project.*

* 0.9 MTPA
* Gas Industry
* Operation Stage
* $100m (1996 investment)
* 17mt captured and stored so far

*Sleipner is a worldwide pioneer of CCS as the world’s first industrial-scale CCS project for the purpose of carbon emission abatement. Since 1996, Sleipner has captured over 17 million tonnes of CO2 from natural gas production for storage in an offshore aquifer more than 800 metres below the seabed (Utsira formation).*

### Social impacts

**Developing research and information sharing**

As a global pioneer in CCS, Sleipner has been invaluable in sharing information and experience with research networks and institutions globally. Knowledge from Sleipner has demonstrated the feasibility of safe long-term storage of CO2 and contributed significantly to worldwide advancement and confidence in CCS.

### Environmental impacts

**Storage monitoring programme**

Sleipner has employed a comprehensive monitoring programme to ensure secure long-term storage, prevent negative environmental impacts and improve storage technologies for wider deployment of safe CO2 storage.

**Safe containment**

The geological formation of the Utsira sandstone (Sleipner storage site) is an extensive and highly porous sandstone filled with saltwater, preventing any seepage into the atmosphere or local environment.

### Economic impacts

**Carbon tax**

Norway has had carbon taxes since 1991. Based on indicative tax rates, carbon capture and storage at Sleipner has saved an annual cost of 481 million NOK.

**Improving competitiveness of gas industry jobs**

As the larger of Norway’s two CCS projects, Sleipner contributes significantly to the increased long-term competitiveness of gas industry jobs. Sleipner represents a substantial portion of the estimated 10,000 people that will be directly employed in the Norwegian CCS industry in 2050.

Company: Equinor, Regions: Norwegian North Sea, Future Expansion: 1.2 MTPA

## ACTL – Canada

*Building knowledge to stimulate innovation and investment attraction.*

* 1.8-14.6 MTPA
* Hydrogen/fertiliser industries
* Operation Stage
* $1 billion investment
* 1000+ total jobs

*Alberta Carbon Trunk Line (ACTL) captures CO₂ at the North West Redwater Partnership Sturgeon Refinery and Nutrien’s Redwater fertiliser Facility. The CO₂ is safely transported to mature oil fields in Central Alberta for use in enhanced oil recovery (EOR) before permanent storage. ACTL has been in operation since June 2020.*

### Social impacts

**Knowledge building and innovation**

ACTL is building and sharing innovations and advancements in knowledge. The project provides technical reports to the Alberta Energy Regulator in a collaborative approach to promote education and further development and make CCS technologies more accessible.

### Community engagement

ACTL has received widespread local support due to extensive local stakeholder engagement including information campaigns, personal consultations and public open houses.

### Environmental impacts

**Producing low carbon oil**

Carbon captured by ACTL enables EOR that produces 60 per cent lower emissions per barrel than conventionally produced oil.

**Enhanced safety**

ACTL stores CO₂ in reservoirs which previously held oil and gas for tens of millions of years, ensuring fresh water aquifers and drinking water sources remain undisturbed and uncontaminated.

**Economic impacts**

**Attracting investment and galvanising new industry**

The certainty provided by ACTL’s carbon price will attract private investment for new CCS projects. The presence of CCS infrastructure in the local area will also galvanise new industrial facilities taking advantage of efficiencies produced by the CCS hub.

**Economic revitalisation of Central Alberta**

The ACTL site as well as EOR industry activity generated by the captured CO2 has the potential to produce thousands of jobs, representing a significant economic revitalisation for the local region.

Companies: NWR and Nutrien, Region: Alberta Industrial Heartland (AIH), Future expansion: 14.6 MTPA

## Porthos – The Netherlands

*Innovating and future-proofing infrastructure to deliver economic benefits and industry efficiency.*

* 2.5 MTPA
* Hydrogen industry
* Advanced Development Stage
* €500m investment
* 1200 construction jobs

*Porthos (Port of Rotterdam CO₂ Transport Hub and Offshore Storage) is a hybrid industry CCUS project in which CO₂ will be transported from various industries in the Port of Rotterdam and used in greenhouse industry or stored in empty gas fields beneath the North Sea. Operation is expected to commence in 2023.*

### Social impacts

**Industry innovations**

Porthos enables usage of CO2, facilitating innovative carbon usage in industries such as greenhouse horticulture, an innovation which enables plants to grow faster at a large scale.

**Enhancing Rotterdam’s regional profile**

As a European Commission Project of Common Interest, Porthos represents a flagship energy infrastructure project that is significantly raising the profile of Rotterdam as an integral region to Dutch national climate objectives.

**Limiting negative social impacts**

Porthos is limiting negative impacts on communities with infrastructure located exclusively offshore and outside of built environments.

### Environmental impacts

**High impact industries**

Porthos is focused on a range of high impact industries which have few or no sustainable alternatives such as oil refineries and the chemical sector. CCUS represents the most viable option for these sectors in building a sustainable pathway into the future.

### Economic impacts

**Open access and economic efficiencies**

Porthos’ pipeline infrastructure will be open access and future-proof, which will allow other companies to engage in cost-effective, viable CCUS activity in future. This shared infrastructure model creates economic efficiencies and avoids the need for subsequent pipeline construction in future.

Companies: ExxonMobil, Shell, Air Liquide, Air Products, Region: Rotterdam port region, Future expansion: 5 MTPA

## Wabash – USA

*Producing affordable and competitive low-carbon products.*

* 1.75 MTPA
* Fertiliser industry
* Advanced Development Stage
* 600 construction jobs
* 200 permanent jobs

*The Wabash CCS project will capture and sequester the Wabash plant’s CO2 emissions more than 2,000 metres below the surface into Mount Simon Sandstone, a saline sandstone aquifer. Operation is expected to commence in 2022.*

### Social impacts

**Use of advanced seismic technology**

Wabash is leveraging advanced 3D imaging technology to conduct thorough seismic surveys and models of all subsurface layers in the area, allowing the plant to avoid naturally occurring fault zones and ensuring local community safety.

### Environmental impacts

**Low carbon intensity ethanol**

Wabash will not only limit the direct emissions from ammonia production but will also reduce the carbon intensity of ethanol subsequently fertilized using these ammonia products.

**Innovations in sustainable fertiliser technology**

Wabash is developing the world’s first near zero carbon footprint ammonia fertiliser, an important innovation given that fertiliser plants represent approximately 2 per cent of CO2 emissions globally.

### Economic impacts

**Affordable access to sustainable ammonia**

Wabash is enabling the production of sustainable fertiliser in the form of low carbon ammonia. This makes sustainable ammonia more available allows farmers and industry users to access sustainable fertiliser at an affordable price.

**Low carbon ethanol markets**

Low carbon ethanol produced using Wabash’s ammonia will receive a significantly lower carbon intensity rating, making it more competitive on the international market and creating the possibility of new carbon economies.

**Local job creation**

Wabash is projected to create 600 construction jobs and 120 permanent jobs, representing a significant employment opportunity for local Vigo County.

Company: Wabash Valley Resources, Region: Terre Haute, Indiana, Future expansion: 18 MTPA

# Appendices

## Appendix A - CGE modelling framework

Computable General Equilibrium (CGE) modelling is used to measure the flow-on effects of changes in the economy. Such changes can originate from government policies, macroeconomic trends, or industrial activities. The impact of constructing and operating the carbon capture and storage site effects key industries in the regions. CGE modelling brings together diverse elements of the economy in a single database constrained by economic and behavioural equations. A depiction of some of these elements is given below. This approach recognises and quantifies the effects on unique industries, States and Territories, commodity flows, prices, and other variables. A summary of the CGE modelling approach is presented in the methodology section.

The following list of steps represents a high-level overview of the operations performed to develop the time-series database which underpins the Baseline and Scenario estimates.

1. Source data (ABS industry output, employment, GTAP10 database) collated and transformed for CGE modelling
2. Baseline forecast prepared including GRP and industry output forecasts for foundation of CGE (exogenous / fixed variables)
3. Policy shocks applied over baseline to model the GRP, employment and output effects of the three scenarios (outlined in the next slide)
4. Flow-on effects of scenario shocks to other regions and industries examined for coherence with economic theory
5. Final outputs from CGE for all industries and regions applied to baseline levels and compared
6. Modelling results collated and presented in year-on-year (levels) format.

## Appendix B - Dynamics of EYGEM

EYGEM is a recursive dynamic model that solves year-on-year over a specified timeframe. This has two main advantages. First, dynamics allows a richer specification of the model in that issues, such as debt accumulation (which facilitates the ability to model international capital flows) and labour market dynamics, are able to be modelled in a more sophisticated manner. Second, scenario analysis using a model such as EYGEM can be greatly enhanced by the ability to alter the baseline, or reference case, to account for key developments or uncertainties.

The model is then used to project the relationship between variables under different scenarios, or states, over a pre-defined period. This is illustrated in Figure 11, where a reference case of ‘baseline’ forms the basis of the analysis undertaken by EYGEM. The model is solved year-by-year from time 0 which reflects the base year of the model (2020) to a predetermined end year (in this case 2050).

The ‘Variable’ represented in the figure could be one of the hundreds or thousands represented in the model ranging from macroeconomic indicators such as real GDP to sectoral variables such as the exports of iron and steel from Australia. In the figure, the percentage changed in the variables have been converted to an index (= 1.0 in 2020) and is projected to increase by 2050.

Set against this baseline, in Figure 11, is a ‘Policy’ scenario. This scenario represents the impacts of a policy change or different assumptions about economic development that results in a new projection of the path of the variable over the simulation time period. The impacts of the policy/assumption change are reflected in the differences in the variable at time T. It is important to note that the differences between the baseline and policy scenario are tracked over the entire timeframe of the simulation.

## Appendix C – Key CGE Modelling Assumptions

EYGEM is based on a substantial body of accepted microeconomic theory. Key assumptions underpinning the model are:

The model contains a ‘regional consumer’ that receives all income from factor payments (labour, capital, land and natural resources), taxes and net foreign income from borrowing (lending).

Income is allocated across household consumption, government consumption and savings so as to maximise a Cobb-Douglas utility function.

Household consumption for composite goods is determined by minimising expenditure via a CDE (Constant Differences of Elasticities) expenditure function. For most regions, households can source consumption goods only from domestic and imported sources. In the Australian regions, households can also source goods from interstate. In all cases, the choice of commodities by source is determined by a CRESH (Constant Ratios of Elasticities Substitution, Homothetic) utility function.

Government consumption for composite goods, and goods from different sources (domestic, imported and interstate), is determined by maximising utility via a Cobb-Douglas utility function.

All savings generated in each region are used to purchase bonds whose price movements reflect movements in the price of creating capital.

Producers supply goods by combining aggregate intermediate inputs and primary factors in fixed proportions (the Leontief assumption). Composite intermediate inputs are also combined in fixed proportions, whereas individual primary factors are combined using a CES production function.

Producers are cost minimisers, and in doing so choose between domestic, imported and interstate intermediate inputs via a CRESH production function.

Investment takes place in a global market and allows for different regions to have different rates of return that reflect different risk profiles and policy impediments to investment. A global investor ranks countries as investment destinations based on two factors: global investment and rates of return in a given region compared with global rates of return.

Once aggregate investment is determined in each region, the regional investor constructs capital goods by combining composite investment goods in fixed proportions, and minimises costs by choosing between domestic, imported and interstate sources for these goods via a CRESH production function.

Prices are determined via market-clearing conditions that require sectoral output (supply) to equal the amount sold (demand) to final users (households and government), intermediate users (firms and investors), foreigners (international exports), and other Australian regions (interstate exports).

For internationally-traded goods (imports and exports), the Armington assumption is applied whereby the same goods produced in different countries are treated as imperfect substitutes. But in relative terms imported goods from different regions are treated as closer substitutes than domestically-produced goods and imported composites. Goods traded interstate within the Australian regions are assumed to be closer substitutes again.

**Industries:** There are 19 industries included in the model.

**Regions:** There are 5 regions in the model, these include Latrobe region, the Wellington region, the rest of Victoria (RoVIC), the rest of Australia (RoA) and the rest of World (RoW).

## 

## Appendix D – Employment by industry impacts

Employment impacts construction – Latrobe/Wellington

| Construction phase | Low scenario | Medium scenario | High scenario |
| --- | --- | --- | --- |
| Gas | 26 | 42 | 55 |
| Chemicals | 13 | 27 | 96 |
| Construction | 747 | 1492 | 2780 |
| Trade | 225 | 503 | 933 |
| Processed Food | -27 | -50 | -90 |
| Manufacturing | -51 | -226 | -513 |
| Other industries | 89 | 175 | 223 |
| **Total jobs created (annual)** | 1022 | 1963 | 3484 |

Employment impacts operations – Latrobe/Wellington

| Operational phase | Low scenario | Medium scenario | High scenario |
| --- | --- | --- | --- |
| Gas | 42 | 104 | 119 |
| Chemicals | 38 | 80 | 204 |
| Construction | 30 | 81 | 159 |
| Trade | 142 | 289 | 257 |
| Processed Food | -9 | -15 | -21 |
| Manufacturing | 127 | 42 | -22 |
| Other industries | 315 | 517 | 417 |
| **Total jobs created (annual)** | 685 | 1098 | 1113 |

Employment impacts construction – Victoria

| Construction phase | Low scenario | Medium scenario | High scenario |
| --- | --- | --- | --- |
| Gas | 26 | 43 | 55 |
| Chemicals | -30 | -58 | -34 |
| Construction | 1192 | 2623 | 4508 |
| Trade | 444 | 938 | 1552 |
| Processed Food | -123 | -241 | -401 |
| Manufacturing | -30 | -58 | -34 |
| Other industries | -231 | -540 | -1227 |
| **Total jobs created (annual)** | 1248 | 2707 | 4419 |

Employment impacts operations – Victoria

| Construction phase | Low scenario | Medium scenario | High scenario |
| --- | --- | --- | --- |
| Gas | 26 | 43 | 55 |
| Chemicals | -30 | -58 | -34 |
| Construction | 1192 | 2623 | 4508 |
| Trade | 444 | 938 | 1552 |
| Processed Food | -123 | -241 | -401 |
| Manufacturing | -30 | -58 | -34 |
| Other industries | -231 | -540 | -1227 |
| **Total jobs created (annual)** | 1248 | 2707 | 4419 |

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