Environment Institute of Australia and New Zealand Inc.

EIANZ Submission

SAFEGUARD MECHANISM REFORMS – Consultation Paper

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The Environment Institute of Australia and New Zealand (EIANZ) is the peak professional body for environmental practitioners in Australia and Aotearoa New Zealand. Through its Code of Ethics and Professional Conduct it sets a high standard for environmental practitioners.

Environmental Practitioners have a keen interest and role to play in the protection of the planet's climate. The EIANZ has many environmental practitioners working in the area where the Commonwealth Safeguard Mechanism is applied to greenhouse gas emissions and is thus well placed to provide this feedback on the current Reform process.

The Safeguard Mechanism's share of the national abatement task

What should the Safeguard Mechanism's share of Australia's climate targets be?

- Net zero by 2050 requires a paradigm shift in national thinking. The time to readjust whole of nation mitigation action starts right now. A national, whole of society, approach is required – including all sectors and communities.
- Climate policy should be as simple, robust and sustainable as possible.
- Where there are transitional/equity issues these need to be considered at the same time as ramping up the whole of nation mitigation effort, but this should be done in parallel to mitigation policy, not through having differentiated efforts.
- As a bare minimum the Safeguard Mechanism participants should do at least the same amount of heavy lifting as everyone else –
    - additional aspiration could be considered because it is probable that more stringent targets will be required to keep global temperatures to 1.5 degrees increase.
    - additional aspiration could be considered as some safeguard mechanism participants will have a clear early line of sight to achieve mitigation.
- We note that these high emitting facilities have been on notice since before John Howard announced prior to the 2007 election that future facilities would not be

"grandfathered". There has been a long lead time for these industries to make emission reductions and adjustments to their industry practices, albeit the precise shape of mitigation requirements has not been clearly communicated. Basically, all emitting facilities have been fully amortised or approved against a back drop of mitigation requirements.

Fixed (absolute) versus production-adjusted (intensity) framework

Should we retain, and build on, the existing production-adjusted (intensity) baseline setting framework or return to a fixed (absolute) approach?

- The Australian economy is dynamic and needs to be allowed to continue to grow. As such, there is some argument for intensity baselines. That said, should intensity baselines be used, the targets need to be much more aggressive so that the umbrella national targets are still met.
- There must be a realisation whatever approach is taken we are on a rapid mitigation pathway. An intensity approach that just allows business-as-usual emissions is just not a realistic solution and in fact will take Australia backwards in terms of its emissions targets.
- If an absolute approach is taken, some consideration is needed to allow new entrants – consistent with expected economic growth and economy wide adjustments. New entrants need to be able to show any planned new emissions are absolutely necessary and that there is planned mitigation pathway consistent with the national trajectory.

Setting baselines for existing and new facilities

Views are sought on the proposal to reset baselines in a way that removes aggregate headroom so crediting and trading can commence when baselines start to decline.

- The current Safeguard Mechanism has failed to reduce emissions because of a fundamental flaw in its establishment. Setting baselines has allowed Safeguard facilities to effectively operate in a business-as-usual manner and the aggregate emissions to increase.
- Given that current Safeguard facilities represent 28% of Australia's emissions, it is crucial that the Safeguard Mechanism Reform process drives industry investment in long term emission reductions by setting effective and realistic baseline targets, without establishing unintended consequences that undermine the national climate goals for 2030 and 2050. There will need to be significant reduction in aggregate baselines to achieve the required emissions reduction for the national emissions budget.
- Headroom options must be removed. Aggregate baselines need to be lower than the aggregate emissions or there is no incentive for facilities to undertake abatement projects or invest in new technologies or industrial processes.
- The key to effective emission reduction using emission baselines as a driver is in the transparency and accuracy of the determination of the baselines. There needs to be effective auditing by the Regulator and appropriate penalties for non-compliance.

What is the preferred approach for setting baselines for existing facilities? Approaches may include:

- Option 1: setting all baselines using industry-average benchmark emissions-intensity values. This option is opposed as it would seriously undermine the integrity of the Safeguard Mechanism by effectively allowing facilities with emissions under the high-set baselines to trade their credits earned by "windfall" gain, without undertaking any abatement activities, to facilities that have higher emissions than their baselines, thus compromising the system. This option may be open to "gaming" in baseline setting compared to actual emissions.
- Option 2: setting all baselines using facility-specific emissions-intensity values. This appears to be a more effective way to drive genuine emissions reduction. However, there are inconsistencies in approach to low emission facilities and high emission facilities. Those facilities which have already invested in abatement to reduce emissions may find it difficult to make any further emission reductions compared to higher emitters.
- Other Proposals – the Option 3 suggested in the Consultation Paper, retaining existing baselines, then scaling aggregate baselines to meet aggregate emissions. This option does seem to have been prepared with sufficient detail to consider impacts on better performing facilities, whilst giving distinct advantages to the poorer emissions performers.
- The method selected should have the highest mitigation integrity with a secondary objective of avoiding windfall benefits through accidents of history or unintended consequences.
- The mitigation trajectories required for many facilities will require transformative action or large cost increases for their product.

What are the advantages of best practice, industry average benchmarks or alternative approaches for setting baselines for new entrants, noting that a final decision will be informed by baseline setting arrangements for existing facilities?

- There needs to be a distinction made between "new" facilities, as in, newly designed and built versus, "new Safeguard" facilities which would be existing facilities that start to produce more than 100,000 tonnes of Scope 1 CO_2-e emissions/year.
- As noted above new entrants need to be able demonstrate any emissions are absolutely necessary (i.e., best practice) and there is also a reduction trajectory consistent with the national mitigation trajectory.
- Existing facility trajectories need to be adjusted downward to ensure that national aggregate emissions do not increase with emissions from likely new entrants.

Crediting and trading, domestic offsets and international units

Are there any other issues to consider with the proposal to allow the Clean Energy Regulator to automatically issue tradable credits to Safeguard facilities whose emissions are below their baseline, with crediting and trading commencing on 1 July 2023 subject to baseline setting arrangements that remove aggregate headroom?

- The current Safeguard Mechanism has failed in setting realistic baselines that have generated credits without long-term abatement measures.
- Below-baseline credits would provide incentives for facilities to invest in or transition to lower emissions processes without the need to purchase carbon credits, which for the Australian Carbon Credit Units (ACCUs) has been largely based on sequestration/off-set projects rather than emissions reduction.

Should banking and borrowing arrangements be implemented for Safeguard Mechanism Credits?

- Banking should be permissible once credits are deemed to have integrity. One school of thought is that currently they do not.
- Borrowing – opens the scheme up to moral hazard. Some borrowing to assist in end of year accounting reconciliation could be considered, but tightly controlled.
- Inter-temporal flexibility potentially allows for better planning for long-term emissions reduction. The key to effective management of this process would be audit and verification of reductions, with penalties for non-compliance.
- In order for Australia to achieve its 2030 and 2050 net zero goals, the time-frame for banking and borrowing credits should not be too long.

Should Safeguard facilities no longer be able to generate ACCUs for reducing direct (scope 1) emissions unless they have an existing registered ERF project? Further, should no new ERF projects be able to be registered at Safeguard facilities? Additional feedback is sought on:

- Existing conditions for ERF projects should cease to prevent double counting of credits through the Safeguard Mechanism and ACCUs. More stringent guidelines are required to ensure no "gaming" of the system and that "doing nothing" and staying under the baselines is not rewarded with credits.
- Scope 2 emissions reduction should be allowed if subject to audit and verification to ensure transparency of the process.
- Transparency is key since baselines are self-assessed and governance of this is crucial to managing a robust carbon trading scheme.
- International offsets should be avoided to allow for focus to remain on Australia reducing its aggregate emission to achieve its 2030 and 2050 emission reduction goals.

Tailored treatment for emissions-intensive, trade-exposed (EITE) businesses

- Establishing transitional finance packages will be important in driving emission reduction and compliance with the Safeguard objectives.
- It is important that incentives offered through industry assistance are equitable and that not just high emitting facilities/businesses are supported financially.

Taking account of available and emerging technologies

Should multi-year monitoring periods be extended to allow facilities with limited near-term abatement opportunities to manage their own abatement path?

- Multi-year monitoring periods to allow safeguard facilities to invest in technology and apply to their processes should be closely monitored and verified to ensure compliance. It is important that facilities are not allowed to defer action on abatement which would extend periods so that the achievement of the national 2030 aggregate emissions reduction goals is jeopardised.

Indicative baseline decline rates

What are the appropriate characteristics for the decline trajectory to 2030 that can deliver the Safeguard Mechanism's share of Australia's climate targets, and the process for setting baselines post-2030?

- Recalibration of baseline decline rates should be avoided. Incentives for facilities to maintain output at reduced emissions rates will be key to ensuring that aggregate baselines continue to reduce.

Other policy issues

What transitional or other arrangements should be in place for site-specific production variables?

- The framework for establishing transitional arrangements must be transparent and consistent in assessment process. Invariably, there will be many exceptions required for applying Government-defined variables due to the differences between industries and processes.

Should oil refinery production variables:

- Leaving oil refinery production under Schedule 3 removes incentive for the facilities to reduce emissions below their fixed baseline or to undertake further abatement.
- Moving oil refinery facilities to production adjusted baselines must not compromise the efficiency by allowing input variable to be increased.

Are existing Government-defined production variables suitable for the Safeguard Mechanism to drive least cost emissions reductions?

- Setting Government-defined production variables must ensure that perverse outcomes are not the result. That is, that facilities do not set production outputs that fail to improve the emissions per unit of output.

Should the inherent emissions variability calculated baseline approach be removed?

- Inherent variability in production or economic activity can mean greater or lower aggregate emissions at a facility. This could lead to issuing of credits for underproduction. To avoid this the Government should require facilities to clearly demonstrate reduction in emission intensity to achieve emission reduction rather than just reduction in output production.

How should landfills be treated?

- Double counting of carbon credits from Emission Reduction Fund projects and the Safeguard Mechanism credits should not be permitted. It may be more appropriate to exclude landfills from the safeguard mechanism credits.

- There is potential to explore different incentives for emissions reduction in landfills other than through the Safeguard Mechanism. Currently, only one landfill facility is considered a safeguard facility since non-legacy waste emissions (pre-2016) are not considered. Greater remission reduction may be achieved by diverting waste for landfill for reuse, repurposing or recycling and financial incentives could be used by Government to drive emissions reduction in this sector.

This submission has been prepared by the EIANZ Climate Change Special Interest Section on behalf of the Institute.

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