South Australian Chamber Of Mines & Energy

28 October 2022

Safeguard Mechanism Taskforce
Department of Climate Change, Energy, the Environment, and Water
John Gorton Building
King Edward Tce
PARKES ACT 2600

Via email: Safeguard.Mechanism@industry.gov.au

Dear Safeguard Mechanism Taskforce

The South Australian Chamber of Mines & Energy (SACOME) welcomes the opportunity to provide a submission on the Government's exposure draft of the Safeguard Mechanism (Crediting) Amendment Bill 2022 (the Bill) and the draft Carbon Credits (Carbon Farming Initiative) Amendment (Safeguard Facility Eligibility Requirements) Rules 2022 (the Rules).

SACOME's response supplements its original submission regarding the Safeguard Mechanism consultation paper, provided on 23 September 2022, included as Attachment A.

SACOME is the leading South Australian industry association representing the resources and energy sector, which is the cornerstone of the South Australian economy.

In developing this submission, SACOME has met with relevant member companies.

Unsurprisingly, similar issues that pertained to the consultation paper were reiterated by member companies:

1. Timelines and consultation
2. Disincentives for long term abatement projects
3. Banking and trading of Safeguard Mechanism Credits (SMCs)

SACOME reiterates that any reforms to the Safeguard Mechanism need to ensure flexibility for Safeguard facilities so meaningful and long-term abatement is incentivised and can be undertaken at the lowest possible price.

Timelines and consultation

SACOME notes the Government provided stakeholders just over two weeks to respond to the exposure draft of the Bill and the Rules.

Submissions on the consultation paper were formally closed on 20 September, with extensions granted until 23 September, and submissions received as late as 18 October.

SACOME questions how much regard was paid to the 234 submissions received by Government. Consultation on the Exposure Draft commenced on 10 October, 17 days later.

It appears to be the Government's intention to consult in a piecemeal manner, finalising aspects of the reform while conducting consultation in parallel on other parts to meet the commencement date.

This makes it exceedingly difficult to meaningfully comment, as industry is left in the dark as to what Government has acceded to, or, indeed, what the totality of the reform will be.

SACOME reiterates if the policy design and implementation is rushed to meet the Government's artificial commencement date of 1 July 2023, the Government's policy will lead to the loss of Australian jobs and investment for inferior environmental outcomes.

Disincentives for long term abatement projects, particularly Carbon Capture and Storage (CCS)

The Bill proposes that ACCUs would no longer be able to be generated for Safeguard facilities for reducing direct emissions (unless an existing Emissions Reduction Fund (ERF) project), and, further, that no new ERF projects could be registered at Safeguard facilities.

Instead, projects would be eligible for Safeguard Mechanism Credits, the value of which cannot be known and offers industry no certainty.

There is no logical rationale for excluding ERF projects that comply with its requirements from generating ACCUs.

ACCUs is a key incentive in developing long term abatement projects.

If implemented, it would particularly affect Carbon Capture and Storage projects, which are likely to be implemented proximate to an existing Safeguard facility. CCS will be a critical tool for hard to abate sectors in meeting their emissions reduction requirements.

The International Energy Agency's (IEA's) Sustainable Development Scenario requires a hundredfold increase in CCS between now and 2050 to achieve the world's climate goals – from 40 million tonnes of CO_2 stored each year in 2021 to 5.6 billion tonnes in 30 years.

In the United States, the Federal Government is offering a tax credit of $85 for each metric tonne of CO_2 captured and stored. SACOME reiterates its long-held view that CCS projects should be incentivised.

In direct contrast, industry in South Australia is facing further disincentives to invest in these critical long term abatement projects:

1. Reforms to the Safeguard Mechanism;
2. A CCS royalty by the State Government, the only one of its kind in the world; and
3. The defunding of $250 million of CCS projects by the Federal Government in its October 2022 Budget.

Accordingly, SACOME submits that ACCUs should continue to be generated for existing ERF projects at Safeguard facilities and for new ERF projects to be registered.

Safeguard Mechanism Credits

SACOME supports businesses having the flexibility to manage their own abatement at least cost.

This necessarily includes the capacity for businesses to bank and borrow SMCs between phases, and allow for the trading of international credits for compliance purposes in future, contingent on the maturity of the Australian market and relative equivalence with international credits.

SACOME supports companies generating SMCs even if they fall below the Safeguard threshold, noting output will differ between years and some will again fall within the scope of the Safeguard Mechanism.

SACOME questions the rationale behind the transfer of a percentage of all SMCs in the market into a Government holding account. SACOME understands this would be used as

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a form of assistance to emissions-intensive, trade-exposed industries (EITEs). However, this would inadvertently benefit those businesses that have been actively implementing abatement strategies or those industries or businesses that are more easily able to implement abatement strategies. The assistance would be inequitable.

Other mechanisms could be developed to assist EITEs in a manner that does not penalise companies that have generated the SMCs.

Furthermore, Sch 2, Cl 30 enables the Minister to cancel SMCs, without any criteria for the same. SACOME would support criteria to be inserted in the Bill to provide certainty.

Conclusion

In summary, SACOME recommends:

1. The Government should not rush to meet their own deadline of 1 July 2023, and instead prioritise consultation and policy settings that do not threaten jobs or investment for no environmental benefit;
2. Facilities should retain the capacity to generate ACCUs;
3. Flexibility for businesses should be retained, including banking of SMC credits between phases; and
4. Government assistance should be equitable.

SACOME thanks DCCEEW for the opportunity to provide a submission on a matter of fundamental importance to Australia's economic future.

Your sincerely

Rebecca Knol
Chief Executive Officer
South Australian Chamber of Mines & Energy

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ATTACHMENT A

23 September 2022

Safeguard Mechanism Taskforce
Department of Climate Change, Energy, the Environment, and Water
John Gorton Building
King Edward Tce
PARKES ACT 2600

Via email: Safeguard.Mechanism@industry.gov.au

Dear Safeguard Mechanism Taskforce

The South Australian Chamber of Mines & Energy (SACOME) welcomes the opportunity to provide a submission in response to the Government's proposed reform of the Safeguard Mechanism.

SACOME is the leading South Australian industry association representing resources and energy companies, including those who provide services to them.

The South Australian resources sector is the powerhouse of the State's economy.

In 2020, SACOME commissioned an Economic Contribution Study to analyse the expenditure patterns of 12 major operating member companies throughout 2019/20 and determine their contribution to the South Australian economy.

The Study found that these companies contributed $5.9 billion in direct and indirect spending to South Australia, equivalent to 5.3% of Gross State Product, or one dollar in every twenty.

Further, these member companies achieved the following economic outcomes for the State:[1]

- One in every thirty-three jobs are supported by the resources sector;
- Paid $747.3 million in wages and salaries to 5,489 direct full-time residing employees, representing an average salary of $136,152 per annum;
- Made $1.7 billion in purchases of goods and services from 1,951 South Australian businesses; and

[1] All data sourced from the SACOME 2019/20 Economic Contribution Study.

- Paid $435.8 million in State Government payments, incorporating royalties, stamp duty, payroll tax, and land tax.

Accordingly, decisions concerning the regulation of the sector's activities must be considered in a state-wide context and with a view to ensuring its long-term economic viability.

In developing our submission, SACOME has met with relevant member companies following the Department of Climate Change, Energy, the Environment and Water's (DCCEEW) roundtable discussion in Adelaide. Of the ten Safeguard Mechanism Facilities in South Australia, eight are SACOME members.

SACOME notes and is grateful for the extension of time for submissions proffered by Ms Edwina Johnson until 23 September.

SACOME has also had the benefit of viewing draft submissions prepared by the Minerals Council of Australia (MCA).

SACOME adopts the submissions provided by the MCA; however, is using the opportunity to advance complementary matters of particular concern to South Australian member companies.

Key to any reforms to the Safeguard Mechanism is the need to ensure flexibility for safeguard facilities so meaningful and long-term abatement can be undertaken at the lowest possible price.

Timelines and consultation

SACOME notes the Government intends for the reformed scheme to commence from 1 July 2023. This commencement date is arbitrary, with the discussion paper conceding the timeframe is 'tight'; the paper also states that businesses are well-prepared for any change as this was flagged in the *Powering Australia* policy released in December 2021 by the then Opposition.

SACOME respectfully disagrees. Prior to 1 July 2023, the Government will need to respond to the submissions received, legislate the requisite changes, and negotiate individual facility outcomes (which is deemed critical in any major reform process). Furthermore, affected industries and facilities do not have sufficient information or access to any modelling to assess the economic risks. The impacts from the proposed reforms are uncertain.

SACOME agrees with Government that significant action needs to be taken to avert the worst consequences of climate change – but this does not mean being recklessly indifferent to the consequences for industry and particularly industry in South Australia.

If the policy design and its implementation is rushed to meet the Government's artificial deadline, the Government's policy will lead to the loss of Australian jobs and investment for poorer environmental outcomes.

Economy-wide approach that prioritises competitiveness

All sectors of the economy should be subject to the same emissions reduction targets to ensure equitable and efficient outcomes and deliver meaningful environmental outcomes.

SACOME highlights that businesses covered by the Safeguard Mechanism may also be subject to state-based emissions reduction targets, either currently or in the future, and these facilities should be exempted from the same to minimise duplication and additional cost.

While the Safeguard Mechanism is ordinarily described as covering the largest emitters, Australia's trade-exposed industries, it does not cover most of transport, agriculture, or electricity – where it is considered emissions are easier to abate.

In contrast, industries captured by the Safeguard Mechanism can be hard to abate and there are numerous instances where there is no existing or proposed technology that could be deployed to significantly reduce carbon emitted. While generally welcome, references in the consultation paper to financial assistance in the acquisition of new technologies to facilitate reduced emissions are therefore of limited utility in the absence of commercialised low carbon technology for many industries.

For example, limestone is needed in the clinker that produces cement, which, when heated in high temperature kilns to produce lime, releases the carbon naturally captured in the limestone.

Clinker is produced in South Australia.

In order to avoid carbon emissions on paper, and thereby potentially avoid financial penalty, it may make financial sense for a private sector company to import its clinker.

This would come at the cost of investment and workers employed in South Australia and the loss of local end-to-end manufacturing capability for cement; demand for which will not reduce in the foreseeable future. Conversely, there would be no reduction in carbon emissions, as these would also move offshore and likely not be measured under any regulatory framework.

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Accordingly, SACOME recommends that the policy principles ought to be extended to include competitiveness and to avoid carbon leakage. Industry assistance would be required.

Deindustrialisation and the loss of Australian jobs and capital may be a very real consequence of the Government's policy if reforms to the Safeguard Mechanism are not properly designed.

Baselines and the removal of headroom

SACOME notes the widespread acceptance of the production-adjusted baselines, which provides businesses with flexibility within the overall carbon budget.

SACOME further notes that while there is a preference for Option 2 (i.e. using facility-specific emissions-intensity values) in determining baselines for existing facilities as it is believed this will more equitably reflect differences within industries across all Safeguard Mechanism participants, this view is not universal in the sector. Accordingly, SACOME recommends that businesses have the flexibility to choose the design that minimises their costs without derogating from the Government's emissions reduction targets.

Existing facilities should not be disadvantaged relative to new entrants based on whether industry average or best practice benchmarks are adopted. Either approach may potentially affect existing facilities. Additional government assistance – outside of the scheme – may be required to ensure the international competitiveness and economic viability of existing facilities and that the same are not left doing the 'heavy lifting' on carbon reductions.

In respect of headroom, SACOME notes the reduction of headroom as integral to the success of the Safeguard Mechanism in reducing emissions.

Nonetheless, the removal of headroom needs to adopt a phased approach. Given the Government's proposed commencement date of 1 July 2023, this would present difficulties for many businesses that require time to develop and implement emissions reduction strategies and projects.

Moreover, the removal of headroom may not recognise the cost incurred by businesses prior to the commencement of the scheme and credit should be given, where appropriate, to facilities that have undertaken significant work, particularly in hard to abate sectors.

In a similar vein, multi-year monitoring periods should be retained and extended as it provides flexibility for long term and large-scale projects such as Carbon Capture and Storage (CCS). For hard to abate industries or where step change reductions are being sought beyond targeted reduction under the Safeguard Mechanism, multi-year reporting periods should be available up to and beyond 2030. The scheme requires flexibility for all facilities to plan for meaningful (and capital intensive) abatement projects, which have the potential to deliver sustainable and long-lasting effects to drive emissions reduction.

The imposition of the arbitrary timeframe without the requisite time for emissions reduction projects to be implemented will cause significant economic harm to businesses without environmental benefits.

Indicative baseline decline rates also need to be calibrated to the economic viability of existing facilities for the reasons above, and therefore should be set cautiously.

Crediting and trading

As a general comment, there is insufficient information in the consultation paper on the design aspects of the Safeguard Mechanism Credit (SMC) market. The market design will be critical to ensure scheme effectiveness. The key issues of price discovery, market liquidity and transaction costs need to be front and centre in any scheme design. It will also need price protection and maybe even price controls to enable the SMC market function effectively.

SACOME supports businesses having the flexibility to manage their own abatement at least cost. This necessarily includes the capacity for businesses to bank and borrow SMCs and allow for the trading of international credits for compliance purposes in future, contingent on the maturity of the Australian market and relative equivalence with international credits.

Dual benefit needs to be retained in some form; it does not have to be via deemed surrender provisions. Dual benefit was designed as an incentive for large emitters to pursue emissions reduction, and without it the business case for making huge investments in emissions reduction will be further eroded.

In addition, facilities should retain the capacity to generate Australian Carbon Credit Units (ACCUs) and continue the registration of Emission Reduction Fund (ERF) projects at existing facilities.

Long term technologies such as CCS would benefit from being able to generate ACCUs.

As is currently proposed, CCS projects could not access Australian carbon markets if the project was located proximate to an existing facility, which disincentivises investment in long term abatement, but may lead to the perverse

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outcome where short term projects of lesser value at existing facilities are effectively subsidised by Government.

Conclusion

In summary, SACOME recommends:

1. The Government should not rush to their own deadline of 1 July 2023, and instead prioritise consultation and policy settings that do not threaten jobs or investment for no environmental benefit;
2. The policy principles must prioritise competitiveness and avoiding carbon leakage, with consideration given for industry assistance;
3. Flexibility for businesses should be retained, and this includes the retention of headroom where appropriate and multi-year reporting periods; and
4. Facilities should retain the capacity to generate ACCUs.

SACOME thanks DCCEEWW for the opportunity to provide a submission on a matter of fundamental importance to Australia's economic future.

Your sincerely

Rebecca Knol
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South Australian Chamber of Mines & Energy