

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.

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

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 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