South
Australian
Chamber
Of
Mines &
Energy

24 February 2023

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

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

Dear Safeguard Mechanism Taskforce

The South Australian Chamber of Mines and Energy (SACOME) is the leading South Australian industry association representing the resources and energy sector, the powerhouse of the State's economy.

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

SACOME welcomes the opportunity to provide a submission on the Government's Safeguard Mechanism Reforms Position Paper of January 2023.

SACOME's response supplements its submission regarding the Consultation Paper, provided on 23 September 2022, and the submission regarding the release of the exposure legislation, provided on 28 October 2022.

To inform SACOME's current submission, we have consulted relevant member companies, many of whom operate facilities in hard to abate sectors key to Australia's sovereign capability.

SACOME is pleased to note some of the concerns previously raised by stakeholders have been addressed. Our feedback therefore necessarily concerns itself with the following matters:

- The need for flexibility in determining baselines, decline rates, and associated issues; and

- The need for far greater assistance for Emissions Intensive, Trade Exposed industries (EITEs).

As has been consistent, throughout this Government's consultation process, SACOME reiterates that if the policy design and implementation is rushed to meet the Government's arbitrary commencement date of 1 July 2023, it will necessarily lead to the loss of Australian jobs and investment (particularly in South Australia) and the loss of sovereign capability – all at the cost of inferior environmental outcomes through carbon leakage.

Baselines, decline rates, and associated issues

In SACOME's original submission to the Government, SACOME noted there was no universal view in the sector as to whether baselines should be site-specific or based on industry averages; rather, facilities ought to have flexibility to choose the design that minimises their costs without derogating from the Government's emission reduction targets.

SACOME notes that baselines are to be determined using a hybrid approach, weighting site-specific emissions levels higher at the onset of commencement and then increasingly weighting industry average levels towards 2030.

Following further member consultation, SACOME submits that facilities should have some flexibility within the parameters of the proposed policy; i.e. facilities should be able to *opt in* to industry average baselines from commencement given the trajectory of the policy.

While it is recognised that in so doing, facilities would generate more Safeguard Mechanism Credits (SMCs) than they would otherwise, this would have occurred had industry averages been adopted from commencement as some had proposed. It is critical for many hard to abate sectors that they can minimise cost in the absence of technology to abate, of which SMCs form a part. Should this be a concern of the Government, SACOME would then suggest the Government could allow for facilities opting in to industry averages from commencement only be allowed to sell half of their SMCs.

SACOME also notes the year-on-year decline rate for existing and new facilities is to be 4.9% until 2030. SACOME submits the decline rate is too steep, particularly for hard to abate sectors in the absence of meaningful assistance or technology to abate.

It is proposed that some EITEs would be eligible for an adjusted baseline (TEBA), contingent on the scheme's impact on a facility level. Ultimately, the decline rate has a floor of 2% year-on-year. The Government's Position Paper notes that 'very few' facilities would be eligible in the early years, with a 'small number' to be eligible in the medium term.

The Government has stated that TEBA is intended to be "conservatively calibrated to minimise carbon leakage risks"; however, it is clear that using a revenue approach may disqualify some facilities that are severely impacted. Importantly, just because a facility is generating revenue does not mean that it is profitable.

SACOME suggests the adjusted baseline assessment should be EBITDA or EBIT, which is a more accurate reflection of financial impact. Some facilities may have a high-cost base and low profitability, resulting in the most impacted facilities being excluded from TEBA.

Should an accounting standard be preferred, SACOME proposes profitability as defined in Paragraph 82 of AASB 101 "Presentation of Financial Statements".

This standard applies to annual financial statements and is referenced by external auditors when auditing the annual financial statements to express their audit opinion that the annual financial statements are free from material misstatement. If a facility incurs a loss, then the maximum discount should automatically apply.

Furthermore, SACOME understands that every facility would need to apply for a new baseline by April 2024, with the concomitant administrative burden for industry and Government alike. Should for whatever reason the decline rates not be settled, existing arrangements should continue on a transitional basis.

Assistance for EITEs

The Government is proposing to make available an "initial" $600 million of funding until 2026 under the Safeguard Transformation Stream of the Powering the Regions Fund (PRF) for trade-exposed facilities. The PRF Consultation Paper recognises that many of these facilities are "strategic national industries" and "[would] be critical to enabling Australia to capture the benefits from a global net zero economy".

SACOME's member companies include cement, steel, and multi-metals producers that are key to Australia's sovereign capability and are hard to abate.

Despite the Government's recognition of the same, this funding is not a grant, but is rather designed to be a co-contribution and within a competitive program. The Government's Position Paper anticipates some 80% of safeguard participants would be eligible for assistance. This would equate to approximately $3.48 million per facility.

SACOME strongly agrees that all public moneys should be assessed against clear criteria. Difficulty in accessing other forms of finance and the cumulative effect of the year-on-year decline rate on facilities, however, will require far more capital than the Government is currently proposing to upgrade facilities to achieve the necessary abatement – assuming that the technology is even available.

Additional transitional measures will need to be built in given it is likely many technologies to facilitate abatement will not become available until after 2030.

Insufficient financial assistance may lead to manufacturers offshoring parts of production, with all the attendant consequences for sovereign capability, Australian jobs, and carbon leakage to jurisdictions where emissions are not measured.

Accordingly, the review of the Carbon Border Adjustment Mechanism should be prioritised, with a decision on the same to be made expeditiously to provide certainty for facilities, particularly in the steel and cement industries that will be most affected by the proposed reforms.

Moreover, SACOME notes the first objective of the PRF is to decarbonise existing industries, with the proviso: "the costs and benefits of Australia's transformation to net zero are shared, and <u>that no one is held back, and no one is left behind</u>".

It is therefore SACOME's submission that far greater emphasis ought to be placed on hard to abate facilities that are key to Australia's sovereign capability within the PRF. If the Government only wishes to pursue a co-contribution model, then the $1.9 billion quantum of the PRF should be quarantined for those facilities, without geographical limitations, if the PRF is to meet its principal objective; not just a more favourable weighting when assessing funding applications pursuant to other streams in the PRF.

It is further anticipated that the National Reconstruction Fund will have an investment target of up to $3 billion for renewables and low emissions technologies. While SACOME notes the explicit inclusion of 'modernising steel and aluminium' as an example of a potential investment, SACOME would recommend that significant additional weighting be given to hard to abate safeguard facilities and would welcome further particulars once the policy has been settled.

SACOME has made previous submissions in relation to the Government's own holding of SMCs for the purposes of providing finance assistance to EITEs, about which we would also welcome further particulars.

Conclusion

In summary, SACOME recommends:

1. Facilities should have the option of opting in to industry average baselines from scheme commencement, with or without SMC restrictions;

2. The criterion for EITEs applying for an adjusted baseline decline rate should be EBITDA, EBIT or another metric, rather than revenue;

3. The review of the Carbon Border Adjustment Mechanism needs to be prioritised, with a decision to be made expeditiously as to whether to adopt; and

4. Far greater financial assistance needs to be provided to EITEs, such as quarantining the quantum of the PRF for hard to abate safeguard facilities, consistent with its principal purpose, and providing significant additional weighting under alternative funds such as the National Reconstruction Fund.

SACOME thanks the Government for the opportunity to provide a submission on a matter of fundamental important to Australia's economic future. Should there be any questions in relation this submission, please contact the writer.

Yours sincerely

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