

Safeguard Mechanism (Crediting) Amendment Bill 2022

Submission to the Environment and
Communications Legislation Committee



**Mining &
Energy
Union**

Australian Workers' Union
and
Mining and Energy Union

January 2023

Introduction

The Australian Workers' Union (AWU) and the Mining and Energy Union (MEU) welcome the opportunity to make this submission on the Safeguard Mechanism (Crediting) Amendment Bill 2022 ('the Bill').

The AWU represents around 70,000 members nationally in a diverse range of industries, including manufacturing (including steel, aluminium, plastic, concrete, food processing, chemicals and glass), metalliferous mining, and oil and gas extraction and processing.

The Mining and Energy Union represents over 20,000 members nationally working in underground and open cut coal and metals mines, the generation, transmission and distribution of electricity (predominantly from coal-fired power stations), the petrochemical industry and iron ore mining and transportation.

The AWU and MEU, representing heavy manufacturing and the entire energy supply chain, have members at over 200 of the 215 facilities covered by the mechanism. The AWU and MEU have also worked together since 2013 as partners in the Western Mine Workers' Alliance (WMWA), protecting the rights of workers in the mining industry in the Pilbara.

Given the diverse range of relevant industries covered by our unions, it is impossible to apply a single approach to reducing emissions across these many industries, but the design of the safeguard mechanism will have a significant impact on their operations. This submission outlines general principles which should guide the approach taken in the Bill.

Table of Contents

- Introduction* 2**
- Recommendations* 4**
- The critical importance of the safeguard mechanism* 5**
- The Bill establishes the infrastructure for effective use of carbon credits in Australian heavy industry* 5**
 - Interaction between Safeguard Mechanism Credits and ACCUs 6**
 - ACCUs available for fossil fuel facilities 6**
 - Domestic credits only 7**

Recommendations

Recommendation 1: Parliament should pass the Safeguard Mechanism (Crediting) Amendment Bill 2022.

Recommendation 2: The Australian Government should implement the outcomes of the Chubb review into Australian Carbon Credit Units before July 1, to ensure a robust and transparent market for carbon credits.

Recommendation 3: Both Safeguard Mechanism Credits and Australian Carbon Credit Units should be available for use by all safeguard facilities, including fossil fuel facilities.

Recommendation 4: Only domestic credits and offsets should be available for compliance with the safeguard mechanism at the commencement of the reforms.

The critical importance of the safeguard mechanism

The AWU and MEU support the Government's policy priority of acting on climate change, and support the Government's proposed reforms of the Safeguard Mechanism (including the Bill).

Australia's heavy industries continue to provide good pay and conditions to thousands of people across the country, and our members are keen to play a role in supporting Australia through the energy transition. It is essential to Australia's sovereign capability and economic welfare that these industries play their role in the energy transition. A successful transition of Australia's industrial sector also has the opportunity to place Australia as a clean energy superpower, creating new job opportunities for coal workers and across the broader economy. By contrast, a poor transition that fails to consider Australia's international competitiveness could see our industries collapse.

The safeguard mechanism will be the most substantial energy policy faced by heavy industry since the now-repealed Carbon Pollution Reduction Scheme. Each facility and each industry will be affected differently, and our unions are encouraged by the broad consultation that has been undertaken by the Government in the preparation of the Bill and the safeguard rules.

The AWU and MEU, as well as the ACTU, have already made submissions and participated in consultation regarding the broader design of the safeguard mechanism, and will provide further feedback through the Government's consultation process in late February. The below submission instead focuses on issues relating to crediting that arise from the Bill.

Recommendation 1: Parliament should pass the Safeguard Mechanism (Crediting) Amendment Bill 2022.

The Bill establishes the infrastructure for effective use of carbon credits in Australian heavy industry

The Bill establishes Safeguard Mechanism Credits (SMCs) to be created for emissions below the baselines for safeguard facilities and treats them the same way as Australian Carbon Credit Units (ACCUs) under the *Australian National Registry of Emissions Units Act 2011* (Cth) (ANREU Act). It also sets out that both are relinquishable units for the purposes of the *National Greenhouse and Energy Reporting Act 2007* (Cth). This Bill also comes in the context of:

- The Australian Government's *Climate Change Act 2022*, which set a national target of reducing carbon emissions by 43% and established government reporting against this target, and
- changes to the safeguard mechanism rules under the *National Greenhouse and Energy Reporting Act 2007*, which would seek to reduce baselines over time ensuring that heavy industry makes a proportionate contribution to the overall Australian climate target.

Together, these changes will effectively turn Australia's voluntary carbon crediting system into an

active policy to reduce industry emissions and facilitate emissions trading. It is critical that the underlying legislation for SMCs permits flexibility for industry and government in the future application of the scheme. Our unions make the following key recommendations:

Interaction between Safeguard Mechanism Credits and ACCUs

The AWU and MEU support the ability for safeguard facilities to use high-quality carbon offsets (that is, ACCUs) or Safeguard Mechanism Credits (which will operate differently to offsets) to meet their requirements under the Safeguard Mechanism. The Chubb review¹ completed in late 2022, confirmed that the ACCU scheme is fundamentally sound, and that currently-accepted emissions abatement measures credited under the scheme achieve the intent of avoiding emissions. Sensible changes to some abatement methods (such as revising the avoided deforestation method, and demonstrating that human-induced regeneration conforms to the current intent of the scheme), as well as improved administration and transparency arrangements, will help to establish a well-operating and effective market for carbon credits. It is essential that this is done in time for the beginning of the Safeguard Mechanism on July 1 next year.

Recommendation 2: The Australian Government should implement the outcomes of the Chubb review into Australian Carbon Credit Units before July 1, to ensure a robust and transparent market for carbon credits.

ACCUs available for fossil fuel facilities

Some commentary has suggested that fossil fuel projects should be excluded from the use of carbon offsets or otherwise treated differently from safeguard facilities. This misguided proposal fails to recognise that Australian coal and natural gas have a role to play in the world's transition to lower emissions, and it also disregards carbon leakage risks. Australian thermal coal exports are of a higher grade than that produced by our main competitors, meaning they contain a higher energy content per tonne and produce lower carbon emissions per unit of electricity generated than that of our main export competitor, Indonesia.² With alternative steelmaking technologies still yet to reach commercial availability, Australian metallurgical coal will likewise remain essential globally for decades to come. And for countries transitioning from gas to coal power, gas turbines produce as little as 370kg of CO₂ equivalent per megawatt hour for electricity generated, roughly

¹ Professor Ian Chubb AC (Chair), the Hon Dr Annabelle Bennett AC SC, Ms Ariadne Goring and Dr Steve Hatfield-Dodds (2022) *Independent Review of Australian Carbon Credit Units*.

² Minerals Council of Australia (2021) Australian Export Thermal Coal: The Comparative Quality Advantages. <https://www.minerals.org.au/sites/default/files/Best%20in%20Class%20-%20Australian%20Export%20Thermal%20Coal%202021.pdf>

a third of the equivalent in subcritical brown coal generation.

The AWU and MEU support the availability of offsets and encourage the reduction of domestic emissions from these industries through the safeguard mechanism, including through measures to reduce methane leakage, and recognise that gas will aid other countries in reducing their emissions going forward.

Recommendation 3: Both Safeguard Mechanism Credits and Australian Carbon Credit Units should be available for use by all safeguard facilities, including fossil fuel facilities.

Domestic credits only

The AWU and MEU support domestic credits remaining the only abatement option for the time being. It is vital that carbon offsets are trusted by the community. If they lose credibility, the companies that use them risk losing their social license – forcing emitters to rely solely on abatement-generated credits from their own facilities or other safeguard facilities. Options for carbon credits available outside of Australia have been widely discredited as low-quality by a number of independent bodies:³

Studies of the world's two largest offset programs – the Clean Development Mechanism (CDM) and Joint Implementation (JI), both administered by the United Nations under the Kyoto Protocol – suggest that up to 60-70% of their offset credits may not represent valid GHG reductions.

The only way Australia can ensure the integrity of the system is through prioritising and properly regulating its own ACCUs. The implementation of the Chubb review's recommendations will help to ensure a robust domestic market.

Further, the priority of safeguard facilities must be in reducing their domestic emissions – although emissions are global and cumulative in their impact, carbon accounting rightly distinguishes between Scope 1 and 2 emissions (here in Australia) and Scope 3 emissions (of the ultimate buyers of Australian products such as coal and gas).

In the absence of a fully-functioning international carbon market operating under Article 6 of the Paris Agreement, it is difficult to be assured of the integrity of carbon credits from international projects. When Paris Agreement signatories have reached a consensus about the operationalisation and implementation of the Article 6 international carbon market, Australia will be in a better place to assess the efficacy and authenticity of any available international credits.

Recommendation 4: Only domestic credits and offsets should be available for compliance with the safeguard mechanism at the commencement of the reforms.

³ <https://www.offsetguide.org/concerns-about-carbon-offset-quality/>