

# SAFEGUARD MECHANISM REFORMS POSITION PAPER

SUBMISSION TO THE DEPARTMENT OF CLIMATE CHANGE,  
ENERGY, THE ENVIRONMENT AND WATER



## **Introduction**

The Australian Workers' Union (AWU) and the Mining and Energy Union (MEU) welcome the opportunity to make this submission on the Safeguard Mechanism Reforms Position Paper published by the Australian Government in January 2023.

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 with the reforms.

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## Recommendations

**Finding 1:** The AWU and MEU support the Government's proposal to reform the safeguard mechanism and provide a credible pathway to reducing emissions in Australia's industrial sector. To provide certainty to industry, the Government should implement its safeguard mechanism reforms as committed by July 1 2023.

**Finding 2:** The current design of the Safeguard Mechanism reforms requires all facilities to reduce emissions from scheme commencement – even if they are already operating at best practice levels in their industry. A high cost of compliance could reduce the ability of facilities to make longer term investments in their decarbonisation.

**Recommendation 1:** In order to temper the short-term impact of the safeguard reforms on Australia's industrial competitiveness, the Government should:

- Ensure that manufacturing facilities automatically qualify for TEBA status
- Formally commit to developing a Carbon Border Adjustment Mechanism (CBAM) as quickly as is feasible, to ensure that a level playing field is available in the medium-to-long-term
- Greatly expand funding for the Safeguard Transformation Scheme of the Powering the Regions Fund (PRF) which provides dedicated funding to meet industry requirements on a technology-neutral basis.

**Finding 3:** The Safeguard Mechanism reforms provide a critical opportunity to reduce emissions from all heavy industrial facilities, including coal and gas projects. The beneficial impact of the mechanism should not be compromised to achieve unrelated goals which run counter to Australia and the world's decarbonisation efforts (such as banning coal and gas projects or limiting their use of offsets).

**Recommendation 2:** The Government should take into consideration the impacts of geological factors on coal mining emissions when setting production variables and industry averages for coal.

**Recommendation 3:** 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 4:** Noting that investment in these projects was based on the regulatory framework available at the time, emissions reduction projects that depend on 'deemed surrender' of ACCUs generated under Carbon Abatement Contracts for government should be fully grandfathered.

**Recommendation 5:** 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.

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, and our unions welcome the fact that the Government's reforms are broadly supported by unions, industry, and experts. 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 reforms.

Our unions' fundamental position is that the safeguard mechanism reforms are necessary to secure social licence for Australia's heavy industries, by demonstrating that the sector is contributing to reducing emissions. However, the reforms should not impose such high costs that Australian facilities close, or that they will be uncompetitive with imports.

At the same time, the AWU and MEU are alarmed that small sections of the community appear willing to tank the entirety of the proposed reforms either because they do not believe that they go far enough, or because they are pursuing their own ideologically-driven, short-sighted and ill-advised vision of an Australian economy without an industry or resources sector at all.

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 on the Safeguard Mechanism (Crediting) Bill that will enable the issuance of Safeguard Mechanism Credits. The below submission focuses on issues relating to the entirety of the design of the scheme as proposed in the position paper.

**Finding 1:** The AWU and MEU support the Government's proposal to reform the safeguard mechanism and provide a credible pathway to reducing emissions in Australia's industrial sector. To provide certainty to industry, the Government should implement its safeguard mechanism reforms as committed by July 1 2023.

### **The Safeguard Mechanism's design must support the Government's overall industry policy goals**

The Australian Government has committed to growing the Australian manufacturing industry as part of its election commitments and platform. This has become necessary as a result of the failure of the previous Liberal-National Government to develop a cohesive industry policy – leading to the demise of large sections of the manufacturing industry (such as vehicle manufacturing). As a result of the previous Government's decision to neglect industry policy, Australia's manufacturing sector is about 10% smaller in absolute terms than it was a decade ago. As a share of our economy, the picture is even worse: manufacturing is now worth less than 6% of Australia's gross domestic



product, leaving us as the least self-sufficient country in the OECD.<sup>1</sup> The consequences of this failure are clear: we import a third of our steel<sup>2</sup> and 43% of the clinker used to manufacture cement.<sup>3</sup> The bulk of these imports come from China.

The impact of this decline has only been highlighted by recent supply chain disruption experienced domestically and globally. The Harvard Atlas of Economic Complexity puts Australia last among OECD countries in diversity and research intensity of exports.<sup>4</sup> But Australia knows from past experience that manufacturing can provide high-skilled and secure jobs across the country.

The Australian Government, across multiple departments, has initiated a plethora of parallel initiatives in pursuit of the growth of key industries. These include the National Reconstruction Fund (NRF), the Powering the Regions Fund (PRF), the establishment of Hydrogen Hubs, the provision of additional fully-funded TAFE places, and the Buy Australia Plan. In order to pursue this goal, the Australian Government must recognise that the competitiveness of Australian heavy industry is critical to its survival and growth.

Meanwhile, the treatment of coal mining in the design of the Safeguard Mechanism must recognise that new mines will inevitably enter the scheme without overall production expanding, due to other mines closing as they exhaust their reserves or reach the end of their approvals.

The AWU and MEU believe that the safeguard mechanism forms a critical part of the path forward for Australian heavy industry to ensure that we are competitive not just on pure economic terms, but in meeting international best-practice on reducing emissions. However, there are elements of the current design that run the risk of increasing costs. If baseline decline rates in the scheme are too inflexible in early years, the high cost of compliance for facilities could mean that they are less able to invest in longer-term decarbonisation projects such as technology development. In a worst-case scenario, facilities may be forced to close, and emissions-intensive industry will simply be offshored – without a net-positive climate impact. The AWU and MEU propose a number of measures to balance the integrity of the scheme with the need for industry to maintain its competitiveness.

### **The short-term impact of the safeguard mechanism**

The design set out in the Position Paper sets a 4.9% annual decline for baselines. In the first year, the baseline from which each facility will be evaluated is weighted heavily towards each facility's individual emissions. Over the course charted for the safeguard mechanism in the position paper, this will move gradually towards industry averages being the baseline against which each facility is measured.

The impact of this design can be illustrated by putting examples in the position paper side-by-side.<sup>5</sup> In an industry with two facilities A and B, both producing the same quantity of the same product, where A's product is more emissions-intensive than B's product, both facilities are required to make substantial reductions in the first year (albeit with a reduced load for Facility B) even though Facility B is already operating at a lower emissions intensity than industry as a whole. In practice, Facility B will have trouble identifying on-site abatements, while Facility A has the opportunity to learn from best practice to reduce emissions more quickly. After 2027, Facility B's decline rate will become smaller, as they are already far below the industry average – and it is quite likely that they will benefit from the issuance of SMCs. Facility A, by contrast, will be expected to make steeper cuts to emissions in 2027, or buy a growing number of ACCUs/SMCs to offset their higher emissions.

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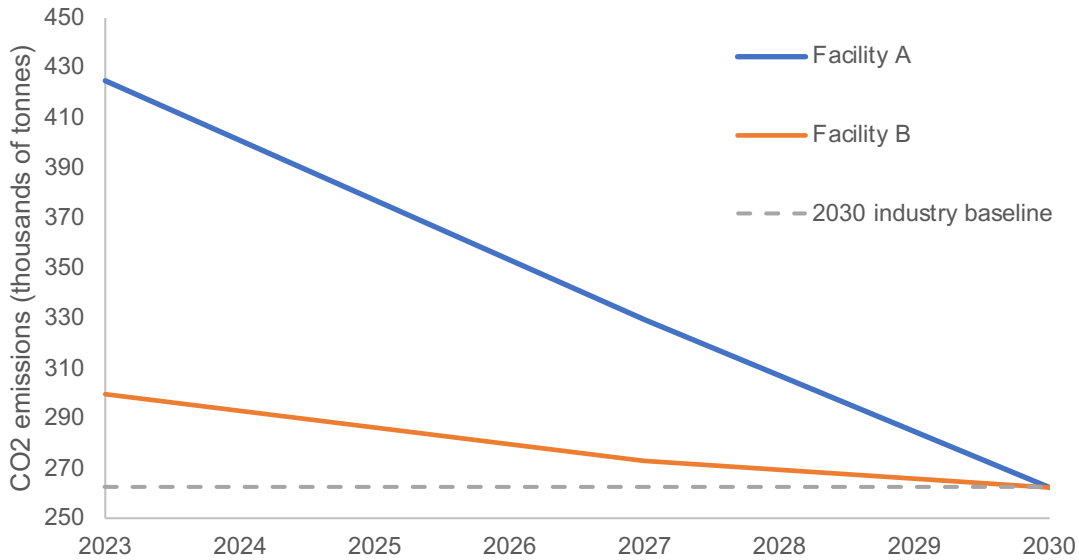
<sup>1</sup> Australian Bureau of Statistics 5206.0 Australian National Accounts: National Income, Expenditure and Product - Table 6. Gross Value Added by Industry, Chain volume measures.

<sup>2</sup> <https://www.afr.com/world/asia/china-s-steel-curbs-to-hit-australian-construction-20210811-p58ht2>

<sup>3</sup> <https://cement.org.au/australias-cement-industry/about-cement/australias-cement-industry/>

<sup>4</sup> <https://www.aumanufacturing.com.au/an-economic-summit-with-purpose-by-roy-green>

<sup>5</sup> Chart adapted from Safeguard Mechanism Reforms Position Paper, box 3.2.



The net impact of this across facilities is that, in the first years of the scheme, those who have already done the work to reduce emissions will be hit equally to those who have not. This will avoid a particularly harsh impact for facilities above their industry's average emissions, but for facilities already operating at industry best practice, it is likely to be difficult for them to find new abatement opportunities. This will likely have a flow-on effect to the ACCU market (noting that the SMC market will be nascent in its first year).

Early research has suggested that, if the Safeguard Transformation Stream helps to create technological pathways for individual facilities, approximately 75% of credits in the market by 2030 will be generated from on-site abatement, rather than ACCUs.<sup>6</sup> This is positive, but this is not likely to eventuate until the scheme reaches maturity.

This means that facilities with emissions already below the industry average are likely to incur costs on ACCUs that could otherwise go to funding technological development to keep them at the frontier. While some sectors have healthy profit margins that should rightly go to meeting the basic costs of complying with the scheme, others are highly cyclical and facilities are at risk of closure if the scheme's impact comes too harsh, too soon.

**Finding 2:** The current design of the Safeguard Mechanism reforms requires all facilities to reduce emissions from scheme commencement – even if they are already operating at best practice levels in their industry. A high cost of compliance could reduce the ability of facilities to make longer term investments in their decarbonisation.

Our unions propose three measures to temper this cost:

- Automatic qualification for TEBA status for manufacturing facilities

<sup>6</sup> <https://www.reputex.com/research-insights/outlook-safeguard-reform-australian-carbon-offset-price-supply-and-demand-outlook/>

- A formal commitment to developing a Carbon Border Adjustment Mechanism (CBAM) as quickly as is feasible, to ensure that a level playing field is available in the medium-to-long-term
- A greatly-expanded Safeguard Transformation Scheme which provides dedicated funding to meet technology demands.

### **Automatic qualification for TEBA status for manufacturing facilities**

The proposed design will qualify trade-exposed facilities for an adjusted baseline if the value of imports and exports in their product is greater than 10 per cent, and the cost of the scheme exceeds 3 per cent of facility revenue. The position paper concedes that 'very few facilities would initially meet these thresholds in the early years of the reformed scheme'. These facilities, however, cannot rely on future cost savings to stay in business – the financial impact of the scheme will come immediately.

The previous Government's failure to set out a cohesive industry policy (outlined above) has left manufacturing in a precarious position. Failing to recognise the impact of the safeguard mechanism on these facilities risks any benefits of the Government's manufacturing policy agenda being entirely offset. Rather than seeing Australian manufacturing boom, we could see it crumble.

Even a slight decrease in revenue could significantly affect the profitability of manufacturing businesses in particular, who are in highly cyclical industries with strong import competition. The provision of a reduced baseline must consider the impact of the scheme on the ultimate ability of the business to survive or fail.

For this reason, our unions propose that manufacturing facilities automatically qualify for TEBA status. This will ensure that they begin to make a contribution to reducing emissions while not putting their overall competitiveness and ability to survive as businesses in doubt.

The AWU's consultation with affected industries suggests that the decline rates for TEBA facilities outlined in the position paper will still have a significant impact on their ability to operate. For manufacturing businesses of strategic importance to Australia, the proposed 2.4% adjusted baseline should be assessed in line with the available evidence and in the context of the overall policy goal of growing the industry.

This approach to the scheme design would allow industry to grow and thrive. And in any case, the need for a trade-exposed baseline would be far less if imports were priced appropriately relative to exports – by the application of a Carbon Border Adjustment Mechanism (CBAM) discussed below.

### **A Carbon Border Adjustment Mechanism**

CBAMs (Carbon Border Adjustment Mechanisms) are taxes applied in Australia on carbon emissions-intensive goods imported from countries that are not taking reasonable action to reduce emissions. CBAMs impose a charge on the embedded carbon content of certain imports that is equal to the charge imposed on domestic goods, with adjustments made to take into account any climate regulation in the exporting country.

CBAMs are designed to ensure a level playing field for economies that have expensive but essential carbon-pricing schemes, such as Australia's. They are also a way for countries that are serious about climate action to compel nations that aren't to do better.

Without a CBAM, products and materials such as steel, aluminium, glass, plastic, chemicals and foodstuffs can be made on the cheap in countries that are not working to cut greenhouse emissions, and dumped here. This would put local businesses and thousands of jobs at risk while rewarding the dirty offshore producers and encouraging them to keep polluting.



Australia would not be alone. The EU has announced a CBAM that kicks in this year and many of Australia's key trading partners are likely soon follow suit. The AWU and MEU note the broad range of submissions to the initial consultation in favour of a CBAM, including industry and environmental groups.

However, noting the limitations of the current approach to trade-exposed businesses, it is critical that work on an Australian CBAM begins as soon as is feasible. The AWU and MEU believe the Government should move beyond its promise in the Position Paper to 'explore' a CBAM, to formally consulting to implement one, with a view to the operation of the European Union's scheme and other international policy action.

### **An expanded Safeguard Transformation Scheme**

The AWU and MEU note that the Safeguard Transformation Scheme of the Powering the Regions Fund outlined in the paper offers a limited amount of reserved funding for safeguard facilities, with only \$600 million allocated for 215 facilities. This amount of funding will not be sufficient to meet the needs of all necessary facility upgrades to reduce emissions – and realistically, the scale of government funding needed to support upgrades in safeguard facilities alone is likely to be three to four times that amount.

Provision through the PRF, NRF and other grant programs of substantive funding for upgrading existing facilities will offer a far more efficient use of capital in comparison to money going to start a brand new facility. It also offers the opportunity to reduce the existing carbon footprint of facilities, and utilise already established facilities to demonstrate new transformative production techniques. As one example, Australia's fuel refineries which already use hydrogen and have substantial capital and infrastructure offer the perfect vehicle to establish hydrogen hubs.

It is also important that any new funding is offered on a technology-neutral, emissions-first basis. Each industry will require different technology options to achieve their emissions goals, and it is critical that the best options for each industry are funded. These technology needs should be directly reflected in funding decisions. As one example, the effective funding available for carbon capture and storage was cut by the 2022-23 Federal Budget update in October 2022. While the unions recognise the need to target CCS funding to industries that are in most need, it is important to acknowledge that some industries do not have the option of electrification. For example, some industries use fossil fuel energy for process heat, or their emissions are a direct result of their process, such as in the case of cement production. CCS is also likely to be critical for coal and gas facilities in reducing fugitive emissions.

**Recommendation 1:** In order to temper the short-term impact of the safeguard reforms on Australia's industrial competitiveness, the Government should:

- Ensure that manufacturing facilities automatically qualify for TEBA status
- Formally commit to developing a Carbon Border Adjustment Mechanism (CBAM) as quickly as is feasible, to ensure that a level playing field is available in the medium-to-long-term
- Greatly expand funding for the Safeguard Transformation Scheme of the Powering the Regions Fund (PRF) which provides dedicated funding to meet industry requirements on a technology-neutral basis.

## Safeguard mechanism reforms are essential to reducing emissions across the board, including in new coal and gas projects

The AWU and MEU were alarmed to hear the leader of the Australian Greens, Adam Bandt, threatening to scuttle the Government's safeguard mechanism legislation unless new coal and gas projects are banned. The mere proposal of ending new supplies of coal and gas betray their limited understanding of how these industries operate, ignoring the realities of the energy sector and jeopardising the future of Australia's industry and our action on climate.

The Greens fail to recognise that Australian coal and natural gas have a role to play in the world's transition to lower emissions. While Australia has the benefit of abundant land for solar and wind electricity generation, many other countries do not. Their pathway to reducing emissions as quickly as possible lies in transitioning from coal to gas power – reducing carbon emissions by about two-thirds for each unit of electricity generated. 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 coal to gas power, gas turbines produce roughly a third of the equivalent in subcritical brown coal generation.<sup>7</sup>

Where coal is used for electricity generation, Australian thermal coal is 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.<sup>8</sup>

Outside of power generation, alternative technologies for manufacturing essential products like steel, aluminium, cement, plastic, and fertiliser are still yet to reach commercial availability. Until hydrogen and other options are available, Australian coal and gas will remain necessary – likely for years to come.

Given that the ACCC only recently warned that there is likely to be a 30PJ shortfall in gas supply this year, and a long-term shortage to meet demand by 2027,<sup>9</sup> it is beyond disappointing that the Greens would put Australia's energy supply on the line as a bargaining chip.

The Greens unfortunately have form in stopping progress on climate action in Australia. When the Rudd Government proposed the Carbon Pollution Reduction Scheme, well before the climate wars were underway, the Greens opposed it point-blank, claiming that the policy was not strong enough to reduce emissions. What followed was a decade of failed attempts at a national climate policy, at a cost to Australia's global reputation and economic competitiveness. Regrettably, their approach to the safeguard reforms suggests that they have not changed their tactics.

The 'compromise options' put forward by the Greens since their initial ultimatum are also likely to affect production of new coal and gas, and should be rejected:<sup>10</sup>

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<sup>7</sup> <https://www.energycouncil.com.au/analysis/will-coal-play-a-role-in-the-new-nem/>

<sup>8</sup> 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>

<sup>9</sup> [https://www.accc.gov.au/system/files/Gas%20Inquiry%20-%20January%202023%20interim%20report%20-%20FINAL\\_0.pdf](https://www.accc.gov.au/system/files/Gas%20Inquiry%20-%20January%202023%20interim%20report%20-%20FINAL_0.pdf)

<sup>10</sup> <https://www.skynews.com.au/australia-news/politics/happy-to-have-a-look-at-suggestions-that-are-put-on-the-table-greens-willing-to-negotiate-on-climate-safeguard-reforms/news-story/6d16eb1bca9c913bf4f18d4a77874131>

- The insertion of a 'climate trigger' into the Environment Protection and Biodiversity Conservation Act 1999 would only add green tape to new projects without reducing the likelihood that they go ahead. Previous approvals have generally accepted that, if coal or gas projects do not go ahead in Australia, the fuel will be extracted elsewhere without the same environmental protections in place, resulting in a similar or worse net emissions outcome.
- A 'temporary pause' on new onshore gas projects has already been tried in all relevant Australian jurisdictions, where independent reviews concluded that onshore gas development was safe and should not be treated fundamentally differently to other resources projects. The argument for a pause in the case of coal is even weaker, as coal mining operations have been operating for decades and their impacts are well-understood.
- Limits on the use of offsets by coal and gas facilities would unjustifiably treat the resources sector differently to other participants in the mechanism. The evidence suggests that as the scheme matures, on-site abatement will become the most commercial option for all facilities.<sup>11</sup>

In our unions' view, the effective operation of the safeguard mechanism should not be compromised in pursuit of the Greens' ideological opposition to coal and gas, and their proposals should be rejected by the Government.

**Finding 3:** The Safeguard Mechanism reforms provide a critical opportunity to reduce emissions from all heavy industrial facilities, including coal and gas projects. The beneficial impact of the mechanism should not be compromised to achieve unrelated goals which run counter to Australia and the world's decarbonisation efforts (such as banning coal and gas projects or limiting their use of offsets).

### Further consultation on production variables and industry averaging in the coal sector should proceed

The approach taken to setting production variables and industry averaging must be responsive to the special circumstances of different industries. For many safeguard facilities, the emissions intensity involved in production can be directly compared and contrasted with other facilities creating the same product. The MEU has heard from industry that the geology and nature of coal mining means that simple industry averaging is likely to be unsuitable, or even counterproductive, for emissions reduction at coal facilities unless it is carefully tailored. Distinct industry averages for underground and open cut coal mining, while necessary, are not enough. As deeper mines have higher fugitive emissions, there is potential for perverse outcomes where the scheme facilitates longer lifespans for shallower mines that may produce lower quality (and higher emitting) coal, while deeper or gassier mines producing higher quality thermal or coking coal face harsher treatment. As the hybrid baseline moves progressively towards an industry average baseline, shallower mines could be expected to earn SMCs while deeper mines continue to be squeezed.

The inherent emissions variability of coal also poses challenges to the proposed method of setting site-specific emissions intensity values. The current proposal is to use the middle two values from the previous four years of data (2018-19 to 2021-22) to calculate a production-weighted average emissions intensity value for each facility. However, historical data cannot reliably indicate the future emissions intensity

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<sup>11</sup> <https://www.reputex.com/research-insights/outlook-safeguard-reform-australian-carbon-offset-price-supply-and-demand-outlook/>

of a coal mine, given the varying gas and emissions profiles of coal seams, even within the same mine site. The use of historical data would also not be able to incentivise the mining of different, less gassy, coal seams, as mine plans for the initial years of the scheme would have already gone through years-long environmental approval processes and cannot simply be altered.

We understand that the Department is undertaking further consultation with industry on how to address the complexities of production variables and industry averaging in the coal sector. We encourage the Government to engage constructively with this process with a view to ensuring that the Safeguard Mechanism facilitates genuine scope 1 emissions reduction in the industry without producing the distorted outcomes flagged above.

**Recommendation 2:** The Government should take into consideration the impacts of geological factors on coal mining emissions when setting production variables and industry averages for coal.

## Crediting markets

The AWU and MEU have previously made a submission on the Safeguard Mechanism (Crediting) Bill 2022 which identified a range of issues in relation to the market for SMCs and ACCUs. These submissions will also impact the design of the safeguard mechanism regulations. The position paper also provides clarity on some elements of the design. For completeness, these concerns are set out below.

### 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 review<sup>12</sup> 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 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 3:** 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.

### Deemed surrender provisions

The Position Paper proposes that the 'deemed surrender' provisions for ACCUs generated under the Emissions Reduction Fund will be ultimately removed, with existing Carbon Abatement Contracts grandfathered in for two years.

The intent of the Position Paper's approach is to ensure that the primary method of counting and rewarding emissions reductions at safeguard facilities should be Safeguard Mechanism Credits going forward. However, there is a risk that ending Carbon Abatement Contracts entered into by the Government early will lead to facilities abandoning their voluntary commitments to reduce carbon emissions – presumably against

<sup>12</sup> Professor Ian Chubb AC (Chair), the Hon Dr Annabelle Bennett AC SC, Ms Ariadne Gorring and Dr Steve Hatfield-Dodds (2022) Independent Review of Australian Carbon Credit Units.

the intent of the safeguard mechanism in encouraging additionality in carbon emissions reductions.<sup>13</sup> Our unions believe that facilities should be entitled to see the benefit of carbon abatement contracts to their conclusion, noting that these schemes will not see new entrants under the proposed reforms.

**Recommendation 4:** Noting that investment in these projects was based on the regulatory framework available at the time, emissions reduction projects that depend on 'deemed surrender' of ACCUs generated under Carbon Abatement Contracts for government should be fully grandfathered.

### 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:<sup>14</sup>

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

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<sup>13</sup> See, for example, Orica, Submission 11, Safeguard Mechanism (Crediting) Amendment Bill 2022 [Provisions], inquiry of the Senate Standing Committees on Environment and Communications.

<sup>14</sup> <https://www.offsetguide.org/concerns-about-carbon-offset-quality/>