

**AIGN Response to *Emissions Reduction Fund:*  
*Safeguard Mechanism Consultation Paper*  
*(February 2018)***

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## 1 SUMMARY

AIGN welcomes the opportunity to provide a submission to the Department of the Environment and Energy on the *Emissions Reduction Fund: Safeguard Mechanism Consultation Paper (February 2018)*.

AIGN is a network of industry associations and individual businesses which contribute to the climate change policy discussion and see value in joint industry action on climate change to promote sustainable development.

In considering this submission, the Department should note of AIGN's broad range of members, and resultant wide diversity of views on greenhouse and energy policy.

In summary, AIGN supports the rationale to update baselines, with the introduction of the following policy elements:

- An option for liable facilities to elect for either a calculated baseline or a production variable default emissions-intensity baseline.
- An annual update for actual production, so facility baselines continue to reflect business circumstances and enable growth.
- An option for all liable facilities to apply for a calculated baseline (even those that have recently completed an update in 2016-17) should they elect to do so.
- The retention (beyond 2025) of the existing provisions to accommodate natural resource variability in the mining, oil and gas sectors.
- The removal of the post 2020 benchmarking provisions.
- The retention of the incentive to shift to a calculated baseline (from default production variable baseline) – providing a valuable incentive to improve emissions efficiency.

## 2 IMPLEMENTATION TIMING

AIGN notes the paper proposes to have the legislative amendments to the Safeguard Mechanism in place by the end of the calendar year, and the volume of work that needs to be undertaken to ensure this is possible.

AIGN members are committed to working constructively with the Government to meet this timeframe. We observe that the process allows some degree of flexibility in enabling industry-specific information to be completed in time for the 2019/20 compliance year if the detailed work cannot be completed in time for the 2018/19 compliance year.

## 3 REVIEWING THE PROPOSED CHANGES TO THE SAFEGUARD MECHANISM

### 3.1 Transition to calculated baselines

The entities covered under the Safeguard Mechanism legislation are many of those that underpin Australia's economic prosperity.

Updating this legislation to ensure that it more appropriately reflects the policy intent of the Safeguard Mechanism, and doesn't simply become a tax on growth, will go a long way towards achieving the dual goals of maintaining economic prosperity whilst providing a marginal abatement incentive to manage emissions.

AIGN accepts the proposal to 'bring the baselines up-to-date' and stands ready to work closely with the Government to ensure the policy mechanism is efficient, effective and administratively streamlined.

### 3.1.1 Application of the baseline updates

Transitioning all facilities to calculated baselines is intended to ensure baselines are up-to-date reflecting current operations and are set across industry on a consistent basis.

#### SGM Paper: Proposed Approach

Under the proposed approach, all facilities remaining on a reported (historical) baseline must apply for a calculated baseline in 2018-19 or 2019-20, by then reported baselines could be more than a decade out of date. Facilities that already have a calculated baseline could not reapply—their baseline is already set using up-to-date data.

AIGN supports the principles of making the Safeguard Mechanism fairer and simpler.

#### AIGN supports:

The ability for all liable facilities to apply for a calculated baseline (even those that have recently completed an update in 2016-17) should they elect to reapply.

The retention (beyond 2025) of the existing provisions to accommodate natural resource variability in the mining, oil and gas sectors.

The option to use production variable (see Section 3.2).

Updating baselines annually to reflect production (see Section 3.2.2).

The removal of the post 2020 benchmarking provisions (see Section 3.2.3).

Retaining the incentive to shift to a calculated baseline (from default production variable baseline) – providing a valuable incentive to improve emissions efficiency.

## 3.2 Application of default production values

AIGN welcomes the Government's commitment to the reduction of red-tape.

In particular the consideration of the administrative burden on liable entities (and the Regulator) in the application of the calculated baseline methodologies.

A number of AIGN members have submitted initial calculated/calculated baseline applications and have provided feedback. In summary, whilst our members support these flexibility provisions, the process of application has been costly, complicated and resource intensive (internal resources and audit costs).

Providing optional default parameters for calculated baseline applications as proposed would help to simplify the Safeguard Mechanism by addressing the costs involved in auditing calculated baselines and providing an emissions efficiency signal to the market.

### 3.2.1 Determining default production variables

However, there are also challenges to this approach - facilities tend not to be homogenous and determining like-for-like facilities and their associated production variables will require some flexibility in approach.

For products that have significantly disparate emissions-intensity, due to the nature of their resource characteristics or geographic circumstance, separate production variables could be developed e.g. for conventional LNG and CSG LNG.

The development of production variables and associated emissions-intensity values is critical to the success of this proposal and uptake and use by liable industry.

The application of production variables needs to cater for a wide-range of facilities, producing various products, from a variety of input products of differing characteristics through a variety of means.

An approach to address this, whilst retaining the simplicity of the production variable approach is to permit a facility's baseline to comprise the sum of a number of production variables. A theoretical facility example is provided following.

**For example:**

#### **ACME FACILITY**

SGM and NGER liable facility, which produces three products.

Product A = 100,000 tonnes

Product B = 62,500 tonnes

Product C = 50,000 tonnes

Scope 1 emissions for reporting period = 140,000 tCO<sub>2</sub>e

#### **GOVT PRODUCTION VARIABLE**

The emissions intensity of the product variables (A, B and C) respectively legislated as: 0.5, 0.8 and 1.0 tCO<sub>2</sub>/unit of product.

#### **ACME FACILITY BASELINE**

The facility's calculated baseline would be determined as follows

(Product A: 100,000 \* 0.5) + (Product B: 62,500 \* 0.8) + (Product C: 50,000 \* 1.0) = 150,000 tCO<sub>2</sub>e

Therefore, ACME Facility for this reporting period would be below its facility baseline.

Adoption of this method would negate the complication of input and input variables, and the determination of primary product. This method adopts similar principles to those currently applied when determining the Production Adjusted Baseline.

For facilities that generate electricity for use onsite (self-generators), another emissions intensity factor (say NEM average) could be applied and added to the equation – similar to the method of calculation applied during the calculation under the Jobs and Competitiveness allocation.

AIGN and its members look forward to ongoing consultation and detailed workshops on

the development of production variables and associated emissions-intensity factors.

### **3.2.2 Updating baselines for production annually**

AIGN welcomes the Department's efforts to find ways to improve the functioning of baselines in a way that prevents liable entities being penalised for rational business decisions. The proposal to update baselines for production on a regular (e.g. annual) basis would appear to meet these criteria and would serve its intended purpose well.

It is noted that overtime the median emissions intensity for a production variable may change. For some industries emissions intensity may improve with the introduction of new technologies, for others the emissions intensity may decrease due to the inherent characteristics of the natural resource or age of plant and equipment. It would seem appropriate that the product variable emission intensities be subject to periodic review but on a long-enough timeframe to provide investment certainty and minimise potential impact to investment of asset capital e.g. 10 years plus.

AIGN members would welcome further dialogue with the Government to find ways to apply the principles of fairness and simplicity in these cases.

### **3.2.3 Removal of Benchmarking for post 2020 facilities**

With the introduction of these proposed revisions to the Safeguard Mechanism and adoption of production variables the current proposal to move to benchmarking for new facilities post 2020 becomes redundant.

New facilities can simply adopt the production variable method.

## 4 ADDRESSING TRADE EXPOSED INDUSTRIES

AIGN members include a substantial proportion of Australia's trade-exposed activities including the aluminium, cement, petroleum, steel, paper and wood products sectors, in addition to members from the generation sector.

In a global market where our international competitors are not subject to a carbon price, and where carbon policies are based on production rather than consumption, the ongoing viability of these sectors depends on policy settings that acknowledge the potential for competitive disadvantage in these circumstances.

This issue has been extensively canvassed in the climate policy debate over many years and is currently underpinned in the Renewable Energy Target (RET) scheme through selective exemption from liability.

The difficulties faced by trade-exposed businesses in a world of production-based climate policy has been extensively discussed, and is in general well understood, by Australian policy makers. It is a key concern for AIGN members, who undertake a range of emissions-intensive activities in the context of an open, traded-exposed economy.

At present, the RET Scheme includes provisions that acknowledge the need to maintain the competitiveness of trade-exposed industries through exemption from RET-related liabilities. This conversation is currently live in the deliberations of the Energy Security Board as it seeks feedback on the design of the National Energy Guarantee.

AIGN's submission to the Energy Security Board is available from:

<http://coenergycouncil.gov.au/publications/energy-security-board-national-energy-guarantee-consultation-paper>.

The Safeguard Mechanism consultation paper also discusses the need for additional flexibility for EITE industries. AIGN continues to support measures that safeguard EITE industries from loss of competitiveness but acknowledges the value of exposing all liable entities to a marginal incentive to improve their emissions profile over time.

At present the legislative framework for the ERF and Safeguard Mechanism contain no recognition of the principle of specific treatment for EITE industries.

AIGN would like to discuss this further with the Department.

## 5 CONCLUSION

Thank you for the opportunity to provide input on this paper.

AIGN's position on climate change and renewable energy policy is underpinned by our principles, which have been the basis of AIGN's contributions to the climate change policy discussion for many years (see attachment).

AIGN welcomes future opportunities to engage with the Department and encourages the Department to contact Susie Smith (CEO), with any further questions regarding this submission ([susie.smith@aign.net.au](mailto:susie.smith@aign.net.au)).

## 6 ATTACHMENT 1:

### AIGN POLICY PRINCIPLES

Australia should make an equitable contribution, in accordance with its differentiated responsibilities and respective capability<sup>1</sup>, to global action to reduce greenhouse gas emissions and to adapt to impacts of climate change.

Australia should engage the international community to pursue global action to reduce greenhouse gas emissions leading to identified and beneficial environmental outcomes which:

- allows for differentiated national approaches;
- promotes international cooperation;
- minimises the costs and distributes the burden equitably across the international community;
- is comprehensive in its coverage of countries, greenhouse gases, sources and sinks;
- recognises the economic and social circumstances and aspirations of all societies; and
- is underpinned by streamlined, efficient and effective administrative, reporting and compliance arrangements.

In this global context, Australia should develop a strategic national approach to responding to climate change which:

- is consistent with the principles of sustainable development;
- is consistent with other national policies including on economic growth, population growth, international trade, energy supply and demand, and environmental and social responsibility;
- takes a long-term perspective;
- maintains the competitiveness of Australian export and import competing industries;
- distributes the cost burden equitably across the community;
- adopts a consultative approach to the development of new policies; and
- is consistent and effectively co-ordinated across all jurisdictions throughout Australia.

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<sup>1</sup> Australia's contribution to the global climate change effort as set out here reflects the principle in Article 3.1 of the United Nations Framework Convention on Climate Change. Differentiated responsibilities and respective capabilities could take account of such matters as a country's economic growth and structure, population growth, energy production and use etc.