

INTRODUCTION

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

Thank you for the opportunity to make a submission to the Safeguard Mechanism Reform Consultation Paper. These proposed reforms come at a time of significant disruption and uncertainty for business, governments and the broader community. Energy users face escalating costs in both electricity and gas which look set to continue for the foreseeable future. In particular, international gas prices are having a significant impact on domestic business, their supply chains and consumers.

Transformation of the electricity sector is also creating significant disruption with consumers facing a tsunami of additional costs as we rapidly replace our centralised, dispatchable energy system with one that is dominated by highly decentralised variable renewable energy. The challenges are complex, hard to solve and will add costs to consumer bills. This is not to say we shouldn't transform our energy system but that we need to be highly cognisant of the challenges, as only then can we make good policy decisions that are in the long-term interests of consumers.

We raise these issues as the proposed changes to the Safeguard Mechanism are not occurring in a vacuum but as a central part of a whole of system transformation that while it has many long-term advantages, it is not without its risks and costs.

That said, the EUAA support the pursuit of net zero targets by 2050 with many member companies putting in place their own net zero or ESG targets. We are also supportive of the new Federal emissions reduction target of 43% reduction below 2005 levels by 2030. However, given many EUAA members can be classified as operating in "hard to abate" sectors, it must be recognised there are technological limitations in terms of what can be achieved in the period to 2030 and beyond. The challenge of meeting the new 2030 targets in less than 7 years is at best extremely challenging. It is also misaligned with the long-cycle nature of investments that underpin our commercial and industrial base.

The EUAA is a very broad church. We have a number of members who are not part of the Safeguard Mechanism who continue to take action to reduce their overall emissions, especially Scope 2 emissions, through a combination of energy efficiency and corporate PPA's with VRE generators. Members who are part of the Safeguard Mechanism are dealing with scope 2 emissions in a similar way.

While member companies are focussed on achieving 2050 emissions reduction targets (including Scope 1 reductions) many who are taking this voluntary action are making an increasingly important contribution to meeting the new 43% by 2030 emissions reduction target. We expect this behaviour to continue.

Due to the mixed nature of our membership there is a divergence of views on many questions asked in the Consultation Paper. We have engaged with our membership to understand where there is commonality and where there are differences. We have attempted to identify areas of commonality and difference in this submission, leaving individual industry sectors and/or facilities to argue their specific case.

Through engagement with our member companies a number of key themes have emerged that are universal in nature despite the differences at a sector or facility level. Many of our answers to the questions contained in the Consultation Paper link back to these key themes.

KEY THEMES

The future economy

Over time a redesigned Safeguard Mechanism and tightening of emissions targets to 2030 and beyond will fundamentally change the economy and have lasting impacts on Australian society. This is after all the purpose of policy in this area, just as renewable energy policy has been designed to change the fundamentals of the energy market that has delivered Australia a low cost energy advantage for many decades. We will continue to struggle with this transition over the coming decades, the end result of which is likely to be a more complex energy system that is higher cost but has near zero emissions.

Just as there are trade-offs in the stationary energy sector, there will be trade-offs as we attempt to decarbonise our industrial base. We recognise that new threats are emerging including the negative impacts of climate change, maintaining competitiveness in a carbon constrained world and ESG objectives of investors driving a strong preference for low to zero carbon investments. Like in energy, meeting these challenges will require a series of trade-offs and ultimately hard decisions will need to be made by governments and industry. This will be unavoidable.

Undoubtedly benefits will arise for those who can adapt their existing business, or build new ones as zero emissions economies take off. We should support these industries to the point when they can stand alone. There will be industries where their time has come and they will inevitably fade away. We should help manage their orderly exit, paying close attention to supporting the workers and communities impacted by closures. There will also be industries that are fundamental to the ongoing strength of the Australian economy and central to a least cost transition of the energy system. This raises a set of far more complicated questions, the answers to which will be required sooner rather than later.

As we gain an understanding of what tighter emissions reduction targets and a revised Safeguard Mechanism will mean, a number of questions arise for government including:

- What do you want the economy to look like in 2050?
- What industries do you deem strategic to building sovereign capability and wealth?
- What industries do you deem strategic to rebuilding the energy system over the coming decades?
- What industries are you prepared to “let go” if suitable abatement options do not emerge?

It must be recognised that no matter how hard you try, many industries/facilities simply can't meet abatement targets set by government, either nationally or under a revised Safeguard Mechanism. The rational financial

decision by these companies may be to close an ageing facility and exit the Australian market. In some cases it may be to build a new facility closer to major markets rather than rebuild in Australia; it could be they can no longer compete anywhere where abatement obligations are in place as they struggle to compete against product from a jurisdiction that doesn't.

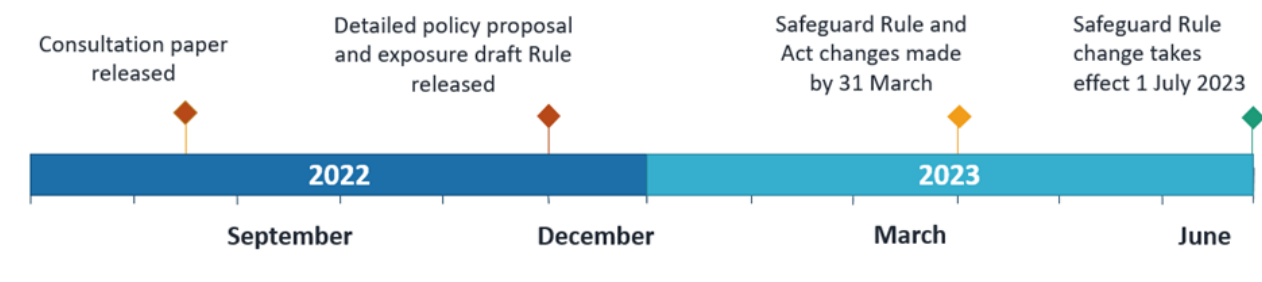
We don't expect answers to these questions before the end of this consultation period but we do expect that governments will set their mind to the task and work with industry to provide the longer term (multi-decade) guidance that will guide future investment decisions.

Is the reform timeframe realistic

Many members have expressed concern at the ambitious timeline for what is a major reform to a significant piece of industry and climate change policy. While the Consultation Paper makes reference to the December 2021 release of the Powering Australia policy by the then opposition (now government), member companies do not believe this is a relevant date when contemplating detailed consultation and engagement on such a complex set of questions.

The below timeline, taken from the Consultation Paper, details the tight timeframe involved. Member companies do not believe this provides sufficient time or policy detail for stakeholders to make informed comment, especially to the Consultation Paper itself where a mere 4 weeks has been allocated between release date on 17 August to the 20 September submission deadline.

It would appear that a similar tight timeframe will be pursued on release of the detailed policy and exposure draft rule, expected to be at the start of December 2022. Given consultation will probably occur over the Christmas/New Year period and that this will (hopefully) include more detail on scheme design, it seems highly unlikely that industry will have sufficient time to fully understand the consequences of these changes and be in a position to offer well informed input.



In all, just 7 months (17 August 2022 to 31 March 2023) has been allocated to complete a review and legislate changes to a highly complex policy that will have lasting impacts on our industrial base and economy. While understanding the desire of a new government to get moving on key reforms, member companies do not believe this timeframe allows for industry best practice engagement and is likely to lead to a number of unintended consequences.

Therefore, we recommend that the timeline be adjusted to reflect the complexity of the questions that need to be answered and the detailed economic analysis and design of detailed policy that must be done by industry and government to ensure an equitable outcome is achieved. This should also include sufficient time allocation for the

DCCEEW to engage directly with Safeguard facilities to discuss key issues including tailored pathways, decline rates and EITE exemption frameworks.

We further recommend that government remain open to the potential for refinement of the policy during Phase 1.

Complexity and known unknowns

As stated in the previous sections, the Safeguard Mechanism is a key piece of industrial and climate change policy that will have far reaching impacts on our industrial base and economy. The complexity facing large industrials as they attempt to navigate the Safeguard Mechanism should not be underestimated, nor should the likelihood that many hundreds of millions in new expenditure per facility will be required to remain beneath a declining baseline.

Unfortunately, the Consultation Paper does not provide sufficient detail for large industrials to understand the likely impacts on their Safeguard facilities. What it creates is a series of known unknowns that make it impossible to provide meaningful input to the Consultation Paper at this point in time. Members report that engagement with DCCEEW to date has not provided any greater level of detail or clarity, which is not surprising given the complexity of the issues at hand, the tight timeframes and lack of economic analysis.

In order for large industrials to be in a position to make informed decisions about options outlined in the Discussion Paper more detailed policy design is required, supported by both broad and sector specific economic impact modelling. Perhaps at this early stage, all that is required is a general direction from industry, but members report they are still finding this difficult in the absence of more detailed consultation.

A multi-decade approach

The proposed start date of 1 July 2023 leaves a mere 6.5 years for the nation to meet the 43% reduction target by 2030 and for safeguard facilities to reduce aggregate emissions from 137 million tonnes CO₂e in 2021 (which may be higher in 2023 due to post COVID recovery) to 99 million tonnes CO₂e by 2030. Absent substantial quantities of low cost ACCU's or offsets or significant near term breakthrough in technology and substantial funding support from governments, for many safeguard facilities hitting significant emissions reduction targets in this timeframe represents a near impossible task.

Government policy aside, for a majority of our industrial base the task of abatement is driven by:

- Availability of appropriate technology at facility level (i.e. does it exist?)
- Availability of suitable low emissions electricity in a region to support transition to this new technology (i.e. can I balance higher abatement costs with lower input costs elsewhere?).
- Cost of technology should it exist (i.e. can I afford it, is it cheaper than purchasing offsets?)
- Multi-decade investment cycle (i.e. when can I invest to optimise the business case, do I have to write down/write off existing asset value?)
- Opportunities in other jurisdictions (i.e. provided I can access my key inputs, am I better off exiting Australia and building a new facility elsewhere that is closer to major markets?)

One of the key issues raised by member companies is that the current approach to reforming the Safeguard Mechanism does not align with the way in which most large industrials think about their investments (as articulated

above). Assuming the intent of the Safeguard Mechanism is to maintain as much of our industrial base as possible and assist their orderly transition to reaching net zero targets by 2050, then a multi decade approach would be more appropriate.

By taking a multi decade approach, key design aspects of the Safeguard Mechanism begin to take shape in a way that provides the longer term clarity that business requires. Armed with this longer term view of emissions reduction combined with government (State and Federal) support over that time, business is in a better place to make key decisions on what they do, including contemplating an orderly market exit. The need for this multi-decade approach is similar to that which has underwritten the rise and subsequent maturation of the renewable energy industry, who after many decades of support has emerged as a key player in the energy transition.

To be clear, a multi decade approach does not mean we ignore interim targets as they are important signposts for governments and industry, but we also need to recognise that abatement from our industrial sector will not be linear but very lumpy. This also then leads to the important role that flexibility mechanisms such as banking and borrowing will play in managing the transition.

Need for enduring policy

A multi-decade approach must be underpinned by enduring policy, the absence of which has had and will continue to have significant negative consequences on the investment environment and long-term emissions abatement.

The implementation of new policy (i.e. changes to the Safeguard Mechanism) creates risks and challenges for Safeguard facilities and consumers in general that need to be managed. However, subsequent repeal or diminution (or the threat thereof) arguably creates significantly more risk and cost for consumers as it makes investment in future technologies harder and more expensive and risks the devaluation of assets that were deployed on the understanding of long-term consistency.

Maintaining competitive advantage.

Low cost energy was a competitive advantage enjoyed by Australian industry; it helped make us a low cost energy superpower. Member companies are concerned that this advantage is slipping away, which impacts their ability to make the nature and scale of changes envisaged under the Safeguard Mechanism.

While Scope 1 and Scope 2 emissions are being treated separately for the purpose of this Consultation Paper, industry sees them working together as part of a cohesive emissions abatement strategy across their facilities. Therefore, if energy transition policy add to both cost and uncertainty for industry then their ability to also manage a highly complex set of issues in reducing Scope 1 emissions becomes significantly harder.

Reward early action, but don't punish those who can't.

This has emerged as a complex aspect of the proposed Safeguard Mechanism redesign and impacts views on key design features including headroom, baselines, rates of decline and degree of flexibility. The discussion centres around a view that those who have taken early action should be rewarded or at the very least, not be at a disadvantage to those who haven't.

Further to this, those who haven't taken early action should not be rewarded for this with an "softer" start than others. It is important to look beyond the result and understand the reasons why this has occurred.

Of those members who are covered by the Safeguard Mechanism, many have taken action to reduce their Scope 1 emissions with varying levels of success. In some cases, additional "headroom" has been created as a direct result of this action. For those who have not been as successful as others, this is not necessarily due to the lack of intent, but the lack of suitable, low or zero emissions technology or a misalignment between technology cost, availability and investment cycles.

For those who have been able to take early action, this should be recognised in redesign of Safeguard Mechanism elements so as to not disadvantage or detract from these early wins. In this regard, care needs to be taken to ensure headroom created by early action is not arbitrarily removed. For those who have been unable to take early action, this should also be recognised so as to not unduly penalise them for not being able to access appropriate technology within a set timeframe.

Members have offered a number of "hybrid" type solutions that seek to treat all parties in an equitable fashion which will be discussed further in our response to questions.

The technology challenge

Decarbonisation of heavy industry Scope 1 emissions is a multi-decade technology challenge. Despite their best efforts, and in many cases best efforts abroad over the last 20 years, many technology breakthroughs are potentially decades away from reality. No compliance cost or funding support will close the gap as there is no solution ready for deployment either now or on the horizon.

A consistent message from our member companies is the importance of recognising many Safeguard facilities are technologically constrained. They feel that if there is genuine intent on behalf of the Safeguard facility to seek out and adopt low or zero emissions technology yet despite their best efforts it is not capable of being deployed during the monitoring period, that it would be counterproductive not to allow additional compliance flexibility.

Government-Industry partnerships will be crucial

It is pleasing to see that while the Commonwealth have a very clear intention of tightening the Safeguard Mechanism as a key part of achieving both the near term 2030 target but also the longer term net zero objectives, they have also expressed a strong desire to work with Safeguard facilities and industry sectors on targeted assistance programs to support what will be a paradigm shift in Australia's industrial base.

The EUAA have long argued that achieving the dual goals of economic growth and deep emissions reductions from our industrial base will only come about through a partnership between governments (Federal and State) and industry. Given the global disruptions occurring in energy, material supply chains and labour, a third goal of growing sovereign capability should also be included.

This will be even more crucial as the intersection of the Safeguard Mechanism and energy system transformation becomes more evident. Many Safeguard facilities provide key inputs into the transformation of our energy system. Steel, aluminium, cement, glass, copper and other precious metals that are critical to our new energy system are all

produced by Safeguard facilities. There has been much said about the opportunities for Australia to become a renewable energy superpower that will drive energy independence, jobs and broader economic growth. It would seem counterproductive to reform the Safeguard Mechanism to a point where local providers of these key inputs are no longer competitive with imports from jurisdictions that do not place similar obligations on their industry as this only results in both carbon and employment leakage.

Consultation Questions

As we engage with member companies on the questions in the Consultation Paper a clear preference has emerged in some areas, in other areas there was a majority view while in other areas there was a wide variety of views. As we answer the Consultation Questions we have attempted to identify these differences. We also expect that member companies, like other industry bodies with a more sector specific focus, will argue their own case.

We note this approach is encouraged by the Government and expressed in the Consultation Paper, recognising that a one size fits all approach to such a complex set of questions will not be very productive. It is also worth considering that the short duration to the start date combined with the complexity of the current Mechanism is conducive a compromised and phased approach, which converges towards more “perfect” policy over years not months

Safeguard Consultation Question	Consolidated EUAA Response
<p>The Safeguard Mechanism’s share of the national abatement task</p> <ul style="list-style-type: none"> • What should the Safeguard Mechanism’s share of Australia’s climate targets be? 	<ul style="list-style-type: none"> • At a high level, the concept to “doing your fair share” seems to be an equitable approach and therefore is not unreasonable. Member companies accept that industry must do all it can to play its role in national emissions abatement. The emphasis here is on “all it can”. As we discuss in this submission, many Safeguard sectors will be severely constrained due to a range of factors outside of their control. • There is unity around the view that safeguard facilities should not do more than their share, recognising also that 2030 targets are likely to be met by significant abatement in the stationary energy sector, which they are contributing to through growing interest in corporate PPA’s with VRE providers. • There is also a strong view that other sectors such as transport and eventually agriculture will need to play their role. • Some member companies are concerned the current approach assumes all facilities have the same opportunities and/or ability to do the same amount of Scope 1 emissions heavy lifting as others. For facilities that do not have an opportunity/ability to abate Scope 1 emissions, attempting to force blood from a stone and penalising them for not being successful in this endeavour is an inequitable approach. • Taking this further, some member companies believe that a proportional share is unreasonable where Safeguard facilities are in hard to abate sectors and/or are EITEs. Too high a share will eliminate cost competitiveness while some industries have significant barriers where breakthrough technologies will be needed to meet the proposed targets. A view has been expressed

	<p>where by the share of commitment should be informed by the level of economic efficiency in achieving an outcome. This is a rational business view of the problem where obligations to shareholders is a significant driver of decision making.</p> <ul style="list-style-type: none"> • A number of member companies have undertaken an initial assessment of Scope 1 emissions reduction required per facility to reach the 2030 target to be 22kt per year. To many, this appears to be an overly aggressive target that is well in advance of a reasonable carbon productivity rate. This further emphasise the challenge that many face. • Some member companies have argued that industrial sectors should have a lower obligation, especially in the period leading up to 2030 which is seen as a critical time when new technologies may emerge but are yet to be deployed, recognising again that in most cases they are making a greater than proportional contribution to reducing Scope 2 emissions via voluntary purchase of renewable energy via corporate PPA's. This may be resolved if VRE projects were able to create ACCU's (in lieu of REC's) at some point in the future (this would recognise that abatement not simply technology deployment is the goal). • Some member companies have raised an issue of competitive neutrality where they will be required to comply under the Safeguard Mechanism when a local competitor with a marginally lower Scope 1 emission profile (i.e. below 100,000 tonne threshold) does not. Some have raised the option of progressively lowering the Safeguard Mechanism threshold to begin to address this issue and spread the abatement task across a broader group of the economy, however this view was expressed by a minority and would unlikely to be welcomed by other EUAA members. • Given that industry (i.e. manufacturing) makes up less than half of the registered safeguard facilities a concern has also been raised by some member companies that they may end up with an increased burden due to sharp increases in overall emissions associated with mining, oil and gas who make up the bulk of safeguard facilities. We expand on these concerns under "baselines for new facilities".
<p>Fixed (absolute) versus production-adjusted (intensity) framework</p> <ul style="list-style-type: none"> • Should we retain, and build on, the existing production-adjusted (intensity) baseline setting framework or return to a fixed (absolute) approach? 	<ul style="list-style-type: none"> • There is majority support for production adjusted (intensity) baseline setting framework. There is a strong desire from most member companies to minimise the differences in approach from the old to new Safeguard Mechanism. Maintaining a consistent approach is seen as helping to mitigate uncertainty and risk during the transition. • There is a strong view that there needs to be an ability to adjust production volumes to meet demand otherwise a significant constraint on operational capability will emerge. • A fixed approach is incongruous with other Government initiatives that support local manufacturing, including the domestic production of renewable energy assets.

	<ul style="list-style-type: none"> Some member companies have identified that emissions intensity can change year to year depending on a range of external factors including changes in the quality of raw materials. This could be dealt with via a degree of flexibility either via baseline adjustment or extended banking and borrowing arrangements.
<p>Setting baselines for existing and new facilities</p> <ul style="list-style-type: none"> Views are sought on the proposal to reset baselines in a way that removes aggregate headroom so crediting and trading can commence when baselines start to decline. What is the preferred approach for setting baselines for existing facilities? Approaches may include: <ul style="list-style-type: none"> Option 1: setting all baselines using industry-average benchmark emissions-intensity values. Option 2: setting all baselines using facility-specific emissions-intensity values. Other proposals, noting there are many possible approaches. What are the advantages of best practice, industry average benchmarks or alternative approaches for setting baselines for new entrants, noting that a final decision will be informed by baseline setting arrangements for existing facilities? 	<ul style="list-style-type: none"> While member companies recognise that a functioning trading environment will not be possible until headroom is removed there is concern from a majority of member companies that the removal of headroom needs to be managed carefully as it is seen by some as (a) reward for early action taken and (b) provides flexibility to those who have limited near term abatement opportunities. A number of members have noted that existing headroom was based on FY 2021 which was a “pandemic year” and may not represent their true baseline. Consideration should be given to recalibrating headroom to FY 2022 to get a more accurate representation. Further to this, a view has been expressed that the referenced 43MT of headroom is inflated as revised production-adjusted baselines are being adopted that will see this number more closely align to actual rather than historical production. There was no clear preference of the options presented with views being expressed by those who have been in a position to act against those who have not been in a position to act. This is driven by issues such as technology availability, investment cycle, quality of inputs etc. On balance Option 2 (facility specific) was seen as marginally fairer given individual circumstances are considered. Obviously, this would add complexity. Alternatively, some member companies believe that Option 1 is preferred as it rewards those who have made concerted efforts. A concern has been expressed that Option 2 could favour those who have done nothing and who would, therefore, gain the most. A compromise position might be to allow companies to choose from site specific versus industry average, but not allow SMCs to be created for any facility while it still has headroom. Essentially this separates a compliance baseline from a crediting baseline for some facilities. Some member has put forward potential solutions including some form of universal scaling as a reasonable compromise although it was suggested that scaling over a longer period than described in the Consultation Paper (1 year) was seen as more manageable. Regarding new facilities, there was majority support for “global best practice” baselines to be applied. However, there is a recognition that if a facility specific approach was applied (Option 2) there would be little if any abatement upside, making further abatement difficult and potentially undermining the business case. If an industry average baseline was set (Option 1) then it would provide instant upside (ability to create SMC’s) which

	<p>would help drive the business case for deployment of the most efficient plant and equipment.</p> <ul style="list-style-type: none"> • Despite the differences expressed above there was agreement that not enough information is currently available (i.e. key design features, economic impact modelling, projected price of credits etc) to make a fully informed decision which aligns with the many of the key themes already articulated. Many have expressed that in this environment it is difficult to build a business case for change. • There is a strong, united view that Government need to help business understand the impact of the proposed changes. • A number of member companies also raised the issue that many new Safeguard facilities will include new coal mines and oil and gas fields. A concern has been expressed that these resource projects will drive an increase in overall emissions and subsequent emission reductions obligations on all Safeguard facilities. It has been suggested that a methodology is developed that does not see manufacturing/heavy industry bear an additional burden that is outside of their making or control. • Further to this, a concern has also been raised that if the Commonwealth is considering a “new entrant reserve” this could have a detrimental impact on them through much harsher baselines and decline rates for existing Safeguard facilities with faster decline rates. It is suggested that these new facilities be subject to global best practice, have a site-specific baseline and decline rate (as an industry average would automatically grant them substantial headroom) and minimise any new entrant reserve. To maintain scheme integrity and fairness, the Commonwealth may need solutions that operate outside of the Safeguard Mechanism.
<p>Crediting and trading, domestic offsets and international units</p> <ul style="list-style-type: none"> • Are there any other issues to consider with the proposal to allow the Clean Energy Regulator to automatically issue tradable credits to Safeguard facilities whose emissions are below their baseline, with crediting and trading commencing on 1 July 2023 subject to baseline setting arrangements that remove aggregate headroom? <ul style="list-style-type: none"> ○ Should banking and borrowing arrangements be implemented for Safeguard Mechanism Credits? ○ Should Safeguard facilities no longer be able to generate ACCUs for reducing direct (scope 1) emissions unless they have an existing registered ERF project? Further, should no new ERF projects be able to be registered at Safeguard 	<ul style="list-style-type: none"> • There is universal agreement that a trading environment that is highly liquid and where units of value are highly fungible, is a desirable outcome. Given the scale of the abatement task, safeguard facilities should be given all reasonable access to highly credible units (SMC’s or ACCU’s) provided double dipping issues are resolved (if they exist). • A view has been expressed by some (although not universally) that however the scheme is designed, it should not advantage laggards that have not adapted to emissions reduction historically. It stands to reason that those facilities with higher emission have the most to gain because they will fall below the baseline faster and generate SMCs. Again, this is reflective of those who have an ability to abate as opposed to those who don’t have the same ability. This will be an important distinction for government to make. i.e. is there a genuine structural or technology related reason why abatement has not occurred and what barriers exist to a particular facility. Understanding this will be critical in guiding R&D efforts and deployment funding.

<p>facilities? Additional feedback is sought on:</p> <ul style="list-style-type: none"> ○ allowing existing ERF projects at Safeguard facilities to continue to generate credits and retaining double counting provisions to prevent a facility from generating ACCUs and SMCs; ○ options for the treatment of deemed surrender; ○ continuing to allow Safeguard facilities to participate in ERF projects that reduce emissions from electricity use (scope 2) emissions; and ○ mechanisms to promote the transparency of the ACCU market, such as publishing unit holding, to assist with market decision making, supply and cost effectiveness. <p>Should international units be able to be used for compliance under the Safeguard Mechanism at a future time, noting that any decision would depend on the rules for international trading?</p>	<ul style="list-style-type: none"> ● Some member companies have raised concerns that the cash stream available for SMC’s may be insufficient to support a business case (dependant on baseline setting, headroom etc), especially in the early years. ACCU’s are currently viewed as a more reliable cash stream to underwrite a business case for abatement activities although this may change over time as the value of the two units begin to converge (assuming they do). ● Some members have also suggested that the Commonwealth may need to support liquidity and price of SMC’s during Phase 1 to support business case development. A price cap or Government operator as purchaser and retailer of last resort for credits would be useful during the introductory phases of the scheme while the market is being established and becoming more liquid. ● A number of member companies were surprised that the Consultation Paper was silent on the interaction between SMC’s and state-based schemes such as VEEC and ESC’s. In the days after release of the Consultation Paper the NSW EPA have announced their intention to pursue a state-based emissions reduction obligation on industry. These interactions and the potential for Safeguard facilities to have multiple abatement obligations is a serious concern that must be addressed. ● Banking and borrowing are seen as a key flexibility mechanism by a majority of member companies with many expressing a desire to see banking and borrowing periods extended (i.e. 5-10 years) in circumstances where technology is not yet available or deployable. ● A strong view has been expressed that banking and borrowing has a role to play to smooth emissions variability arising from cyclical market conditions. A longer period is particularly useful for hard to abate sectors, who practically will struggle with meaningful immediate change. ● There is majority support for no expiry date on SMC’s. ● There is majority support for existing ERF projects at Safeguard facilities to continue to generate SMC’s provided robust double counting provisions remain. Retention of this was seen as especially important where ERF projects are subject to contractual delivery obligations. ● Safeguard facilities should be able to generate ACCUs from ERF projects in non-covered sectors (land, waste, Scope 2) going forward, in conjunction with the Safeguard Mechanism. ● There is a clear preference from member companies that international offsets should be used for compliance provided they are of the highest integrity. There is a strong view that legislation should be changed at the same time as Safeguard legislation is pursued to provide a clear signal to liable entities.
<p>Tailored treatment for emissions-intensive, trade-exposed (EITE) businesses</p>	<ul style="list-style-type: none"> ● All safeguard facilities either have partial or full exposure to international competition (both import and export). While a well targeted EITE framework can ensure competitive neutrality for exporters, those who face competition from imports many not

<ul style="list-style-type: none"> • Should a facility-specific comparative impact assessment that builds on existing EITEs definitions be used rather than a sector wide designation? • Would additional funding opportunities effectively assist EITE facilities to adapt to declining Safeguard baselines? • What kinds of funding, finance or other arrangements and measures would best support EITE Safeguard facilities to reduce their emissions? • In particular, what potential design features of the Powering the Regions Fund would support covered facilities with their decarbonisation priorities? • Is the direct provision of SMCs an appropriate way to mitigate cost impacts for EITE facilities? • Are differential decline rates an appropriate way to reduce the impact on EITE facilities? • How could differential decline rates be structured so that emissions reduction and fairness outcomes are maintained? 	<p>have the same level of protection. The options to protect Safeguard facilities supplying the domestic market, (i.e. steel, cement, aluminium, copper, glass etc) would be to extend EITE treatment to them (i.e. preferential baselines and decline rates), or develop a form of Carbon Border Adjustment Mechanism (CBAM) as being pursued in the EU. We recognise this is no small step to take but believe it necessary to ensure local manufacturing can continue to provide the key inputs into the domestic economy, including the transition of our stationary energy system.</p> <ul style="list-style-type: none"> • Many member companies are of the view that it is essential that EITE tailored treatment is provided. It is the view of many that is a key aspect of a redesigned Safeguard Mechanism. If tailored treatment is not provided, there will be carbon leakage and material economic consequences for EITEs. • As we have stated previously, changes to the Safeguard Mechanism are not happening in a vacuum. Many Safeguard facilities are already facing significant cost pressures (i.e. electricity, gas, labour, materials). Many member companies are facing this wave of costs and are concerned additional safeguard costs will turn the wave into a tsunami. • There is a majority view that existing EITE definitions remain in place given they are well understood and accepted, although we understand there may be industry specific issues raised during the consultation so we will leave it to them to argue their specific case. • Many members have expressed a view that cost intensity makes no sense. Commodity businesses are cyclical and this will make their position highly variable and extremely difficult to manage. • In many cases EITE facilities will not have an ability to reduce emissions below their baseline and will be a net purchaser of SMC's. A number of member companies are supportive of differential decline rates being applied or that a quantity of SMC's be provided to ensure competitive neutrality, which would reduce the wealth transfer issue with existing EITE arrangements but could impact the value of SMC's require a Federal SMC reserve pool. • There is clear support for the key role that Commonwealth funding can play in accelerating technology deployment, especially in EITE sectors or sectors deemed to be of strategic national importance. There are clear precedents in the electricity sector where significant policy support and funding has been provided to the renewable energy industry over the last 20+ years to assist industry development that was seen as strategic and in the national interest. This was to assist industry development and was seen as both strategic and in the national interest. There is a strong view that the same, multi-decade approach to support is required to decarbonise energy intensive industry.
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	<ul style="list-style-type: none"> The EUAA look forward to working with the Commonwealth as these funding programs are developed. They will need to be well targeted, leverage international best practice technology, involve partnerships and above all provide a scale of funding that matches the challenge faced by many Safeguard facilities who will need to contemplate multi-decade, multi-million-dollar (i.e. 100's of millions per facility) investment decisions.
<p>Taking account of available and emerging technologies</p> <ul style="list-style-type: none"> Should multi-year monitoring periods be extended to allow facilities with limited near-term abatement opportunities to manage their own abatement path? 	<ul style="list-style-type: none"> There is a reasonably consistent view that specific approaches are best left to each facility. A consistent message from our member companies is the importance of recognising some businesses are technologically constrained. That is, no compliance cost or funding support will close the gap as there is no solution ready for deployment either now or on the horizon. While some member companies have nearer-term abatement opportunities (although there are still considerable barriers to overcome) there is majority support for an extension of multi-year monitoring periods to allow for emerging technologies to become deployable. The theme strongly expressed by many is that if there is genuine intent on behalf of the safeguard facility to seek out and adopt low emission technology, yet despite their best efforts it is not capable of being deployed during the monitoring period, that it would be counterproductive not to allow additional compliance flexibility.
<p>Indicative baseline decline rates</p> <ul style="list-style-type: none"> What are the appropriate characteristics for the decline trajectory to 2030 that can deliver the Safeguard Mechanism's share of Australia's climate targets, and the process for setting baselines post-2030? 	<ul style="list-style-type: none"> There is a majority support for the approach outlined in the Consultation Paper (i.e. 5-year blocks), bearing in mind the proposal for longer periods of banking and borrowing in certain circumstances discussed earlier. Where concerns have been raised it is the actual rate of decline within each 5-year block. For most member company's abatement will not be linear but occur in step changes. This challenge is a central theme of this submission and is a concern that is consistently put by all member companies. Member companies, including those who have been very active in seeking out low emissions technology are convinced that the proposed decline trajectory is incompatible with anticipated timing technology breakthroughs. A 3.5 to 6% pa decline rate is just not feasible. There is shared view that hard to abate and EITE facilities need a modified start.
<p>Other policy issues</p> <ul style="list-style-type: none"> What transitional or other arrangements should be in place for site-specific production variables, including: <ul style="list-style-type: none"> whether the use of Government-defined production variables (prescribed in Schedule 2 of the Safeguard Mechanism Rule) should 	<ul style="list-style-type: none"> A majority of members concur that government defined production variables are already well known and accepted and therefore should be used as the basis for SMC generation. A number of member companies expressed a view that the inherent variability approach needs to be retained. In some cases, the emissions intensity of production can vary depending on the quality of raw material inputs so a degree of flexibility may be required. It has been suggested that banking and borrowing provisions may assist in this.

<p>be mandatory from the start of Phase 1;</p> <ul style="list-style-type: none"> ○ whether transitional arrangements for facilities using bespoke, site specific ○ production variables should be considered for phase 1; and ○ the proposal that only Schedule 2 production variables could generate Safeguard Mechanism Credits (SMCs)? <ul style="list-style-type: none"> ● Should oil refinery production variables: <ul style="list-style-type: none"> ○ remain fixed (in Schedule 3) and not generate SMCs; or ○ become production-adjusted (move to Schedule 2) and be eligible to generate SMCs? ○ Are existing Government-defined production variables suitable for the Safeguard Mechanism to drive least cost emissions reductions? ● Should the inherent emissions variability calculated baseline approach be removed? ● How should landfills be treated, including: <ul style="list-style-type: none"> ○ should landfill baselines decline at the same rate as other facilities; ○ should landfills be able to generate SMCs in phase 1; and ○ should long-term arrangements for landfills be considered prior to phase 2? 	<ul style="list-style-type: none"> ● Some member companies have expressed a view that differential treatment of industries within the Safeguard Mechanism will create issues of fairness and consistency. Others, will argue their special case. It seems that similar outcomes could be achieved through other incentives/programs/agreements between industries/facilities and governments (including state governments in partnership with the Commonwealth) that operate externally to the Safeguard Mechanism itself may be workable. This ties into the various funding streams being proposed by governments that support the transition, which will need to be targeted, practical and meaningful.
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Once again, thank you for the opportunity to make this submission. Do not hesitate to be in contact should you have any questions. We look forward to engaging with the Commonwealth over the coming months as further refinements are made.

Kind regards,



Andrew Richards
Chief Executive Officer