

## 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 Positions Paper and for the engagement to date between government and the EUAA and directly with member companies. The proposed revised Safeguard Mechanism comes at a time of escalating costs across the entire economy. For EUAA members, electricity and gas costs have risen significantly and while there is still much to do to bring energy costs under control we take this opportunity to once again acknowledge the work being undertaken by federal and state governments to address these issues.

Like all business, EUAA member companies are also dealing with supply chain and labour constraints, significant increases in material costs, rising interest rates and broader impacts of inflation on overall costs and consumer demand. These issues will be accelerated in the short to medium term as the staggering levels of government support in the USA (Inflation Reduction Act) and EU (in response to the Russian-Ukraine war) act as a powerful magnet for people, material resources, technology and capital. Even when the conflict in Ukraine ends, these significant global influences will have a profound impact on the scale, cost and rate of change of emissions reductions in Australia, including the energy system transition.

Against this backdrop some industry lobbyists are calling for significant government/taxpayer/energy user funded support so that we can become an energy export "superpower" of various descriptions. Unfortunately they don't seem to realise that we would be competing against actual superpowers (such as the USA and EA) in pursuing this goal in the near-term. We caution against government pursuing this export superpower dream given the circumstances we face and that before we think about competing for export customers that we ensure our domestic customer's needs (such as affordable, reliable energy and ensuring sovereign capability) are met first. We are an LNG export superpower, which to date has not worked out that well for domestic gas users.

All of these issues are having a cumulative impact of business and households. This is the broader environment that the Safeguard Mechanism reforms are being contemplated by large industrials in hard to abate sectors. As we gain an understanding of what the combination of these significant external factors and tighter emissions reduction targets via a revised Safeguard Mechanism will mean, a number of questions remain for government and industry:

- 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?

While the Positions Paper leans toward a certain direction, a shared understanding of the answers to these questions remains elusive.

## **EUAA MEMBERSHIP AND SAFEGUARD**

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 emissions reduction target of 43% reduction below 2005 levels by 2030. However, many EUAA members operate in “hard to abate” sectors and face significant 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.

EUAA member companies are responsible for 56 safeguard facilities, 35 of which would be classified as manufacturers or non-resource extraction facilities. These non-resource extraction facilities cover a very broad cross section of the Australian economy including a range of metals processing such as steel, aluminium, copper and metals recycling, glass, paper, cardboard, chemicals, plastic, fertiliser and cement. Not only are these key inputs into the Australian economy (such as the food and beverage supply chain) but provide a key role in the transition to a net zero energy system (such as solar and wind generation projects and new transmission assets).

Of the 21 safeguard facilities operated by member companies that would be classified as resource extraction, almost all are critical upstream suppliers of the raw materials that will make up the energy system of the future (along with key inputs into other parts of the economy).

Almost without exception all 56 facilities could be classified as operating in “hard to abate” sectors where deployable low or zero emissions technology simply isn’t available and is unlikely to emerge in the period to 2030, despite the best endeavours of many who are working daily on specific decarbonisation strategies for their liable facilities.

All member companies report they face increasing pressure as they seek to remain competitive against jurisdictions that are not contemplating a rapid de-carbonisation of their economy. This increasing pressure is on both exporters and national suppliers, meaning EITEI support and CBAM measures must be fit for purpose and ensure competitive neutrality. Many report that the revised EITEI provisions outlined in the Positions Paper may not achieve these goals (different sub-sectors will have different reasons for this) while the prospect of a CBAM is welcomed by domestic providers a significant amount of detail is yet to come to light.

## **KEY THEMES**

Due to the “broad church” nature of our membership there is a divergence of views on some aspects of the revised Safeguard Mechanism elements. We understand member companies have engaged separately with government regarding their specific challenges and opportunities and we welcome and encourage the governments ongoing commitment to this engagement approach.

Member companies have asked the EUAA to support their individual engagement with government by highlighting the broad themes and common areas of concern, along with offering constructive advice on possible solutions and/or actions government and industry can take collectively.

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. These were outlined in our September 2022 submission to the Safeguard Reforms Discussion Paper.

These themes were:

- The future economy (and the impact of safeguard on it)
- Reform timeframe (is it realistic)
- Complexity and known unknowns
- Multi-decade approach
- Need for enduring policy
- Maintaining competitive advantage
- Reward early action, but don't penalise those who can't
- The technology challenges
- Importance of government-industry partnerships

After reviewing the Positions Paper and engaging with member companies, these key themes and the issues raised therein are still highly relevant. While the Positions Paper tries to address some of these issues, member companies report that significant issues still remain. Most of these issues stem from an apparent disconnect between government and industry on what is physically possible to achieve in the short to medium term given the key hurdles of technology availability and global capital allocation.

Given these dual hurdles we must guard against the Safeguard Mechanism becoming a punitive measure that acts to reduce the ability of companies to engage in technological innovation and discourage the deployment of capital to build sovereign capability. These issues, or the risk and uncertainty associated with them, are exacerbated by the apparent lack of detailed economic impact modelling, including sector specific modelling.

These themes will be the focus of the remainder of this submission.

## **TECHNOLOGY AVAILABILITY AND CAPITAL ALLOCATION**

The issues associated with technology availability and capital allocation are the central concerns for members, the impact of which flows through to many of the key design elements of the Safeguard Mechanism.

All EUAA member companies have expressed a strong desire to work closely with government on developing a workable Safeguard Mechanism to allow hard to abate sectors to maintain international competitiveness while working diligently on technological innovation to reduce Scope 1 emissions over time. This is a multi-decade task where significant technological breakthroughs are required to bring about a step change in emissions. This reality still seems at odds with the current design of the Safeguard Mechanism that still assumes a degree of linear abatement activity.

The Position Paper seeks to moderate some key design aspects such as preferential decline rates, multi-year reporting and compliance and banking and borrowing provisions. While we can see the intent is to design a flexible compliance regime, it is only relevant for those facilities where deployable, low emissions technologies have or are close to being commercially and technically viable.

For many safeguard facilities this simply isn't the case so the flexibility that the Positions Paper contemplates simply re-allocates the abatement task within the 2030 timeframe without true recognition that abatement in the timeframe is not even possible.

The development of the renewable energy industry over the last 20 years provides some context for the task ahead for hard to abate sectors and the economy more broadly and illustrates the significant challenges of industry transformation even when multiple large scale technologies are readily available (such as wind and solar in the following example).

To date the national abatement task has largely fallen to the stationary energy sector where multiple layers of support has been provided over an extended period of time. For example, using data from the Renewable Energy Regulator, the Federal Large Scale Renewable Energy Target (LRET) and Small Scale Renewable Energy Scheme (SRES) schemes have seen at least \$32B in consumer subsidies provided to the renewable energy industry since 2001. The LRET will continue to provide a subsidy to the renewable energy industry of at least \$1.6B per year up to 2030. Conservatively, LRET alone will see in excess of \$30B in energy user subsidies paid to the renewable energy industry over 30 year time scale.

When state renewable energy incentives are included (i.e. the NSW Energy Transition Road Map, VRET) along with the tens of billions expected to be invested in transmission (including REZ) over the coming decades it is not inconceivable that support for the energy transition will easily surpass \$200B, delivered over multiple decades out to 2040.

Importantly, these subsidies were and continue to be, provided to an industry (or industries) where technology already existed and been deployed at scale for decades before commencement of the original Mandatory Renewable Energy Target (MRET) in 2001. The sector has largely enjoyed continuous policy and regulatory support and while exposed to fluctuations in commodity prices and cost of capital (like all industry) it is not export exposed.

This puts the challenge for Safeguard Facilities into context. They don't have technology to deploy. They don't have a 30 year funding and support package like the LRET (and a range of other support), they are in many cases exposed to the pressure of international trade (as both exporters and local suppliers) and in most cases will be faced with a mounting financial obligation through the purchase SMC's and ACCU's to meet emissions abatement targets. Ironically, this mounting financial obligation impacts their ability to raise capital and re-invest.

The EUAA have other members where the abatement task is much easier (not to be confused with it being easy) and have made great progress in reducing emissions from their business, especially Scope 2 emissions. In these cases they have technological solutions to move to or have little exposure to Scope 1 emissions. In the context of emissions reductions, these are the easier wins.

Other sectors of the economy where abatement opportunities have a closer horizon (i.e. transport) are not part of the formal abatement task and yet are still, rightfully, receiving significant government assistance. Pursuing abatement where technology is available and stimulating its rapid deployment is a logical path for policy.

Given many other parts of the economy appear to have nearer-term opportunities for abatement, many member companies have questioned why the abatement task isn't being truly shared. On the surface an approach where everyone is responsible for their share of the emissions reduction task seems equitable.

However, everyone is not being held responsible for their share of the national abatement task as many sectors of the economy have no compliance responsibility at all (despite the availability of viable solutions).

While the 200+ safeguard facilities do represent a large percentage of national Scope 1 emissions and do need to work with government on a long-term abatement plan, it seems to many that the greatest burden falls to those sectors with the least opportunities, making the Safeguard Mechanism a punitive measure with no viable pathway forward.

So, questions we must ask ourselves include, are technology pathways evolving and if they are when will they emerge and will Australian industry get reasonable access to them? While actions being undertaken in other jurisdictions could have significant short-term impacts on our ability to transition our energy sector and decarbonise our heavy industry it could also create some positive outcomes for Australian industry.

With the enormous amounts of capital being poured into the USA and Europe we would expect that decarbonisation technology such as green steel and cement, will be on a fast track of R&D and deployment. The opportunity to be a “fast follower” on heavy industry decarbonisation and to partner with these jurisdictions would appear to be a logical pathway for Australia. In the meantime, we need to work to ensure the survivability of these industries domestically so they are around to re-invest when the time and technology is right.

## **THE ENERGY TRANSITION & SOVREIGN CAPABILITY**

The knock on effect of increased costs associated with many of the key inputs into the energy transition that will result of the current revised Safeguard Mechanism should not be underestimated.

Steel, aluminium, copper, cement and other elements that will be critical to reaching a net zero energy system are all classified as hard to abate and do not have deployable low or zero emissions technology available now or in the foreseeable future. These industries will have no alternative but to purchase ACCU's or SMC's to meet their increasing emissions reduction obligations, which will be significant even with the application of proposed flexibility of preferential baselines and multi-year compliance periods.

Member companies capable of providing these essential inputs domestically are in trade-exposed industries and in many cases may not be able to pass on carbon costs to customers. Competing for these projects will be more difficult in a lower-margin environment and as a consequence developers of wind, solar, transmission and storage projects will source key inputs from international facilities with potentially greater carbon intensity. Australia's interests are not best served by implementing a scheme that exacerbates carbon leakage by eroding the value of the domestic supply chain.

We must gain a clearer, collective understanding of this as we fear that a least cost, home grown energy transition is at risk, leading to both emissions and jobs leaking to other jurisdictions. We acknowledge and appreciate that government are seeking to deploy a range of industry policy and associated funding streams to support these at risk and hard to abate sectors. In particular we are very supportive of the Value Add in Resources Fund; the Renewables and Low Emissions Technology Fund and the Advanced Manufacturing Fund being proposed by government. We hope they will help build a foundation of our low emissions industrial sector, recognising these funds alone will not get us all the way there.

We also acknowledge and appreciate that government are now seriously considering the introduction of some form of Carbon Border Adjustment Mechanism (CBAM) to help preserve sovereign capability. However, we would note that while a well-functioning CBAM would assist in preserving sovereign capability it will not reduce the increased costs resulting in a more expensive energy transition and it will not provide the necessary immediate relief or investment signals for local manufacturers to maintain or enhance their capability to meet the challenges of the energy transition.

The magnitude and impact on global markets of actions by the USA and EU is another compelling reason to preserve and even grow sovereign capacity of key sectors of the economy. In the circumstances it is unreasonable to think Australia can compete head-to-head on a global stage but we can ensure we are able to services our domestic needs through building local capability and capacity.

In designing the revised Safeguard Mechanism we urge government to be conscious of these issues and develop pathways and support to ensure we preserve and grow sovereign capability to deliver a home grown energy transition that is as least cost as possible.

Given ACCU's, SMC's and other offsets are set to play a central role in compliance, we encourage government to work with industry on stimulating supply. An abundance of ACCU's will ensure low cost offsets will be available, therefore minimising the cost and inflationary impacts of the scheme.

For example, we would encourage exploration and coordination by state and federal governments to pivot support for renewable energy away from RET or CFD type approaches to one that is focussed on the primary task, being emissions abatement.

Consideration should be given to an approach where new renewable energy projects create ACCU's as the primary means of support (and recognition of the zero emissions generation). We know that renewable energy is the cheapest new build energy technology so the opportunity exists where they could provide an abundance of high quality, low cost abatement. Obviously, issues of double counting, additionality and managing the tension between state and federal energy system decarbonisation and the broader emissions reduction objectives would need to be managed but we still believe this option should be part of government consideration.

We also encourage the government to accelerate work on the introduction of high integrity international units, which will offer our members – particularly EITEs – an economic pathway to manage their liabilities under the safeguard mechanism.

## **ECONOMIC IMPACT ASSESSMENTS**

The revised safeguard mechanism is a significant piece of emissions abatement and macro-economic policy that will create a paradigm shift of the nation's economy. While it is reasonable to think that much of this will be positive in the long-term, it is equally reasonable to think that there will be negative short to medium-term implications despite the best efforts of business, government and community to mitigate them.

While we acknowledge the government undertook some economic impact modelling before the last election, it simply didn't delve into the sector by sector impacts of the revised Safeguard Mechanism and the potential flow on

effects (and inflationary impact) on consumer costs on everyday items such as glass, paper, cardboard and building materials.

As a matter of urgency, we ask that if economic impact analysis (including sector specific analysis) work has already been undertaken that it is released to liable entities. If it hasn't been done then we ask that government work closely with impacted sectors to undertake this work before proceeding further.

This work will be vital for business and government to develop a joint understanding of the impacts, challenges and even opportunities created by the revised Safeguard Mechanism which would then facilitate a more informed discussion about the appropriate pathway forward for specific industries. In the absence of this we believe a disconnect between government and liable safeguard entities will continue to exist making the abatement task for both government and industry more difficult and fructuous than it needs to be.

## MOVING FORWARD

EUAA and its member companies want to play a positive role to assist the commonwealth achieve its goals of net zero by 2050 and energy industry transformation while also meeting their own ESG and decarbonisation objectives. The Safeguard Mechanism can play an important role in achieving these joint objectives but it should not be pursued at the expense of diminishing sovereign capability, impacting our international competitiveness or significantly driving up the cost of finished product for Australian business and households.

Therefore, in summary, we offer the following for consideration by the commonwealth:

- Urgently undertake sector by sector impact modelling of the costs of the Safeguard Mechanism as a basis of designing more bespoke support packages (i.e. R&D and early stage deployment funding, appropriate EITEI treatment, specific treatment and/or support for critical/strategic industries) that are aligned to the circumstances of the sector or facility.
- Undertake specific economic modelling on the renewable energy supply chain impacts of the Safeguard Mechanism to ensure we maximise local content in achieving a near zero energy system transformation at least possible cost.
- Realign the Safeguard Mechanism to focus on areas where abatement can be achieved as a basis for setting baselines, decline rates, multi-year compliance and other areas of flexibility etc. Where abatement can't be achieved (due to technology not existing) work with these safeguard facilities on specific pathways and assistance to ensure competitiveness (both domestically and internationally) is not unduly impacted while undertaking joint R&D programs and technology trials.
- Move quickly to establish mechanisms by which the \$15B National Reconstruction Fund (NRF) can begin to be deployed. This should be linked to the results of sector by sector impact modelling so that those with the hardest task are provided with the most assistance.
- Seek to increase both the size and length of funding support to be better aligned to the scale and scope of the abatement challenge in hard to abate sectors. NRF is an excellent start but just as other industries need long term policy support to make long-term investment decisions so too do energy users with hard to abate Safeguard Facilities. Where possible provide longer-term guidance on areas of support to help facilitate the multi-decade investment cycles of capital-intensive industry.
- Adopt a "fast follower" approach in hard to abate sectors, partnering with jurisdictions that are doing the heavy lifting now so that we have ready access to low emissions technology as it emerges. In the interim,

ensure the viability of these industries so they are still around when the time is right to re-invest in low emissions alternatives.

- Commence work on the Carbon Border Adjustment Mechanism (CBAM).
- Ensure any adjustments to the EITE arrangements are fit for purpose to ensure export exposed facilities maintain competitive neutrality.
- Consider what can be done to ensure an abundance of ACCU's including pivoting away from consumer funded support for new renewable energy deployment to a market-based approach where new renewable energy projects create ACCU's. The main objective of climate change policy should be abatement, not deployment of a preferred technology. If we create a broad ACCU supply pool then the costs associated with compliance become less onerous.
- Continue work on reducing energy costs. Energy users look at the entire cost picture, not pieces in isolation. The less pressure coming from energy costs the more likely it is the costs associated with Safeguard Mechanism compliance can be managed (recognising for many, the cost implications are significant).

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 to the Safeguard Mechanism are made.

Kind regards,



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