Implementing the Australian carbon reduction program: Safeguard Mechanism Reforms

Hon Robert Hill AC

The latest in a suite of measures and reforms to add substance to the Australian Government's commitment to achieve a 43% greenhouse gas reduction by 2030 was unveiled this week. A further position paper, released by Minister for Climate Change and Energy Chris Bowen, requires 215 of Australia's largest industrial emitters to reduce net emissions by at least 4.9% per year to 2030.

The paper is out for consultation, but major changes are unlikely. Furthermore, despite posturing by minority parties and independents, the reforms will become law. The Government has shown it can marshal the numbers when necessary.

The Safeguard Mechanism provision applies to facilities emitting more than 100,000 tonnes of greenhouse gasses a year and includes facilities in the mining, manufacturing, transport, oil and gas, and waste sectors.

The Safeguard Mechanism was a reform of an earlier Coalition Government. The scheme set a "baseline" for each facility which limited the emissions they could emit without penalty. It rewarded them for doing better than their baseline but did not require them to do better. However, it is fair to say that they all knew they would have to do better if Australia was to achieve ambitious carbon reduction targets. In total, the enterprises account for some 28% of national emissions.

Now the Government plans a program of continuous reductions to the baselines. And it is treating these major emitters as a homogenous sector, even though the carbon intensity and the economic importance of individual facilities varies greatly. To that extent, it is a blunt instrument.

There is a risk that the reforms will discourage production. The desired outcome is a reduction in carbon intensity, not a reduction in production. It is hard also to see the equity between one of these producers and a facility which is excluded, because it falls a little beneath the qualifying tonnage of emissions. To some extent this was always the case, but the benchmark is made more consequential by mandatory reductions.

The Safeguard Mechanism applies only to Scope 1 emissions (emissions produced at the facility). So, for example, purchasing green energy did not bring a benefit. Scope 1 emissions from industrial plants are often the most difficult and expensive to abate.

The Government clearly has wrestled with the equity issue among the affected Safeguard Mechanism facilities, through the adoption of a hybrid approach to baselines. Baselines will be weighted initially towards site-specific levels and transition to industry average benchmarks by 2030. This still means some facilities, for circumstances beyond their control, will be penalised relative to competitors. New facilities will have their baselines set at international best practice, adapted for an Australian context: an interesting concept which will no doubt engender much debate.

In an effort to avoid leakage overseas, the Government will still permit tailored treatment for emissions-intensive, trade exposed facilities. Some facilities in this category may obtain direct government support for investment in decarbonisation. The Government has additionally committed to at least consider a carbon border adjustment mechanism to further address investment leakage.

Flexible compliance arrangements are permitted. Safeguard Mechanism industry can still purchase and surrender domestic offsets (ACCUs) and will have the further option of safeguard crediting and trading within the community of safeguard facilities (in the form of SMCs). The Government is also looking at international trading units as a future project. Some banking and borrowing within a facility will also be permitted. The Government will also introduce a price ceiling on ACCUs, starting at $75 per tonne. This in effect becomes the default carbon price.

This sector of Australian industry has been on notice that more would be expected of major industrial emitters. It is reasonable that they contribute more towards national carbon reduction goals. But this will be a very demanding and expensive challenge for many over a short period of time. It is hard to predict how they will adapt.

The Government claims that Safeguard facilities are only going to carry their share of the national 2030 target, that is 28% of the whole. Yet they are the only emitters upon which there is a new legal obligation to mitigate. This raises genuine issues of equity across the economy. And there must be a concern that if the Government falls behind in achieving its overall carbon reduction target, it will look to Safeguard facilities to deliver more. They are an easy target, being already within a legal carbon reduction mechanism. If Australia is to achieve its emission reductions goals, all sectors of the economy are going to have to carry their fair share of the burden.

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