



23 September 2022

Safeguard Mechanism Taskforce
Department of Environment
By email: safeguard.mechanism@industry.gov.au

Dear Colleague,

Safeguard Mechanism reforms

The Australian Banking Association ('ABA') is pleased to make this submission to the consultation on the Safeguard Mechanism reforms. The Safeguard Mechanism ('SGM') is a core element of the Powering Australia plan and therefore critical to achieving the government's net zero by 2050 commitment, including the emissions reduction target of 43 percent from 2005 levels by 2030.

We note the expansiveness of the SGM which presently applies to some 215 Australian-based facilities that emit more than one 100,000 tonnes of CO₂-e. In light of the increased ambition of the national commitments, the ABA is supportive of reforming the SGM in order that it can play its role in achieving those goals.

The ABA's responses to elements of the consultation are contained in the Annexure. A key matter we address is the suggestion for government to develop or curate and endorse national science-based sectoral decarbonisation pathways building on relevant existing sectoral decarbonisation approaches and methodologies. These would serve as the overarching tool to inform the targets for the high emitting facilities. Decarbonisation pathways are formed from credible carbon reduction targets that are set at regular time intervals to 2050 and revised periodically. They would be based on prospective carbon reductions which are achievable considering multiple possible technological developments for a sector. In addition, such decarbonisation pathways would incorporate the need to ensure energy security for the nation. The former criterion would ensure that Australian facilities keep pace with international best practice and therefore decarbonise in line with global momentum; this ensures Australia maintains or even gets ahead of the technology curve as clearly articulated during the Jobs and Skills Summit. The latter criterion would ensure that the energy needed to keep the 'lights on' and the economy functioning during the decarbonisation process would be available.

There are significant flow-on benefits to developing national science-based sectoral decarbonisation pathways. First, it will have the effect of lifting the performance of a facilities and entities that fall outside of the SGM threshold and therefore have no obligation to reduce emissions. We note that the 215 facilities currently operating under the SGM account for 28% of the national emissions in 2020-21. Second, it will enable banks to provide funding and finance to entities whose sectors have published science-based sectoral decarbonisation pathways with confidence that the activities of the bank are supporting the national targets.

We look forward to participating in the subsequent consultation on the proposed revisions to the SGM later this year. In the meantime, we would be pleased to discuss any aspect of this submission should you have follow-up questions.

Kind regards

Head of Economic Policy



ANNEXURE

Topic 1: Safeguard mechanisms share of the national abatement task

We note the significant potential of the Safeguard Mechanism (**'SGM'**) to contribute to the national abatement task as a focussed tool to decarbonise the nation's largest carbon emitting facilities. However, the SGM requires additional policy settings to assist and accelerate the decarbonisation efforts of the facilities. An accompanying whole of industry decarbonisation approach would provide additional support and direction for the facilities.

We suggest government develops or curates and endorses national science-based sectoral decarbonisation pathways building on relevant existing sectoral decarbonisation approaches and methodologies. These would serve as the overarching tool to inform the targets for the high emitting facilities. Decarbonisation pathways are formed from credible carbon reduction targets that are set at regular time intervals to 2050 and revised periodically. They would be based on prospective carbon reductions which are achievable considering multiple possible technological developments for a sector. We do not see it as the government's responsibility to 'pick the technology winners', this sorting of winning technologies will be determined by market forces.

This approach would have the benefit of ensuring facilities that fall beneath the threshold of the SGM would also be directly accountable for decarbonising. Several criteria are available to the government from which to select the sectors for which decarbonisation pathways could be developed. For example, aligning to the International Energy Agency or the NZBA breakdown of key-emitting sectors. We also note that a sector list can be constructed based on the facilities currently subject to the SGM. These could include sectors such as: Power generation; Cement and lime; Iron and steel; Chemicals; Transport; Metal ore mining; Non-ferrous metals; Coal mining; Oil and gas.

Topic 2: Fixed (absolute) versus production-adjusted (intensity) framework

The safeguard mechanism should revert back to fixed (absolute) baseline setting with the ability to have an additional production-adjusted (intensity) framework where it makes sense to do so (e.g. to enable the appropriate private sector investments). Not reverting to fixed baseline setting the mechanisms risks failing to meet its purpose of enabling Australia to meet national emission reduction targets

Topic 3: Setting baselines for existing and new facilities

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. The ABA supports the proposal.

The Department seeks views on the preferred approach for setting baselines for existing facilities. We note the two options under consideration:

- Option 1: setting all baselines using industry-average benchmark emissions-intensity values.
- Option 2: setting all baselines using facility-specific emissions-intensity values.

The ABA recommends a third option, that where science-based sectoral decarbonisation pathways exist (refer to recommendation under topic 1), facilities ought to be required meet the emissions targets per the decarbonisation pathways of their sector. Any headroom between the decarbonisation pathway and the facility's emissions can then become the basis for crediting and trading. However, of the two options, we suggest option 1 as a mechanism by which an accelerated whole of industry decarbonisation outcome could be achieved.

Topic 4: Crediting and trading, domestic offsets and international units

We acknowledge that the Safeguard Mechanism Credits (**'SMCs'**) are intended to be generated and traded solely within the constructs of the SGM. We thank you for confirming on the cross-industry call on 21 September that it is intended that the SMCs remain operationally distinct from Australian Carbon

Credit Units ('**ACCUs**') and not tradable as offsets and that there would be no 'leakage' of SMCs into the ACCU market.

As background, the Net Zero Banking Alliance ('**NZBA**') sets clear standards for the quality of carbon credits to be utilised by signatory banks. Under the NZBA the use of offsets should be limited to credits derived from the removal of carbon. We would question the legitimacy of ACCUs being granted based on marginal efficiency differences between entities within a sector and consider that SMC issuance and use beyond SGM participants will be inconsistent with the standards of the NZBA. The legitimacy of carbon credits needs to be ensured for the ongoing integrity of the ACCU scheme. Therefore, we strongly suggest further clarity to be made in the rules regarding SMC origination and trading.

Topic 6: Taking account of available and emerging technologies

The department asks whether the multi-year monitoring periods be extended to allow facilities with limited near-term abatement opportunities to manage their own abatement path. The ABA suggests that a science-based sectoral decarbonisation pathway will provide public and broad understanding of the immediate limitations facing facilities (and sectors) and will therefore more readily justify the extension of multi-year monitoring periods. Such publicly available and understood information will also be useful in informing banks' risk assessments.

Topic 7: Indicative baseline decline rates

Refer to topic 1. We recommend the publication and government endorsement of science-based decarbonisation pathways by sector.