



energy efficiency
COUNCIL

**Energy Efficiency Council submission to the
Safeguard Mechanism Reforms consultation
paper**

20 September 2022

Summary

The Energy Efficiency Council strongly supports the Government's proposal to enhance the safeguard mechanism by declining facility baselines. Overall, the EEC believes that reforms to the safeguard mechanism should make a substantial contribution to Australia's emissions reduction targets, and jump start the transition to achieving a net zero economy no later than 2050.

The EEC submits that the SM can become a strong driver of decarbonisation, both amongst large emitters and elsewhere in the economy. The SM should strongly encourage all entities progress their own decarbonisation as far as possible. However, as the majority of emissions covered by the safeguard mechanism relate to oil, gas and coal production, a significant portion of emissions covered by the safeguard will be difficult to abate. This presents an opportunity for SM entities to catalyse emissions reductions in other parts of the economy through purchasing high-quality Australian Carbon Credit Units generated through genuine, additional emissions reductions in non-safeguard sectors.

Broadly, the EEC recommends that:

- The policy's overarching focus is on achieving net zero emissions no later 2050
- The policy uses an emissions budget for cumulative emissions that is consistent with a strong, credible emission reduction target.
- The policy should primarily encourage domestic decarbonisation, rather than permitting use of international offsets.
- Recognising that the path of industrial decarbonisation is likely to be bumpy, the policy allows flexibility measures like tradeable safeguard mechanism credits and borrowing and banking, but only in so far as they maintain the integrity of emissions reduction targets.
- The provision of assistance to emissions intensive, trade exposed entities is treated with extreme caution. Policies that provide relief or exemptions from the safeguard mechanism reduces the signal to entities to decarbonise, and increases the burden on other entities, and should be avoided. Rather, assistance to EITE entities should focus on helping entities decarbonise and improve their competitiveness in a net zero economy.
- The policy should strongly encourage best practice in setting of baselines for existing and new entities.
- The policy must consider interactions with entities outside of the safeguard mechanism.

The EEC notes that energy efficiency and energy management have a strong role to play in reducing emissions at safeguard mechanism facilities, and the imposition of the safeguard mechanism as a driver of these activities could unlock substantial emissions reduction in a rapid time frame.

1. Introduction and overview

The Energy Efficiency Council welcomes the opportunity to make a submission on the Safeguard Mechanism Reforms Consultation Paper

The Energy Efficiency Council (EEC) is the peak body in Australia for energy efficiency and energy management. The EEC is a not-for-profit membership association for businesses, universities, governments and NGOs, advocating for healthy, comfortable buildings; productive, competitive businesses; and an affordable, reliable and sustainable energy system for Australia.

The EEC supports reforming the Safeguard Mechanism (SM) to commence declining facility baselines from 1 July 2023. The reformed SM will be an important component of Australia's climate policy and a well-designed SM will provide clear signals to businesses to commence decarbonisation. It is appropriate that the reforms to the SM occurs in tandem with rapid decarbonisation of electricity supply to allow opportunities for entities to reduce scope 1 emissions through electrification.

The EEC strongly supports a policy design that primarily encourages domestic decarbonisation, facilitates achievement of net zero emissions soon as possible, drives investment into clean industrial production and catalyses robust decarbonisation activity right across the economy. A prosperous future for Australia depends on unlocking investment in industrial activities that are compatible with a net zero economy, harnessing the potential for Australia to become a clean industry giant.

The EEC supports a practical, well-considered implementation of SM reforms. For many safeguard-liable entities, decarbonisation will be extremely challenging and flexibility measures will be central to ensuring that emissions reduction targets can be achieved. However, flexibility measures must be carefully designed to ensure the integrity of the emissions reduction target is not compromised and the imperative to decarbonise remains a shared responsibility, equitably distributed throughout the economy.

The EEC further notes that energy efficiency and energy management are key avenues to achieve domestic emissions reduction at low cost, improving productivity and competitiveness.

2. The potential for smart energy management to reduce emissions

To date, Australia has tapped only a fraction of the potential for industrial energy management to reduce Australia's emissions. Emissions from stationary energy use have grown by about 20 per cent over the past decade.¹ Fugitive emissions have increased by around the same amount. There has been little substantial industrial decarbonisation, with less than two per cent of Australian Carbon Credit Units issued under energy efficiency methods.²

Energy efficiency and management substantial vast potential to reduce emissions. Basic initial steps, such as the deployment of an Energy Management System (EnMS) in industrial settings, can deliver energy savings of 10 to 30 per cent, although much deeper energy and emission reductions are possible.³ Safeguard mechanism liable entities should be encouraged in the strongest possible terms to implement systems that will help reduce energy usage, improve productivity and lower emissions – such as an EnMS – as the first step. Feedback from EEC members reinforces that substantial energy management and efficiency opportunities exist even in large industrial operations, and these will provide low-hanging fruit for early abatement.

It is also important to note that with around half of emissions covered by the safeguard mechanism coming from oil, gas and coal production, some decarbonisation (particularly in relation to fugitive emissions) will be exceptionally challenging. Some SM entities will find it difficult to abate portions of their emissions, meaning such entities will use ACCUs to acquit some of their obligations. This presents an opportunity for SM entities to accelerate decarbonisation in other sectors of the economy. ACCUs could be generated through energy efficiency and energy management activities in non-safeguard entities, which could be purchased by safeguard entities to cover their liability. This could bring substantial emissions reduction, with revenue from ACCUs supporting energy efficiency upgrades in homes and businesses.

Electrification also provides an avenue for rapid emissions reduction, and the emissions savings associated with electrification are often largely due to energy efficiency. For example, when internal combustion engines are replaced by electric motors, or gas boilers are replaced by heat pumps, energy usage for the heating or mechanical task will usually reduce by 50% or more. Electrification also immediately reduces scope 1 emissions, and the potential for harnessing renewable energy sources to create electricity can vastly reduce overall scope 1 and scope 2 emissions.

However, none of these opportunities can be catalysed without a strong driver for energy efficiency and energy management throughout the economy. The reformed safeguard mechanism must play its role as a key driver for energy efficiency. Getting the policy settings right to drive domestic decarbonisation is critical to delivering these emissions reduction outcomes at low cost while improving energy productivity and competitiveness.

¹ From DCEW, [Quarterly update of Australia's national greenhouse gas inventory](#), March 2022

² Clean Energy Regulator, [Emissions Reduction Fund register of projects](#).

³ UNIDO, [Energy Management Systems](#).

2.1 The emissions reduction policy framework

The Government's climate policy rests on three policies that play a different role in emissions reduction but have significant interlinkages.

- The Powering Australia / Rewiring the Nation policies seek to drastically reduce the emissions intensity of electricity supply by 2030.
- The reformed safeguard mechanism will place a declining cap on industrial emissions, creating a driver for emissions reduction in large emitters.
- The Carbon Farming Initiative / Emissions Reduction Fund must provide a liquid market for genuine emissions reductions.

These three policies must support each other to drive rapid emissions reduction to 2030 and achieve net zero emissions by 2050 at the latest.

2.1.1 Electricity sector decarbonisation

Emissions reduction in the electricity sector is a critical enabler of decarbonisation. Electrification provides an important avenue to reduce scope 1 emissions – both through the greater efficiency afforded by electric appliances, and the potential to power electric appliances with zero emissions electricity. The success of policies to decarbonise electricity supply is critical to overall emissions reduction, and is appropriately one of the first priorities of government. The EEC would encourage government to more broadly examine opportunities for smart energy management and demand-side initiatives to expedite the decarbonisation of electricity supply at least cost.

2.1.2 The safeguard mechanism and industrial decarbonisation

Reforms to the safeguard mechanism to progressively reduce the allowable emissions from large emitters over time provides a strong policy signal to those entities to begin the process of decarbonising those operations. This is an important step on the trajectory to achieving net zero by 2050. To date, policy settings have not encouraged, incentivised or required significant domestic decarbonisation among large emitters – making the transition to a declining safeguard one of the most important reforms to Australia's emissions policy.

Declining baselines under the SM will require safeguard-liable facilities to reduce their emissions. Commencing a steady, predictable decline in baselines will allow facilities to plan for emissions reduction in a way that best suits their circumstances, and commences an orderly transition to a net zero economy. Overall, the SM should encourage facilities to decarbonise their own emissions, transitioning Australian industry over time to operate in a manner that is competitive and prosperous in a net zero economy. The correct policy settings could encourage industry to capitalise on Australia's competitive advantages in clean energy, making Australian industrial production attractive for investment and export.

However, as the majority of emissions covered by the SM relate to coal, oil and gas production, a very large part of these emissions are fugitive emissions that will be challenging to abate. Undoubtedly, some SM entities will need to turn to alternative ways to discharge their obligations. This could be through the purchase and surrender of high-quality Australian Carbon Credit Units. While internal decarbonisation of safeguard entities is preferred, policy settings that achieve equivalent amounts of domestic decarbonisation can deliver significant benefits as well.

In these circumstances, the EEC sees an opportunity for substantial decarbonisation right across the economy to be accelerated through reforms to

the SM. Other, non-SM entities could engage in decarbonisation projects, creating ACCUs that SM entities could purchase and surrender to acquit their obligations. This means that the SM could encourage decarbonisation both among safeguard entities, and in other sectors of the economy.

2.1.3 The Carbon Farming Initiative / Emissions Reduction Fund

However, for the safeguard mechanism to function properly, access to high-quality offsets will be required. In general, the EEC does not believe that allowing international offsets will achieve the aims of domestic decarbonisation. Therefore, reforms to the Emissions Reduction Fund / Carbon Farming Initiative need to occur to ensure a market for offsets that ensures:

- Genuine, additional emissions reduction
- A vital, liquid and confident market
- Low administrative barriers to participation
- A diverse range of sources of abatement
- Crediting mechanisms that facilitate capital investment
- Acceptable risk profiles for both buyers and sellers

As the CFI/ERF transitions away from a government-procurement dominated landscape, opportunities exist to make the market for tradeable emissions reductions fit-for-purpose. Without such a market, the success of a reformed SM is likely to be challenging.

The EEC will further outline views on the future of the ERF to the Independent Review of Australian Carbon Credit Units.

3. High-level policy principles for reforms to the Safeguard Mechanism

This section sets out the EEC's general principles for reforms

1. Policy design should focus on achieving net zero emissions.

Australia has now enacted a target of achieving net zero emissions by 2050 – just over 27 years away. Policy design for the safeguard mechanism – and other policies – should be designed with this primary aim of achieving net zero emissions by 2050 at the latest.

Investments in industrial production are typically long-lived, with investment cycles made on the basis of decades. Reforms to the safeguard mechanism should send clear signals that investments made now must be compatible with the trajectory to net zero emissions and avoid locking in highly emitting activities for decades to come.

2. The emissions budget of the safeguard mechanism should be consistent with a strong, credible target.

It is clear that while achieving net zero emissions is incredibly important, reducing the cumulative emissions on the trajectory to net zero is crucial to reducing the impacts of climate change. Therefore, the emissions budget for the safeguard mechanism should be as small as possible, commensurate with an orderly transition.

While the industrial sector is likely to find decarbonisation challenging, a weak target will not produce investment decisions that are compatible with a trajectory to net zero emissions. Flexibility measures can help alleviate the burden of achieving the target but should not compromise its integrity.

3. Policy design should primarily encourage domestic decarbonisation.

The transition to net zero requires that existing industrial production eliminates direct emissions as far as possible, rather than relying on action in other jurisdictions. Reforms to the safeguard mechanism should clearly encourage domestic decarbonisation, rather than permit primary reliance on offsets.

Net zero-compatible industry is industry that has eliminated direct emissions as far as possible, and reliance on offsets is permitted only for activities that produce unavoidable emissions (such as process emissions in the production of materials). Broad reliance on offsets is not consistent with a trajectory to net zero, and it is unlikely that sufficient volumes of carbon sequestration will be available to offset anything more than the smallest portion of industrial emissions in a net zero economy.

In particular, a net zero economy will not permit offsetting of energy-related emissions. Energy efficiency and energy management, along with the transition to zero-emissions energy sources, can make a substantial contribution to achieving the government's emissions reduction goals, however allowing inappropriate reliance on offsets will weaken signals to invest in low-emissions technology and reduce energy usage.

4. Flexibility measures should maintain the integrity of Australia's emission reduction targets

The EEC acknowledges that the path to industrial decarbonisation is likely to be bumpy and not proceed in a linear fashion. This means that flexibility measures will be needed to ensure that safeguard entities can meet their obligations without excessive cost. However, flexibility measures that allow safeguard entities to indefinitely defer decarbonisation constitute a serious risk to achieving Australia's emissions reduction targets.

Additionally, some emissions – such as fugitive or process emissions – will be very challenging to abate in the near term. In recognition of this, the EEC recommends that:

- a. Trading between safeguard entities should be permitted, allowing the safeguard sector as a whole to reach emissions reduction targets at least cost.
- b. Within qualitative and quantitative limits, access to high quality domestic offsets should be permitted. Using offsets to accelerate bona fide emissions reductions activity in other sectors could catalyse rapid progress towards emissions reduction targets, while preserving an incentive to decarbonise for safeguard entities.
- c. In general, access to international offsets should not be permitted, as these do not encourage domestic decarbonisation.

Further, policy design should attempt to produce a mechanism that is as simple as possible. Overly complex, highly customised flexibility mechanisms are less likely to produce strong emissions reduction outcomes than those that provide a clearly articulated policy signal to market participants to invest in decarbonisation.

Flexibility measures that are as straightforward as possible will promote transparency and participation from a wide range of entities, and allow for safeguard mechanism entities and other market participants to respond to the decarbonisation signals in a range of ways that are compatible with the emissions reduction objectives.

5. Assistance provided to EITE industries should be limited, in the national interest, and informed by achieving a net zero economy.

Given that the vast majority of facilities covered by the safeguard mechanism could be considered emissions intensive and trade-exposed to a large extent, providing relief from the safeguard mechanism to one industry would substantially increase the burden on other safeguard entities. Rather than providing relief from obligations under the safeguard mechanism, efforts to help EITE industries with the safeguard mechanism would be better made as assistance to those industries to decarbonise. Investment in research, development and deployment, co-funding or financing for upgrades to clean technology would ultimately be compatible with achieving net zero emissions, as well as improving the productivity, competitiveness and viability of industrial entities.

The cost of any relief from safeguard obligations – either as an exemption, or through financial or other assistance – must ultimately be borne by other entities. Therefore, provision of any relief must be evaluated critically to determine whether provision of relief is in the long-term interests of Australians. Any provision of relief should also retain a strong incentive for all entities – including EITE entities – to decarbonise as quickly as possible.

6. Policy design should strongly encourage best practice

The SM should send the strongest possible signals to market participants to invest in global best practice. This should be reinforced through the setting of baselines for existing facilities and new entrants. Baselines for new facilities should be set at global best practice levels, and existing facility baselines should

converge on industry best practice levels before 2030.

7. Policies should also consider entities outside the safeguard mechanism

The current proposal considers only reforms to the safeguard mechanism. However, effective policy design should also consider interactions between the SM and entities that sit outside the SM. For example, should two participants in the same industry not both be covered by the SM, there would be a competitive advantage to the business not covered by the SM, creating an inequitable outcome. At this stage, expanding the coverage of the SM may not be a high priority, however entities outside the safeguard mechanism should also be incentivised to decarbonise as well.

Further, entities that are outside the SM or NGERS regimes may still be an important part of the reforms. Opportunities exist to catalyse emissions reduction in entities outside of the SM, funded in part through the purchase of these emissions reductions by SM entities to acquit their liabilities in respect of activities that are not feasible to abate using currently available technology or practice.

4. Answers to specific consultation questions

The Safeguard Mechanism's share of the national abatement task

- *What should the Safeguard Mechanism's share of Australia's climate targets be?*

EEC response:

In the interests of simplicity, transparency, and equitable distribution of responsibility, the budget for the safeguard mechanism should reflect the trajectory of a 43 per cent reduction in emissions compared to 2005 levels, and a trajectory to net zero by 2050. The emissions budget outlined in the consultation paper is the model that should be proceeded with.

Fixed (absolute) versus production-adjusted (intensity) framework

- *Should we retain, and build on, the existing production-adjusted (intensity) baseline setting framework or return to a fixed (absolute) approach?*

EEC response:

Production-adjusted baselines should be retained at a facility level, as these provide the most responsive and straightforward method of calculating a baseline that will accommodate economic growth and reward those facilities that invest in decarbonisation. Equally, production-adjusted baselines are required to preserve integrity and signals to decarbonise in a system where over- and under-achievement are tradable. A facility facing an unexpected production shortfall in one year could receive a windfall gain of safeguard mechanism credits if baselines were fixed. This is avoided with production-adjusted baselines. Similarly, if facilities increase production but also lower emissions intensity, a production-adjusted baselines preserves rewards for over-achievement.

However, production-adjusted baselines could present a risk to achieving the emissions reduction target if uncontrolled growth was permitted to occur, even if emissions intensities decline. It would be prudent to consider adding a mechanism or adjustment factor to more rapidly decline the baselines of facilities driving growth in emissions should it become necessary. It would be inequitable to apply an accelerated decline across the entire safeguard mechanism, as this would also impact facilities not driving emissions, who may have made investment decisions based on achieving a predictable level of decline.

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.
 - What is the preferred approach for setting baselines for existing facilities? Approaches may include:
 - 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?

EEC response:

The EEC recommends a staged approach to removing headroom and setting baselines for new entrants. At all stages, policy design should encourage best practice, while providing for an orderly transition.

Stage 1: Immediately remove headroom for any existing facilities by setting the baseline for each facility at current emissions intensity levels for each facility.

Stage 2: Decline facility baselines to converge at best practice before 2030

Stage 3: Decline converged baselines after 2030 to net zero by 2050.

Baselines for new entrants should be set at global best practice, for several reasons:

1. 'Industry best practice' in Australia may be calculated on the practice of a very small number of facilities, making it difficult to substantiate this as 'best practice'.
2. Setting baselines at global best practice levels creates strong incentives for new entrants to invest in world-leading low emissions technology, creating businesses that are likely to be competitive in the long term
3. New entrants in the safeguard sector will pose additional risks to achieving emissions reduction targets. Setting baselines at global best practice will reduce those risks as far as possible.

Crediting and trading, domestic offsets and international units

- 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?

EEC response:

Trading under- and overachievement between SM entities is an important avenue to achieve emissions reduction at least cost. Assuming headroom is removed prior to commencement of trading, SM entities should be able to trade freely within themselves. Outward trading (from SM entities to non-SM entities) should **not** be permitted, as SM credits will not have the integrity or additionality of ACCUs.

Inward trading (use of ACCUs to acquit SM obligations) should be permitted with quantitative and qualitative limits. This would allow for SM entities that are unable to decarbonise parts of their emissions (such as fugitive emissions) to instead catalyse decarbonisation in other parts of the economy by acquiring

emissions reductions. However, excessive reliance on offsets is not in keeping with a transition to net zero, and limits are important to ensure that sufficient progress is made in domestic decarbonisation.

Limitations could include:

- Allowing obligations to be only partially discharged through ACCU surrender. It will be important for SM entities to retain a strong incentive to decarbonise, and ACCU surrender will represent trading from parts of the economy without capped emission (non-SM entities) to a part of the economy with capped emissions (SM entities). There will be substantial benefits that will occur by allowing SM entities to use ACCUs, but quantitative limits could manage risks associated with SM entities failing to make progress in decarbonisation.
- Permitting surrender of ACCUs generated only in abating scope 1 emissions, and/or generated in energy efficiency or direct abatement activities, as a like-for-like substitution of activity between SM and non-SM entities. While land sector sequestration has represented the majority of ACCU generation to date, relying on land sector sequestration to abate industrial emissions is not compatible with a trajectory to net zero, and limited reliance should be placed on the use of land sector abatement to achieve a clean industrial sector.

Inward trading of other types of units or certificates (LGCs or state and territory energy savings certificates) should not be permitted initially.

- *Should banking and borrowing arrangements be implemented for Safeguard Mechanism Credits?*

EEC response:

Borrowing and banking could be implemented, within limited temporal boundaries. In effect, borrowing and banking are analogous to a multi-year compliance period, which entities can currently access under the SM. However, borrowing and banking should not be permitted over an extended timeframe, as this would present risks to achievement of the target. A maximum borrowing and banking period of three years would be acceptable, and preserve signals to invest in decarbonisation.

- *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 facilities? Additional feedback is sought on:*
 - *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.*

EEC response:

As safeguard facilities now face a regulatory requirement to decarbonise, ERF projects reducing scope 1 emissions at SM-liable facilities are no longer additional abatement and should not be credited with ACCUs. However, in the interests of promoting confidence in decarbonisation, an equitable settlement should be reached with any safeguard mechanism entities who have invested in decarbonisation technologies in good faith. Interim solutions could include change crediting of the ERF project from ACCUs to safeguard mechanism credits, or government agreeing to purchase any projected ACCU generation and cancelling any units for the life of the projected project. Permitting continued generation of ACCUs from SM entities represents a significant risk to the integrity of the scheme. Similarly, deemed surrender arrangements should be discontinued as soon as possible.

ERF projects involving scope 2 emissions could be permitted to continue in the interim, however facilities relying on scope 2 projects to surrender against their scope 1 SM liabilities will not be able to rely on these credits indefinitely.

- *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?*

EEC response:

The EEC recommends that as far as possible, the SM should encourage domestic abatement, and international units are incompatible with that aim. However, should high-quality international units be necessary to the success of the scheme, then consideration could be given to generating units in the Indo-Pacific region, preferably using ACCU methodologies.

Tailored treatment for emissions-intensive, trade-exposed (EITE) businesses

EEC response:

Measures to provide assistance to EITE businesses should be treated with **extreme caution**. Any relief or exemptions from participation in the safeguard mechanism increases the burden and costs for other SM entities, endangers the achievement of the emissions reduction target, or both.

As the vast majority of activity under the safeguard mechanism could be considered emissions intensive and trade exposed, there is little reasonable scope to exempt any particular SM-liable entities on the basis of being EITE.

Further, the concept of differentiated treatment for EITE entities has its basis in the Carbon Pricing Mechanism (CPM) and the Renewable Energy Target. Under the CPM, EITE entities were provided with free units to cover up to 94.5 per cent of their liability. This provided them with exemption from the bulk of the financial impost of the CPM, while preserving a marginal signal for those entities to decarbonise.

Under the SM, entities *only* face a marginal signal to decarbonise. There is no substantial cost burden to relieve, and any relief from the SM's operation **will remove the marginal signal to decarbonise**, thus defeating the policy intent.

Therefore, the EEC recommends that assistance to EITE businesses should take the form of assistance to progress decarbonisation, such as R,D&D, grants or financing for equipment upgrades or other assistance that actively progresses

decarbonisation, which will reduce the costs of decarbonisation for those businesses, make them more competitive in a low-emissions economy, and build decarbonisation capability and capacity in the Australian economy.

There may be a case for carbon border adjustments to ensure that Australian businesses do not face short-term competitive disadvantage as a result of meeting their immediate obligations.

- *Should a facility-specific comparative impact assessment that builds on existing EITEs definitions be used rather than a sector wide designation?*

EEC response:

Assistance to EITE entities should be limited, transparent and support achievement of net zero emissions by 2050. Differentiated consideration of circumstances is warranted, but assistance should be evaluated against the needs of the facility, the trajectory of the facility to net zero emissions, and considered against the long-term interests of Australians – who will ultimately bear the costs of the provision of assistance. Designating an entire sector as EITE risks providing assistance to entities not genuinely in need of it, or jeopardising achievement of the SM targets.

- *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?*

EEC response:

Investment in low-emissions technology for EITE facilities assists them to meet their obligations while not endangering achievement of the SM target. While some direct funding may be useful to provide early advice, design or other minor assistance, investment in low-emissions technology could be ably catalysed through the provision of readily-available finance, perhaps at concessional interest rates through the CEFC if necessary. In some instances, matching co-funding for some upgrades could be considered on a case-by-case basis.

However, against a background of rapidly escalating energy prices, early investments in decarbonisation through energy efficiency are likely to have very short payback periods, and only the driver of declining baselines will be necessary to catalyse action.

- *In particular, what potential design features of the Powering the Regions Fund would support covered facilities with their decarbonisation priorities?*

EEC response:

Funding mechanisms would maximise their value by combining simple access to finance with access to expertise and knowledge-sharing. For example, a key part of ARENA's remit has been to disseminate knowledge and experience on renewable technologies. Leveraging this knowledge (and adding to it), alongside the provision of finance, could materially assist businesses to achieve strong decarbonisation outcomes.

- *Is the direct provision of SMCs an appropriate way to mitigate cost impacts for EITE facilities?*

EEC response:

No. Direct provision of SMCs undermines signals to decarbonise, and risks achievement of the emissions reduction target.

Firstly, SMCs should not exist without having been generated by over-achievement of another safeguard mechanism entity. Any 'phantom' SMCs that exist without having first been generated by another SM entity pose a risk to scheme integrity. The lessons of the phantom Renewable Energy Certificates created by the Solar Bonus should be heeded in this case. SMCs should not be administratively created without basis in emissions reduction – doing otherwise would significantly undermine both the scheme intent and chances of achieving the target.

Secondly, should the Government contemplate purchasing SMCs from the market to provide to EITE facilities, this represents an expenditure of public money without substantial progress in decarbonisation. The EEC suggests that it would be a more productive use of this money to actively assist businesses to decarbonise.

- *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?*

EEC response:

No. Differential decline rates are the same as partial exemptions from the scheme – a less severe decline rate for one facility will need to be offset by a more severe decline rate for another facility, or else the emissions reduction target will be jeopardised. The provision of such a partial exemption to delay decarbonisation for one entity at the expense of another is fundamentally inequitable, and at odds with making substantial progress towards net zero across the entire industrial sector.

Provision of more intensive assistance to decarbonise could be provided to those EITE entities in greater need, but the scheme obligations should be as uniform as possible across the safeguard entities to preserve signals to decarbonise and progress along the trajectory to net zero.

Taking account of available and emerging technologies

- *Should multi-year monitoring periods be extended to allow facilities with limited near-term abatement opportunities to manage their own abatement path?*

EEC response:

Multi-year monitoring periods are fundamentally the same as borrowing and banking, meaning that one – not both – flexibility measure should be provided. Further, extended multi-year compliance periods present significant risks to achievement of the emissions reduction target. Flexibility beyond a three-year horizon should be avoided to provide the best chance of achieving the target. (For example, if a five-year period was permitted, an entity could conceivably not reduce emissions until 2028, which would place achievement of the 2030 target in considerable doubt).

Indicative baseline decline rates

- *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?*

EEC response:

The EEC's preferred decline trajectory is outlined earlier. By 2030, baselines should have converged towards best practice. After 2030, baselines should be aligned with achieving net zero by 2050.

Other policy issues

- *What transitional or other arrangements should be in place for site-specific production variables, including:*
 - *whether the use of Government-defined production variables (prescribed in Schedule 2 of the Safeguard Mechanism Rule) should be mandatory from the start of Phase 1;*
 - *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)?*
- *Should oil refinery production variables:*
 - *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?*

The EEC has no comment on these questions.

- *How should landfills be treated, including:*
 - *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?*

EEC response:

Arguably, the safeguard mechanism is not the right policy tool to regulate landfill facilities. Capture and disposal of methane from landfill facilities should be considered standard practice – and this should most likely be considered part of the general environmental licence conditions for landfill operations.