

Edwina Johnson
Safeguard Taskforce
Department of Climate Change, Energy, the Environment and Water
Submitted electronically



24 February 2023

Re: Energy Efficiency Council response to the Safeguard Mechanism Reform position paper

Dear Edwina,

The Energy Efficiency Council (EEC) welcomes the opportunity to provide a response to the Safeguard Mechanism Reform position paper. The EEC is Australia's peak body for energy efficiency and management, with a membership of businesses, universities, governments and NGOs working to guide Australia on the path to an efficient, prosperous net zero economy.

The EEC strongly supports the Government's intention to reform the Safeguard Mechanism. The proposed reforms are an important step to commence industrial decarbonisation in Australia and are critical to support achievement of a net zero economy by 2050.

The EEC broadly welcomes the policy positions described in the position paper. These positions are generally consistent with our response to the initial consultation on the reform and we welcome the commitment to pursue an ambitious but achievable target in industrial decarbonisation.

The policy design principles outlined in [our response to the initial consultation](#) were:

1. *Policy design should focus on achieving net zero emissions.*
2. *The emissions budget of the safeguard mechanism should be consistent with a strong, credible target.*
3. *Policy design should primarily encourage domestic decarbonisation.*
4. *Flexibility measures should maintain the integrity of Australia's emission reduction targets.*
5. *Assistance provided to EITE industries should be limited, in the national interest, and informed by achieving a net zero economy.*
6. *Policy design should strongly encourage best practice.*
7. *Policies should also consider entities outside the safeguard mechanism.*

We consider that the Government's proposed positions are broadly compatible with these suggested design principles and therefore support the detailed design. We note that while position (7) is not treated within the position paper itself, complementary policies such as the National Energy Performance Strategy and the Powering the Regions Fund are likely to answer this need.

Some general additional comments are set out below in response to specific areas within the position paper.

The emissions reduction task

The abatement targets set out in the position paper represent an ambitious but achievable target over the long term. For some businesses, there may be relatively easily achievable emissions reductions available (such as through implementation of Energy Management

Systems). Later emissions reduction to achieve net zero by 2050 is likely to be more difficult and require additional support to industry.

Baseline setting

The EEC supports the proposed approach to baseline setting and is particularly supportive of the proposal to use international best practice to set baselines for new entrants. The proposed transition from site-specific to industry-average baselines is equitable, and will assist in making low-emitting businesses more competitive.

Flexibility measures

The EEC generally supports the flexibility measures outlined in the position paper, with the following comments:

- **International units** do not support domestic decarbonisation or reaching net zero emissions in Australia by 2050 and should not be contemplated for inclusion, regardless of their quality.
- **Emerging technologies** measures are reasonable, however a prerequisite for entities to be eligible for a multi-year monitoring period under this provision should be that the responsible corporate entity has an ambitious and credible Net Zero Transition Plan in place, following the recommendations of the UK's Transition Plan Taskforce.
- **Cost containment measures** are a reasonable initiative to ensure stability in the marketplace. However, these measures should be transitional; the Government should consider withdrawing the cost containment measure when the ACCU market has demonstrated liquidity, vitality and stability under the new conditions occasioned by the reforms.
- **Access to Australian Carbon Credit Units:** The EEC agrees that safeguard entities should have access to ACCUs, however this should be within quantitative and qualitative limits. We suggest that entities should not be able to fully acquit their obligation with ACCUs, as this would weaken the signal to decarbonise an entity's own operations. While we expect that most safeguard entities will engage proactively in the task of decarbonisation and not simply rely on ACCUs, a policy design which allows even a handful of entities to simply purchase ACCUs and take no action on emissions reduction within their operations between now and 2030 is problematic. Allowing an entity to cover 80% of its obligations with ACCUs would preserve flexibility and efficiency, while preserving a marginal signal to decarbonise. This would be a relatively small proportion of a facility's overall emissions but would work to build engagement and capability in emissions reduction in all safeguard entities.

Treatment of EITEs

The EEC strongly supports the proposed approach to the treatment for EITEs of providing assistance for these entities to decarbonise via the Safeguard Transition Stream of the Powering the Regions Fund. Assisting businesses to decarbonise, rather than weakening decarbonisation obligations, is likely to facilitate and accelerate achievement of emissions reduction targets. It also promotes equity and transparency and allows assistance to be

directed towards industries that are compatible with a net zero economy. The EEC does not support the second tier of EITE assistance, which will allow baseline adjustment. In time, we would prefer that complementary measures (such as a well-designed carbon border adjustment mechanism) relieve the need for this second tier of assistance.

Compliance and enforcement

The EEC notes the need for strong compliance and enforcement, including significant penalties, to ensure the integrity of the scheme. The reforms should provide a very strong incentive to comply with the decarbonisation obligations of the scheme, rather than opt-out through shortfall charges or similar, which could compromise achievement of the emissions reduction target.

Landfills

The EEC supports the proposed differentiated treatment of landfills, with an inability to generate safeguard mechanism credits initially. However, the EEC maintains that the Safeguard Mechanism is not an appropriate policy to regulate emissions from landfills overall, and destruction of landfill methane should be considered standard practice.

Additional areas for reform

The reformed Safeguard Mechanism is expected to drive significant demand for ACCUs. At present, the generation of ACCUs is highly dependent on land sector methods, some of which have contested integrity and additionality. While the EEC notes that the reforms recommended by the Chubb review should help resolve these issues in the future, we continue to recommend that ACCU generation is expanded to a wider range of abatement, and reforms to the ERF are necessary to ensure that proven emissions reductions available through measured and verified energy savings can be more broadly used. Reforms to better enable energy efficiency and fuel switching activities in the ERF would be consistent with transforming Australian industry to achieve net zero by 2050, and support decarbonisation of a broader range of Australian businesses. This is particularly important for the many industrial businesses right around the country that are not covered by the Safeguard Mechanism.

The EEC continues to recommend that the Government work to reduce barriers in the ERF to the participation of energy efficiency and energy management. Further information on these matters may be found in our [submission to the Independent Review of Australian Carbon Credit Units](#).

For further information please don't hesitate to contact me at alex.stjohn@eec.org.au or on 0413 698 181.

Yours sincerely



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