



Joint Submission to the Safeguard Mechanism Reforms Position Paper

Community Energy for Goulburn Inc and The Goulburn Group Inc
February 2023

BACKGROUND

Community Energy for Goulburn Inc (CE4G)¹ is a community association based in Goulburn NSW, focussed on establishing renewable energy projects in the local region. Its first project is a community owned 1.4MW solar farm being constructed by a cooperative established by CE4G in 2020 - Goulburn Community Energy Cooperative (CGEC)².

CE4G, in collaboration with CGEC has raised over \$2.6M from local investors and received a \$2.3M grant from the NSW Government to build the solar farm with battery on the outskirts of Goulburn.

CE4G was incorporated in 2016, having started its life as a sub committee of The Goulburn Group.

The Goulburn Group Inc (TGG) is a community association established in 2007 and has been active in numerous sustainability projects in the Goulburn region including the establishment of the Goulburn Wetlands (now a Landcare group³), among other projects focussed on sustainability in the region.

GENERAL COMMENTS:

Our submission focusses on those areas of the mechanism that are deficient and need significant revisions. We only comment on those parts of the Position Paper which we consider need further revision.

EXECUTIVE SUMMARY:

The world, and by extension, Australia, and each sector of the economy, has a carbon budget that cannot be exceeded if warming of 1.5 degrees is to be avoided. Manufacturing and

¹ www.ce4g.org.au

² www.goulburnsolarfarm.com.au

³ <https://landcare.nsw.gov.au/groups/frog-landcare-inc/projects/working-to-restore-goulburn-wetlands/>

mining have a budget that cannot be exceeded, including those enterprises that emit less than 100,000 tonnes of carbon. The use of ACCUs as offsets does not assist the country in meeting its carbon budget obligations but merely transfers emissions reductions from one sector to another, one emitter to another. This is exacerbated by the fact that ACCU integrity is questionable.

While we support the general thrust of the mechanism, many of the details are too generous to the Safeguard facilities simply because it might be difficult for some facilities to comply with tougher regulations. This ignores the fact that most, if not all these businesses have been aware for many years of the need to reduce their emissions but have done little to do so, mainly because of the previous government's inaction.

It ignores the clear moral obligation that was known to all citizens and companies that since 2015 and the Paris agreement, cutting emissions was an explicit imperative for citizens, companies and states.

It is an obvious corollary that to transition to a 1.5 degree limit there will be costs to both companies and consumers in the short term in exchange for even greater costs if action is not taken. The argument that the mechanism must protect the economy and businesses from increased costs is a fallacy. Whether it is in the short term or the medium term, there will be increased costs to be weathered by all stakeholders. To use a metaphor, it's a question of taking the medicine now or facing an operation later.

The proposed mechanism is too generous and gives companies too much wriggle room to continue polluting. Fundamental to this generosity is the ability for Safeguard Mechanism facilities to continue to use ACCUs indefinitely despite the fact that they have low integrity, are difficult to measure accurately and have a lifespan considerably less than that of the emitted carbon they are supposed to offset.

Unless the use of ACCUs is curtailed and discounted, it is unlikely that the Safeguard Mechanism will meet its stated objectives, particularly if new facilities, including coal and gas mines are permitted to commence operation.

"Yet, the fundamental objective of the policy is to constrain growth of high-emission activities and support growth of low-emitting activities". Grattan Institute P18

COMMENTS ON THE POSITION PAPER

(NOTE: quotes from the Position Paper are indicated in blue italics. Submissions are in orange boxes).

Executive summary

This paper proposes the design for Safeguard Mechanism reforms based on extensive feedback over nearly six months of consultation with Safeguard businesses, industry associations, environment and community groups, academics and private individuals. (p1)

1.1 Timing and process

This paper sets out the detailed policy proposals for reforming the Safeguard Mechanism. It reflects views received from stakeholders in response to the Safeguard Mechanism Consultation Paper released in August and exposure draft Act changes released in October. (p13)

Comment: Pushback rather than feedback!

The key issue here is: Who are the “Stakeholders” in Australia? Our submission is that the Australian people are the ultimate stakeholders, and in May 2022 they elected a new government that, among other things, promised effective and immediate action on climate change.

In the **Position Paper** there are 56 quotes from so-called “Stakeholders”, only nine of which are from independent organisations. For whatever reason, the fact that only 16% of the reported comments come from independent stakeholders gives the impression that the original consultation was biased in favour of fossil fuel stakeholders.

Of the 33 companies and organisations associated with fossil fuels, we regard all but a few of their quotes as pushback comments designed to protect their vested interests rather than the interests of the Australian population as a whole.

SUBMISSION:

Comments from independent organisations and individuals must be assumed as having at least equal value to those made by industry players in designing the final mechanism, irrespective of the political consequences in the short term.

3.1 Overarching framework

INPEX concurs with the benefits of an intensity-based framework as outlined in the consultation paper, namely ... facilities with EITE activities are not unduly encumbered by an inability to pass on increases in compliance costs that would occur in relation to growth under the absolute framework. (P18)

Stakeholders also identified risks with moving directly to industry average benchmarks (Option 1), including significant upfront costs for some high emitters, with little time to prepare and adjust. And potential inefficiencies and inequities with Option 2, including the potential for low emitters to face higher abatement costs because they have exhausted the lowest cost abatement opportunities. (P21)

Comment: Effective action is not cost free

There is a basic assumption here and elsewhere that reducing carbon emissions will be cost free to the community, economy and businesses. Companies have known about this for considerable time, have not taken a long term outlook and ignored the looming implications. The Safeguard Mechanism should not take a soft approach if the country is to avoid missing its targets. Language that encourages facilities to assume they can avoid additional costs in reducing their emissions should be avoided.

3.3 Implementing a hybrid model

Transitioning from existing arrangements

The hybrid approach adds complexity by combining site-specific and industry-average emissions- intensity values, but also presents an opportunity to make baseline setting arrangements simpler overall. (p24)

Comment: It is unclear whether the industry average declines by 4.9% from the industry average baseline in July 2023 or is simply the industry average for each year. We support an industry baseline that declines annually by 4.9% from July 2023.

3.4 Setting baselines for new facilities

Comment: See further comments regarding ACCUs under 4.1

SUBMISSION:

New facilities should not be able to purchase ACCUs to offset their emissions and should only be able to purchase SMCs to offset emissions above their baselines.

4 Flexible compliance options to lower costs

4.1 Crediting and trading

The Safeguard Mechanism already includes flexible compliance options to help businesses meet their compliance obligations, including the ability to surrender carbon offsets—in the form of Australian Carbon Credit Units (ACCUs)—as an alternative to reducing their on-site emissions. (p29)

4.3 Domestic offsets

Under current arrangements, Safeguard facilities can surrender domestic offsets (Australian Carbon Credit Units (ACCUs)) as an alternative to reducing their on-site emissions. Access to ACCUs will continue unchanged. It allows businesses to access the lowest cost abatement outside the scheme—for example, in agriculture and land management. (p32)

Comment: This is the great get-out-of-jail scheme

Allowing unfettered use of ACCUs by facilities has the potential to sink the whole project.

There is a strong possibility that some or all Safeguard facilities will NOT reduce their emissions at all or only partially in line with the 4.9% target. Using ACCUs to offset emissions means there is no net gain in carbon emissions for the country as a whole, but merely a transfer of money and emissions from one enterprise to another.

United Nations Environment Program, 2019:

“Where there are no viable alternatives in the short term, an offset scheme promises to cancel out the emissions in one place with emission-reducing actions in another”.⁴

UN High Level Expert Group:

“High integrity carbon credits in voluntary markets should be used for beyond value chain mitigation but cannot be counted toward a non-state actor’s interim emissions reductions required by its net zero pathway”.⁵

AAS (Chubb) Review 2022

“Carbon offsets reduce or remove greenhouse gases (GHGs) in one place to compensate for emissions elsewhere”.⁶

IPCC 2022:

“AFOLU mitigation measures cannot compensate for delayed emission reductions in other sectors”⁷

This is further exacerbated by the poor quality of the ACCUs already in circulation and the prospect of only token changes to the ACCU scheme as a result of the Chubb review.

⁴ <https://www.unep.org/news-and-stories/story/carbon-offsets-are-not-our-get-out-jail-free-card>

⁵ <https://www.un.org/sites/un2.un.org/files/high-levelexpertgroupupdate7.pdf>

⁶ <https://www.dccew.gov.au/sites/default/files/documents/review-four-methods-generating-australian-carbon-credit-units.pdf>

⁷ https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_SummaryForPolicymakers.pdf

Climate Analytics:

"Given the likely transient and reversible nature of land-based carbon offsets, it is not possible to ensure they generate permanent sequestration. This discrepancy between the known lifetime of emitted CO₂ and the ascribed 100-year permanence period highlights a critical shortcoming of the ACCU scheme". (p41)

"However, with climate change representing a critical threat to the health of forest ecosystems, offsetting schemes that provide funds for forest restoration but have a net-negative impact on global warming represent a false solution to the challenges of climate change and ecosystem degradation". (p47).⁸

According to the UNEP:

"Offsets also risk giving the dangerous illusion of a "fix" that will allow our billowing emissions to just continue to grow."⁹

ACCUs assume a one-for-one equivalent of carbon emission for carbon abatement with a lifespan of 100 years. However, 40% of emitted carbon remains in the atmosphere after 100 years. ACCUs cannot be assumed to be the equivalent of emitted carbon - even if landholders opt for a 25 year life with a discount of 20%.

With over 50% of ACCUs being produced by LULUCFs, and even accepting that there is no integrity issue, at least ACCUs must be discounted by 30% of their value (60% x 50%). If we accept that the LULUCFs are not as reliable as have been reported, which is almost certain¹⁰, then a discount rate of 50% is a more accurate estimate of true value.

Two of CE4G's own members planted 10,000 trees on their property to offset their own personal carbon emissions in 1998, only for 90% of them to be destroyed in the 2019 bush fires.

The issue of integrity of at least 50% of ACCUs will come under increasing scepticism as climate change puts pressure on land based offsets: droughts, fires, floods, etc will all impact on the ability of land based offsets to last the 100 years expected of them to provide even a 60% offset. Problems with enforcement and measurement have also highlighted the problems inherent in allowing SM facilities to use ACCUs indefinitely.

IPCC 2022: "At the same time the capacity of the land to support these functions may be threatened by climate change".¹¹

It is our view that the unlimited use of ACCUs by SM facilities will jeopardise the scheme's objectives and lead to the sector being unable to meet its carbon budget target.

⁸ https://climateanalytics.org/media/why_offsets_are_not_a_viable_alternative_to_cutting_emissions.pdf

⁹ <https://www.unep.org/news-and-stories/story/carbon-offsets-are-not-our-get-out-jail-free-card>.

¹⁰ <https://theconversation.com/chubb-review-of-australias-carbon-credit-scheme-falls-short-and-problems-will-continue-to-fester-197401>

¹¹ https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_TechnicalSummary.pdf

SUBMISSION:

Only current SM facilities should be permitted to purchase ACCUs only until the end of 2030 after which they should only be allowed to purchase SMCs. ACCU purchases by SM facilities must be discounted to 50% equivalent of CO₂e. New facilities must not be able to purchase ACCUs at any time and can only offset their emissions using SMCs. New coal and gas facilities, irrespective of their output must not be able to purchase ACCUs at any time.

4.4 International offsets

The Government may consider allowing access to high integrity international offsets at some future time and will consult in 2023 on the possibility of establishing the legislative framework for international units. (p33)

Comment:

We do not support international offsets at any time. See comments above re ACCUs. Unless all offsets are only valued at a less than 1 tonne of emissions there will be no change to the world's emissions. In addition, the offsets' integrity would need to be far better than what is currently being promoted in some countries.

"PNG was not ready to cater to the voluntary carbon market because there was not yet an adequate legal framework in place."¹²

SUBMISSION:

The Safeguard mechanism should not allow facilities to use international offsets until a review is conducted at the end of 2030 that satisfies the conditions of the Mechanism's policy principles as applied to those countries that offer offsets for purchase: Equitable, Efficient, Simple, Effective.

4.5 Banking and borrowing

A disadvantage of restricting banking between phases is that SMC prices could become unstable at the end of a phase, and could become very low if enough SMCs are available to meet compliance needs. (p34)

As a result, the Government will not proceed with implementing Safeguard reforms in phases, and will allow unlimited banking of SMCs to 2030. The 2026-27 review will consider whether SMCs can be banked for use after 2030. (p35)

Comment: The same problem outlined on p34 will emerge in the same manner in 2030.

4.6 Taking account of emerging technologies

A central theme across industry submissions was that many Safeguard facilities consider there are limited abatement technologies currently available to them. Many expect prospective abatement opportunities will come forward in coming years, but are not available in the short term. (p37)

Comment: They would say that!

This looks very much like another excuse for not acting soon enough while the writing was on the wall. All large and small companies have been aware of the emission issue for many

¹² <https://www.abc.net.au/news/2023-02-14/carbon-credits-projects-papua-new-guinea-logging-four-corners/101936714>

years and most larger companies have not acted to find ways to effectively reduce their emissions, and are now crying poor.

There would be a risk in allowing MYMPs to straddle 2030 in terms of achieving Australia's 2030 target. It is proposed that MYMPs could not extend beyond 2029-30, but this will be reviewed in 2026-27—the first starting year for which a five year MYMP would go past 2029-30. (p38)

Comment: There should not be a review. The last year of MYMPs must not extend beyond 2029-30

SUBMISSION:

The MYMP should not extend beyond 2023-30 and no review in 2026-27.

This means that a facility not only needs to be below its baseline in the final year, but that it needs to have been sufficiently below its baseline in one or more years such that these below baseline years more than offset the years that the facility is over its baseline. (p39)

Comment: We agree with this process, providing that ACCUs are not available after 2030 and are discounted by 50% for all SM facilities.

Application process

The application must include a declaration—signed by the responsible financial officer—stating that technology was not available to allow the facility to avoid the exceedance in that first year, but that technology has either subsequently become available or will become available such that the facility can avoid a cumulative liability at the end of the relevant period. (p39)

Comment: This process is wide open to rorting. It's all very well for someone to sign something to say that things will be better in the future only to rescind that when the time comes because the technology is still not there - ad infinitum. This has been the excuse used over and over to keep on polluting. There must be creditable penalties for false declarations that extend not only to the company but the individual.

4.7 Cost containment measure

Consultation revealed widespread concerns about price risks, including due to potential ACCU market supply constraints. Many want access to international units or a cost containment measure to help manage these risks.

The government must include an additional pathway, similar to the Renewable Energy Target (RET) shortfall charge or price cap in other international schemes, for facilities to satisfy compliance obligations and manage upside price and scheme risks by paying per tonne of CO2-e. This is in addition to safeguard mechanism credits, the existing official carbon credit systems (Australian Carbon Credit Units), and international credits. Minerals Council of Australia (p39)

However, Safeguard facilities made it clear in previous consultations that a penalty for non-compliance cannot function as a cost containment measure, because their reputation as good corporate citizens is paramount and they will always meet their legal obligations. (p39)

Comment: We do not accept that protection (of what there is) of reputation is a valid reason to oppose penalties for non performance.

SUBMISSION: Public disclosure of non-performance by facilities must be included in compliance regulations.

A cost containment measure would make Government-held ACCUs available at \$75 per tonne of CO2-e in 2023-24, increasing with the CPI plus 2 per cent each year (p40)

Comment: There should be no international offsets allowed. A value of \$75 per tonne does not take into account the fact that ACCUs do not abate the same amount of actual CO2 emissions.

SUBMISSION: Government held ACCUs should be made available to current SM facilities only, at \$150 per tonne of CO2-e and only up until the end of 2030

6 Declining baselines to deliver the target

In general, a uniform, 4.9 per cent decline rate would apply to Safeguard Mechanism baselines each year to 2029-30. (p51)

Comment: We agree with this target providing the ACCUs are not permitted to be used by current SM facilities as offsets after the end of 2030, and not at all for new facilities.

We thank you for the opportunity to make this submission to the Safeguard Mechanism Reforms Position Paper.

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