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Dear Minister

***Re: Consultation Paper: Safeguard Mechanism Emissions Intensity Benchmarks***

The Australian Aluminium Council (the Council) welcomes the opportunity to provide feedback to the Consultation Paper on Safeguard Mechanism Emissions Intensity Benchmarks (the Paper). The Paper outlines how benchmarks for baselines would be determined for new facilities and significant expansions after 1 July 2020, and in particular the two options proposed for setting benchmarks under the Safeguard Mechanism, namely:

- Option 1 would set benchmarks at the production-weighted average emissions intensity of the best performing 30 per cent of Australian production in each sector.
- Option 2 would set benchmarks at the production-weighted average emissions intensity of the best performing 50 per cent of Australian production in each sector.

In considering its response to the Paper, the Council has considered the current and likely future state of the Australian bauxite mining, alumina refining and aluminium smelting industries:

- Five large and two small bauxite mines operate. Active exploration and approvals processes are also underway for at least two other potential mining operations, which the Council is aware of;
- Six alumina refineries are currently operating, with no known plans for new refineries or significant brownfield expansions; and
- Four aluminium smelters are currently operating, with no known plans for new smelters or significant brownfield expansions.

The industry is partially vertically integrated, directly employs around 14,500 Australian's and indirectly supports an additional 40,000 families in regional Australia, while also contributing more than \$15B in exports earnings.

The state of the industry, leads to the following general considerations when setting benchmarks:

- The relatively few operations in each sector of the industry means that a single facility may well comprise more than 30% of a production weighted average for that activity;
- Energy constitutes around 30-40% of total costs for refineries and smelters. This will be a key driver for improved emissions performance, as any expansion will have to be as economically (and therefore energy) efficient as possible;
- Technology does not allow for infinite improvements in emissions efficiency – there are always limitations in both greenfield and brownfield expansions;
- Mines, refineries and smelters have fixed locations – this can limit the choice of economic and available fuels which are the dominant driver in overall emissions;

- Mines generally extract the ore with the highest quality and shortest haul distances first, so any expansions or new operations will generally be to areas with inherently higher emissions; already posing a barrier to investment;
- The introduction of rolling 3 year best practice reviews, as was proposed in the original draft Benchmark Guidelines, will increase uncertainty for potential new entrants and make the barrier to investment in new operations in Australia even higher; and
- Facilities which generate onsite electricity may face barriers in their choice of technology to deploy (e.g. electricity may be produced by cogeneration; or require a higher degree of reliability than can be delivered by renewables alone) which may be challenging for facilities where renewables are not a suitable option.

This background has informed the Council's response in answering the questions outlined in the Paper.

***Question 1. Which of the two options under consideration would strike the right balance between achieving best practice and not posing a barrier to new investments into Australia?***

The Council believes that Option 2 strikes the best balance in that it:

- It acknowledges the operational constraints likely in brownfield expansions and new mines, together with any local limitations on fuel source, noting that energy efficiency will always be a key driver to optimise costs and emissions, while
- Still requiring better than average performance of existing assets.

***Question 2. What are the costs and benefits of setting benchmarks at (a) the production-weighted average emissions intensity of the best performing 50 per cent of production, (b) the production-weighted average emissions intensity of the best performing 30 per cent of production and (c) production-weighted average emissions intensity of the best performing 10 per cent of production?***

The Council recognises the move away from a 10% benchmark, however without a specific example within the industry, is unable to provide specific cost or benefit analysis of the 30% to 50% weighting. Given the strong emissions performance of existing Australian bauxite mines, refineries and smelters compared to the global industry, it is the expectation of the Council that even a top 25% performance (the weighted average of the best performing 50 per cent of production) will be a difficult hurdle for new facilities to meet.

***Question 3. Would using the Department's database prepared for the default emissions intensities avoid an additional reporting burden, ensure the benchmarks are better than the Australian industry average and represent the best performing 30 per cent/half of Australian industry?***

The use of the existing database would avoid an additional reporting burden on industry; however, a similar process should apply as it has to Production Variables, whereby any benchmarks should be cross-checked with the relevant businesses, prior to publication.

***Question 4. What new Safeguard-covered facilities are likely to come online in the period 2020 to 2030?***

There are no known examples of new or expanded alumina or aluminium facilities coming online in the period 2020-2030.

However, it is likely that, subject to other economic factors, several new bauxite mines will come online in this period. These mines may already have a number of challenges in terms of lower grade, increased haul distances and higher strip ratios compared to existing facilities.

Additionally, there are emerging activities outside the current processes, which may increase options to recover materials from current waste streams (for example recovery of rare earths from bauxite

residue). It is unclear at this stage whether these activities will have sufficiently large direct emissions to trigger reporting thresholds.

***Question 5. What method should be used to prepare a benchmark for new activities to Australia?***

New industries, such as those in the circular economy, will pose a challenge in determining any industry baseline. These are likely to deploy new technologies and not have international benchmarks for comparison. While it is unclear whether these industries will trigger reporting thresholds, these emerging technologies should be encouraged despite the difficulties in developing a baseline, as they will present opportunities for industry and resource recovery. High energy costs in Australia will already present both a barrier to these new industries and an incentive for processes design to be as energy efficient as possible. The Council supports the approach to engage a consultant to prepare a sector and Australian specific benchmark with the requirement that any benchmark based on international experience be adjusted for Australian conditions and that new technologies being developed have benchmarks specific to those technologies.

***Question 6. What method should be used to prepare a benchmark for a prescribed production variable that does not currently have a default emissions intensity?***

Similarly, to the response for Question 5, despite the challenges in determining an appropriate benchmark, new industries such as those which provide increased resource recovery should not have an additional barrier to new investment imposed. This should be considered in designing a methodology for benchmarking these activities. The Council supports using a range of data, including from both safeguard and non-safeguard facilities, where available in preparation of these benchmarks.

In addition to the above submission, the Council seeks clarification on the applicability of benchmark emission intensity values for an existing reporting facility, that increases their production after 30 June 2020 so that emissions are over 100,000 t CO<sub>2</sub>e. If this facility produces a Schedule 2 production variable, could they apply for their first baseline using the production adjusted criteria rather than the benchmark?

Given the current dedication of both Council and member resources to the vital work of responding to the COVID-19 pandemic, we note that responses to the Department on this important consultation process may be in some cases unavoidably delayed and this may require some timetable flexibility in the process. Noting this, given the importance of greenhouse and energy policy to the industry, the Council welcomes the opportunity to continue to be involved in ongoing consultation on refinement of the Safeguard Mechanism.

Yours sincerely,



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