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AUSTRALIAN
ALUMINIUM
COUNCIL LTD

PO Box 63, Dickson

ACT 2602

Ph: 6267 1800

info@aluminium.org.au

Safeguard and Industrial Policy Section
Department of the Environment and Energy
GPO Box 787
Canberra ACT 2601

By email: safeguard.mechanism@environment.gov.au

CONSULTATION ON THE OPERATION OF THE EMISSIONS REDUCTION FUND SAFEGUARD MECHANISM

Thank you for the opportunity to contribute to the consultation on the *Operation of the Emissions Reduction Fund Safeguard Mechanism*. This submission is on behalf of the alumina refining and aluminium smelting industries.

Our industry supports the Government's intent to bring baselines under the Safeguard Mechanism up-to-date and to make it fairer and simpler. Australia's climate policy should reduce Australia's emissions in line with our Paris commitments while also maintaining a strong and growing economy. The arrangements outlined in the Consultation Paper are critical in allowing rational business decisions that will help to maintain Australia's competitiveness in key industries while also effectively limiting greenhouse gas emissions.

We have provided responses to many of the specific questions posed by the Consultation Paper in the attachment to this letter. We particularly note:

- The aluminium industry's support for the proposed changes and the intent to allow incremental expansion of facilities without penalty (provided emissions-intensity does not increase). Incremental expansion - to reduce costs per tonne of product produced - is critical to the ongoing competitiveness of trade-exposed facilities;
- Our support for the option to use default baselines as a way of minimising compliance and administrative costs. We believe that Government determined baselines should use the industry average;
- Baselines should be adjusted for production on an annual basis. This will be the most accurate approach and does not represent an administrative burden nor require the collection of information beyond what is routinely done by the business;
- There will be a continued need for some flexibility mechanisms to deal with natural background variations in emissions-intensity. The multi-year averaging mechanism is particularly relevant for this purpose;
- Our support for the intention to implement these changes to take effect in the 2018-19 compliance year.

In addition to the issues raised in the Consultation Paper, we specifically request that the Safeguard Mechanism be revised to allow baselines to be recalculated if the emissions calculation methodology materially changes. Currently this only occurs with changes to Global Warming Potentials (GWP) for greenhouse gases. Other changes – such as the recent changes to oxidation factors for fuels, or an imminent change to the calculation of PFC emissions from aluminium smelting – do not lead to a revision of the baseline and lead to a situation where emissions are compared to a baseline that has been calculated using a different methodology. This may lead to exceedances and costs that are not the result of genuine increases in emissions.

The intent of the Safeguard Mechanism – to identify and address ‘real’ increases in emissions – will be delivered by allowing baselines to be recalculated when measurement methodologies materially change.

I am happy to provide further information on any of the issues raised in this letter. The Council looks forward to responding further through the next phase of development of the Safeguard Mechanism.

Yours sincerely



MILES PROSSER

EXECUTIVE DIRECTOR

AUSTRALIAN ALUMINIUM COUNCIL

T 02 6267 1800

M 0429 923 605

miles.prosser@aluminium.org.au

Answers to Specific Questions from the Emissions Reduction Fund: Safeguard Mechanism Consultation paper Feb 2018

3.1 Transitioning to calculated baselines

The proposed approach to transition all facilities to calculated baselines over 2018-19 and 2019-20.

The aluminium industry has no objections to all facilities transitioning to calculated baselines over 2018-19 and 2019-20. Many of our facilities are already on calculated baselines.

Whether there are reasons to allow facilities that applied for a calculated baseline in 2016-17 to reapply.

It would be appropriate to at least allow facilities that applied for a baseline in 2016-17 to reapply under the same arrangements as others in 2018-19 or 2019-20 if their circumstances have materially changed. This would ensure that all facilities under the Safeguard mechanism have a baseline that reflects their circumstances in 2018-19 or 2019-20.

The most appropriate way of transitioning landfill facilities under the proposed approach.

No comment.

3.2 Simplifying calculated baselines

The option to use default production variables and emissions-intensity values for calculated baseline applications, to reduce auditing and administrative costs.

We agree with the proposal to allow an option of using default production variables and emissions-intensity values for calculated baselines. For those that take up the option this will result in reduced auditing and administrative costs while still maintaining a real cap on emissions levels. However it is important that this only be implemented as an option, as some facilities may wish to maintain facility-specific baselines to reflect particular circumstances and be willing to incur auditing and measurement costs to allow this.

Whether emissions-intensity values should be set at a level that reflects a median or average performance, or some other level.

Typically, industry-wide benchmarks have been set at the average level for the industry (previous carbon policies, and RET). This has proved effective and acceptable and appears a logical approach to implement for the Safeguard Mechanism.

3.3 Annually updating baselines for actual production

Whether baselines annually updated for production should apply to emissions-intensive, trade-exposed facilities only, a broader set of facilities, or to all facilities?

For consistency of approach within the Safeguard Mechanism, we recommend that baselines annually updated for production be implemented for all facilities under the scheme.

Whether baselines updated for production should be updated less frequently than every year (e.g. every three years)?

We recommend that baselines are updated annually for production, in preference to any longer timeframe. This will be the most accurate approach and does not represent an administrative burden nor require the collection of information beyond what is routinely done by the business

Whether baselines annually updated for production would make the existing flexibility provisions for increasing baselines redundant?

There will be a continued need for some flexibility mechanisms to deal with natural background variations in emissions-intensity. The multi-year averaging mechanism is particularly relevant for this purpose. The current emissions-intensity test, however, would be redundant once all facilities had transitioned to calculated baselines.

3.3.1 Aligning reporting for business

The proposed approach for businesses to report production data consistently and regularly through the National Greenhouse and Energy Reporting System.

The proposed approach for reporting of production data through the National Greenhouse and Energy Reporting System is acceptable. It would be an efficient method to collect the data needed for the Safeguard Mechanism and has the benefit of using existing systems and data ordinarily available to the business.

Whether there is a need to standardise the basis for determining annually updated production-adjusted baselines (e.g. through the use of commonly-defined 'production variables').

For activities within the aluminium industry captured by the Safeguard Mechanism – principally alumina refining and aluminium smelting – the selection of commonly-defined production variables for other legislation (e.g. the RET) has been readily resolved with appropriate consultation with the aluminium industry. We would welcome the opportunity to discuss this further.

3.3.2 Mechanics and timing

The proposed approach for updating baselines based on actual production.

We strongly recommend that the baselines be based on actual production to avoid the need for forecasting production and processing a 'true-up'. Facilities already monitor production levels through the year and will be able to monitor emission levels and forecast likely outcomes – and manage compliance - under the Safeguard Mechanism.