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Emissions Reduction Assurance Committee
Clean Energy Regulator
GPO Box 621
Canberra ACT 2600

Online via <https://consult.industry.gov.au/cer/industrial-and-commercial-emissions-reduction/>

17 August 2021

Dear Chair

Re: Industrial and commercial emissions reduction: proposed new method under the Emissions Reduction Fund

The Australian Aluminium Council (the Council) welcomes the opportunity to provide information to the Emissions Reduction Assurance Committee (ERAC) on the proposed new method under the Emissions Reduction Fund (ERF), the Industrial and commercial emissions reduction (ICER).

The Council represents Australia's bauxite mining, alumina refining, aluminium smelting and downstream processing industries. The Australian aluminium industry has been operating in Australia since 1955, and over the decades has been a significant contributor to the Australian economy. Alongside many decades of economic contribution, the industry is globally comparatively young and well maintained. The industry includes five large (>10 Mt per annum) bauxite mines plus several smaller producers which collectively produce over 100 Mt per annum making Australia the world's largest producer of bauxite. The six alumina refineries produce around 20 Mt per annum of alumina and Australia is the world's largest exporter of alumina. There are four aluminium smelters; in addition to downstream processing including more than 20 extrusion presses and Australia is the sixth largest global producer of aluminium. Aluminium is Australia's highest earning manufacturing export. The industry directly employs more than 17,000 people, including 4,000 full time equivalent contractors. The industry also indirectly supports around 60,000 families in regional Australia.

In reviewing the proposed ICER method, the Council recognises the efforts made by the Regulator to address concerns raised by industry with regard to the current Industrial Electricity and Fuel Efficiency (IEFE) method. The Council's submission is based on Council members direct experience with registered projects, plus the ongoing consideration of other abatement opportunities by Council members, where the requirements to meet the IEFE (and other) methodologies are too narrow and/or complex. It has been the experience of the Council's members that the IEFE method has very specific and detailed statistical tests and particular additionality rules which make it difficult to deliver projects that meet the requirements of this methodology.

The Council welcomes the inclusion of the option to engage a technical expert to verify that areas of non-compliance with the minimum statistical requirement in s32 of the ICER are not material to the integrity and accuracy of the regression model. This, however, does not fully address the issues raised about needing to achieve all of the extensive minimum statistical requirements for regression baselines. For example tests such as the 32 (d) on tests of residuals, especially being free of autocorrelation could be excluded completely

to simplify the method. This would allow more baselines to be compliant without the additional administrative effort and cost of justifying why the non-compliance is not material.

The proposed ICER method has addressed these concerns, specifically:

- The ability to develop baselines using an engineering model, rather than only statistical regression analysis;
- Broadened scope of activities, within an industrial process which are able to be credited;
- Inclusion of project specific additionality;
- Allowance for non-routine adjustments; which do occur in industrial plants; and
- Inclusion of interactive effects, within a process.

It is the view of the Council that this simplified method will be better suited to a manufacturing environment, with process variation, and therefore increase the uptake of this method by industry.

The Council is supportive of existing projects that have already been audited against the Industrial Energy and Fuel Efficiency method (IEFE) being able to continue under the requirements of that method and not be forced to transition mid-project to a new method.

The greatest concern the Council has with the proposed method is the new requirement to submit a Statement of Activity Intent stating that the project would not have occurred at all without the project being declared as an eligible offsets project. The *Carbon Credits (Carbon Farming Initiative) Act 2011* has additionality requirements for newness, regulatory additionality and government program requirements. The Act (s 27, 4A, ci) states that *“the requirement (the government program requirement) that the project would be unlikely to be carried out under another Commonwealth State or Territory government program or scheme in the absence of a declaration of a project as an eligible offsets project”*

In the Council’s opinion the proposed statement of intent required to register an ICER project goes beyond the requirements of the Act and is particularly problematic because:

- It is difficult to audit *intent*, especially since much of the industry has business emissions reduction targets and are actively looking for abatement opportunities;
- ERF projects have no upfront funding and realising the value of abatement is typically 2-3 years lag from the time of project registration; and
- Projects which occur at facilities with safeguard mechanism baselines will have more uncertainty on the future value of the ERF project, especially those with scope 2 emissions abatement projects.

The expression that a project would not have occurred at all, is problematic considering how the ERF operates. It significantly narrows the applicability of the method to industrial processes especially simpler projects without capital expenditure. It also adds extra administrative steps and audit complexity and is a disincentive to businesses wanting to register an ERF project under the ICER method.

The Council would like to continue to work with the Department and Clean Energy Regulator, to develop workable solutions for industry; while maintaining the durability and policy intent of the scheme.

Yours sincerely,



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