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Department of Climate Change, Energy, the Environment and Water
<https://consult.industry.gov.au/safeguard-mechanism-reform-consultation>

28 October 2022

Dear Minister Bowen

Re: Australian Aluminium Council Response to Exposure Draft Safeguard Mechanism (Crediting) Amendment Bill 2022 and the Carbon Credits (Carbon Farming Initiative) Amendment (Safeguard Facility Eligibility Requirements) Rules 2022

The Australian Aluminium Council (the Council) represents Australia's bauxite mining, alumina refining, aluminium smelting and downstream processing industries. The Council welcomes the opportunity to provide feedback to the October 2022 Safeguard Mechanism (Crediting) Amendment Bill 2022 [Safeguard Bill] and the Carbon Credits (Carbon Farming Initiative) Amendment (Safeguard Facility Eligibility Requirements) Rules 2022 [CFI Amendments]. This submission should be read in conjunction with the Council's [submission](#) to the September [Options Paper](#), as this provides a policy background and justification for the Council's positions.

The Council continues to consider how reforms to the Safeguard Mechanism can meet the continued global competitiveness of the Australian aluminium industry, while recognising that declining baselines need to be delivered in the context of Australia's target of net zero by 2050 and 43% by 2030, as well as corporate ambitions over similar periods. The Council has also considered the needs for legislative as well as policy settings which will provide a transition to certainty for businesses through to 2030 and beyond.

The Council notes that the Government will continue to consider the legislative framework around international credits as part of the consultation and design process for the safeguard reforms. However, the Council also notes that the current legislative package does not provide for a price cap, shortfall charge or Government operator as purchaser /retailer of last resort for credits. The Council believes that legislative changes would be required to establish one of these mechanisms. As articulated in the Council's September 2022 submissions, such a mechanism would be particularly useful during the introductory phases of the scheme while the market is being established and becoming more liquid. This is consistent with international models which generally incorporate a cap. The design, as articulated in the Options Paper means SMCs are likely to lapse, creating unnecessary scarcity in the market, particularly given the annual cycle of the scheme. The Council believes the Government must amend the legislative package to include a mechanism to support a price cap, shortfall charge or Government operator as purchaser /retailer of last resort for credits.

As each aluminium smelter, alumina refinery and bauxite mine has unique circumstances and contractual arrangements, the Council will present high level comments on the Safeguard Bill and CFI

Amendments. Members of the Council may also have made submissions directly to this consultation, highlighting their specific situations. This Council submission should be considered alongside the direct input from our members.

Timing and Process

The Council recognises that the proposed changes will be implemented through both subordinate legislations, including the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015* (the Safeguard Mechanism Rule) as well as primary legislative changes needed to implement crediting and related changes. The Council would be concerned if these two processes were to be separated in time, such that the changes which can be achieved through regulation are implemented ahead of the crediting. The Council encourages continued consideration of ensuring these two processes are maintained in parallel. The Council recognises that the very short, 3 week, consultation process on the Safeguard Bill and CFI Amendments is in recognition of the desire to maintain these processes in parallel, but also recognises that this means stakeholders are considering the legislative framework ahead of the draft version of the Safeguard Rules which will be released for consultation later in 2022.

However, as noted earlier, the Council believes that the Government must, as a priority, amend the legislative package to include a mechanism to support a price cap, shortfall charge or Government operator as purchaser /retailer of last resort for credits, particularly as the market is likely to be scarce during the early phases of the Scheme because of scarcity of ACCUs, scarcity of SMCs and while the Government position on International Offsets is finalised.

Creation of Safeguard Mechanism Credits (SMCs)

Subject to how baselines are set then there tradeable credits should be issued for Safeguard facilities, which are below their baselines. Safeguard Mechanism Credits(SMCs) should each represent a tonne of emissions and could be used by other Safeguard facilities to reduce their net emissions. The Council welcomes the inclusion SMCs in the Australian National Registry of Emissions Units (ANREU) Act, ensuring only one registry.

As noted in the Council's submission; the Council believes that Phase 1 is too short, in the context of a developing market. SMCs are likely to lapse with such a short vintage, creating unnecessary scarcity in the market, particularly given the annual cycle of the scheme. The Council supports the concept of both banking and borrowing *and* inter-temporal flexibility, as they serve different purposes:

- Industrial processes by their nature are highly variable. Multi-year monitoring periods (MYMPs) are useful in addressing this year-to-year variability.
- Banking and borrowing or extended MYMPs could be used to address the lumpiness of abatement. However, the Council notes that the time periods of 2 and 5 years are short compared to the timelines for industrial transformation. For example, for aluminium smelting the implementation of a single technology, once technically and commercially available, could remove 95% of all emissions. But until this technology is available, there may be many years (more than 10) of limited abatement.
- Banking of SMCs and other carbon credit vintages over a longer period, up to 10 years would be more aligned with the time period for major industrial transformation.
- Borrowing against future baselines will also allow the industry to transition from baselines where its decarbonisation technological solutions are unavailable to when those technologies become available, which will be characterised by substantial reduction in emissions upon implementation

International Offsets

The Council supports the use of international offsets, subject to future rules of international trading, and providing they meet integrity principles - representing real emissions reductions, make a genuine

contribution to the goals of the Paris Agreement, and provide confidence in action by Australian companies to achieve targets. A broad range of credible carbon offsets should be available for this purpose, provided that they meet certain minimum standards of integrity and quality and represent genuine additional abatement. This would potentially help, should the market of SMCs and ACCUs be scarce in some years, more likely in the early phases when abatement is not yet technologically available. The Council urges the Government to continue to develop an appropriate framework which will allow inclusion of international offsets, as soon as practicable.

Generation of ACCUs

Emissions Reduction Fund (ERF) Projects can generate ACCUs from improvements in Scope 2 emissions from energy efficiency projects, land-based abatement as well as improvements in emissions covered under the Safeguard Mechanism. The Council supports the ability to allow Safeguard facilities to gain Australian Carbon Credit Units (ACCUs) under the ERF for emissions not covered under the Safeguard (e.g., land management, waste and Scope 2 electricity). This should also apply to emerging methodologies, such as mineral carbonation in residue facilities. With this proposed change, it is not appropriate for these to be added to a facility's actual emissions before being compared against the baseline as per the current rules.

For those with existing ERF projects with covered emissions abatement and commitments to deliver ACCUs to the CER under contract, they should be allowed a transitional exception to continue to generate credits and retain the double counting provisions. Until such time as the project reporting period is completed or the facility withdraws the ERF, the facility could be subject to the test of being under the baseline to generate SMCs only after the ACCUs have been added to the actual emissions.

This change in eligibility of ERF leaves a gap in incentive programs for supporting abatement in industrial energy efficiency and process emissions which should be addressed through new programs or by amending existing schemes.

Specific Amendments

The Council believes that the Government must, as a priority, amend the legislative package to include a mechanism to support a price cap, shortfall charge or Government operator as purchaser /retailer of last resort for credits, particularly as the market is likely to be scarce during the early phases of the Scheme because of scarcity of ACCUs, scarcity of SMCs and while the Government position on International Offsets is finalised.

Conclusion

The Council seeks a national climate and energy policy framework which is equitable, transparent, stable and predictable, while maintaining the economic health of the nation including vital import and export competing industries. The Council wishes to continue to work to achieve optimal outcomes for Australian industry, through 2030 and beyond.

Kind regards,



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