Climate Council of Australia

Submission to:	Department of Climate Change, Energy, the Environment and Water - Consultation on proposed design of Safeguard Mechanism reform
Addressed to:	Department of Climate Change, Energy, the Environment and Water – Safeguard Mechanism Taskforce - safeguardmechanism@industry.gov.au
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About the Climate Council

Climate Council is Australia's own independent, evidence-based organisation on climate science, impacts and solutions.

We connect decision-makers, the public and the media to catalyse action at scale, elevate climate stories in the news and shape the conversation on climate consequences and action, at home and abroad.

We advocate for climate policies and solutions that can rapidly drive down emissions, based on the most up-to-date climate science and information.

We do this in partnership with our incredible community: thousands of generous, passionate supporters and donors, who have backed us every step of the way since they crowd-funded our beginning as a non-profit organisation in 2013.

To find out more about the Climate Council's work, visit www.climatecouncil.org.au.

Introduction and context

Reducing emissions from Australia's largest industrial polluters is essential to tackle the harmful climate change that is affecting communities around the country, and the globe. The world has already warmed by around 1.2°C and Australia is suffering significant losses from climate change, with worse on the way. Extreme weather events – such as bushfires, floods, heatwaves and droughts – are happening more often, and becoming more severe. To avoid the worst climate impacts, global emissions must halve this decade with net zero reached in the early 2040s.

Australia plays an outsized role in driving the global climate crisis. On a per person basis, we are the most polluting nation in the developed world - even before considering the impact of our globally significant fossil fuel exports.[1] While Australia is a wealthy, high emitting country, we also have immense renewable energy resources. This means we have both a responsibility and the ability to cut emissions faster. Australia's current target of cutting harmful carbon pollution by 43 percent below 2005 levels by 2030 is inconsistent with the scale of effort needed to avoid the worst impacts of harmful climate change. To play our part in the global effort to reach the level of deep emissions cuts mentioned above, Australia should be taking stronger action consistent with reducing our emissions by 75 percent below 2005 levels by 2030, and reaching net zero emissions by 2035.

We cannot meet - or improve on - our legislated emissions reduction targets and make real progress on tackling harmful climate change if we do not get the Safeguard Mechanism right. Strengthening this policy is essential to ensure Australia's biggest emitters pull their weight in the shared national effort to reduce harmful pollution. While recognising that the Australian Government is designing current reform settings with the goal of meeting the legislated 43 percent emissions reduction target, it should be noted that these settings will need to be ratcheted up in the near future to deliver the deeper level of emissions reduction highlighted above. This should be considered as part of the process to set Australia's next Nationally Determined Contribution under the Paris Agreement, due in 2025.

The companies regulated by the Safeguard Mechanism represent some of Australia's largest and most profitable corporations - many of whom are multinationals based offshore who have a history of avoiding their income

[1] Climate Council (2021), From Paris to Glasgow: A World on the Move. Accessed: https://www.climatecouncil.org.au/resources/paris-glasgow-world-move/

tax, environmental, and other obligations to the Australian community.[2] Collectively, facilities regulated by the Safeguard Mechanism account for 28 percent of Australia's national emissions.[3] Since the mechanism commenced in 2016, they have produced almost 712 million tonnes of harmful carbon dioxide-equivalent (CO_2e) emissions[4] - equivalent to 1.4 times Australia's total emissions in the year to March 2022.[5]

These big emitters must pull their weight in the shared national effort to drive down Australia's emissions. For key producers in industries like steel and aluminium, concrete and fertilisers, that means transforming how they operate so that they can thrive in a zero emissions world. There is no question that this will require significant investment - in new power sources, technologies, and research and development for production processes that will allow these industries to rapidly decarbonise. Businesses must step up to this challenge with real investment, or risk losing market share and a social licence to operate as Australia and our global trading partners rapidly decarbonise. Australia's governments and our investment markets will also have a role to play in supporting this transition through unlocking and directing more capital to where it is most needed to drive this change.

However, fossil fuel facilities account for more than 50 percent of the total emissions produced within the Safeguard Mechanism.[6] Time is running out for these industries. The International Energy Agency has stated the world may have already reached a peak of coal use, while demand for gas is projected to be 75% lower in a net zero emissions world.[7] This means that the transition pathway for fossil fuel companies should look very different from those for essential industries with a long-term future, like the manufacturing of metals and cement, critical minerals and chemicals. Fossil fuel facilities

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[2] Climate Council (2022), Introducing the Dirty Dozen. Accessed: https://www.climatecouncil.org.au/resources/dirty-dozen/

[3] Department of Climate Change, Energy, the Environment and Water (2023), Safeguard Mechanism Reforms Position Paper. Accessed: https://consult.dcceew.gov.au/safeguard-mechanism-reform-consultation-paper

[4] CO_2e is a metric measure used to compare the emissions from various greenhouse gases on the basis of their global-warming potential (GWP), by converting amounts of other gases to the equivalent amount of carbon dioxide with the same global warming potential.

[5] Clean Energy Regulator (multiple dates), Safeguard data. Accessed: https://www.cleanenergyregulator.gov.au/NGER/The-safeguard-mechanism/safeguard-data; Department of Climate Change, Energy, the Environment and Water (2022), Australia's greenhouse gas emissions: March 2022 quarterly update. Accessed: https://www.dcceew.gov.au/about/news/australias-greenhouse-gas-emissions-march-2022-quarterly-update#:~:text=The%20report%20estimates%20Australia's%20total,reductions%20in%20emissions%20from%20electricity

[6] Clean Energy Regulator (2022), Safeguard facility reported emissions 2020-21. Accessed: https://www.cleanenergyregulator.gov.au/NGER/The-safeguard-mechanism/safeguard-data

[7] International Energy Agency (2022), Global Energy Outlook. Accessed: https://www.iea.org/reports/world-energy-outlook-2022/outlook-for-gaseous-fuels

within the Safeguard Mechanism should be required to reduce their onsite emissions as much as possible, while their owners and Australian governments make plans for a managed exit from our energy system in the years ahead. Further, the Safeguard Mechanism should not make any provision for new and significantly expanded coal, oil and gas facilities as international expert bodies such as the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency have been clear that new investment in fossil fuels is inconsistent with limiting global warming to 1.5°C above pre-industrial levels.[8] This is an unambiguous goal that Australia and 194 other countries globally have signed up to through the Paris Agreement. It should provide clear guardrails for the Australian Government in designing stronger settings for the Safeguard Mechanism as they relate to fossil fuel facilities and potential new entrants.

Furthermore, the Safeguard Mechanism is an important national policy for cutting industrial emissions, but it should not be relied upon as the only national lever to do so. This is because it only regulates direct (Scope 1) emissions from covered facilities, and does nothing to address the far larger planet-warming impact of indirect (Scope 2 and 3) emissions - particularly the massive Scope 3 emissions produced by burning fossil fuels overseas. Scope 3 emissions from Australia's fossil fuel exports are 8.5 times greater than total emissions covered by the Safeguard Mechanism (see figure 1).[9]

[8] See: IPCC (Intergovernmental Panel on Climate Change) (2018) Special Report on Global Warming of 1.5°C. Accessed: https://www.ipcc.ch/sr15; IEA (2021) Net Zero by 2050: A roadmap for the global energy sector. Accessed: https://www.iea.org/reports/net-zeroby-2050

[9] Based on Climate Council analysis of National Greenhouse Gas Inventory Quarterly Update: June 2022.Accessed:https://www.dcceew.gov.au/climate-change/publications/national-greenhouse-gas-inventory-quarterly-update-june-2022

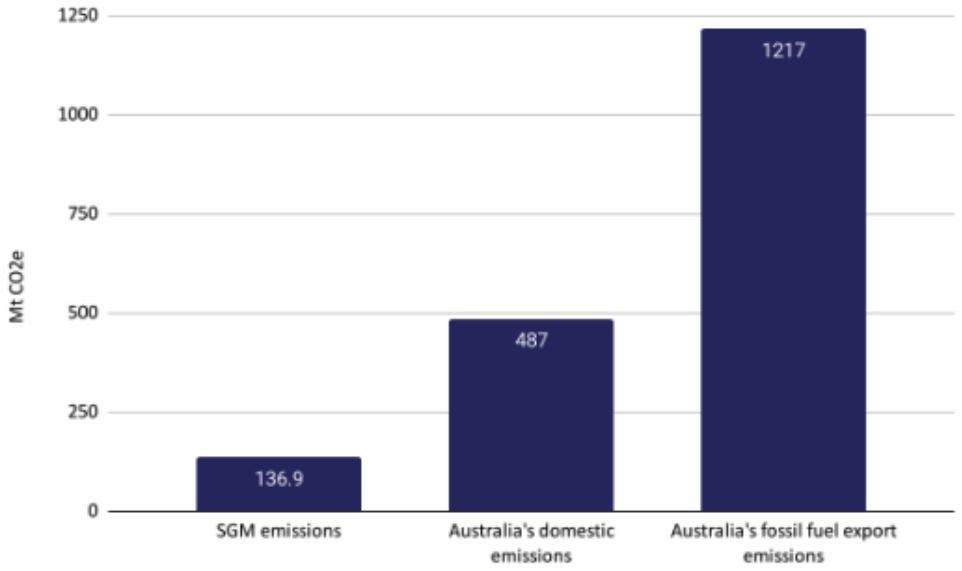

Figure 1: Comparison of the 2021 emissions regulated by the Safeguard Mechanism (SGM), Australia's entire domestic emissions from 2022, and the Scope 3 emissions from Australia's 2021 fossil fuel exports. Climate Council analysis of National Greenhouse Gas Inventory Quarterly Update: June 2022 (DCCEEW 2022b).

To tackle harmful climate change, Australia needs to put in place policies that address *all* carbon pollution - not just domestic Scope 1 emissions. In fact, the biggest contribution Australia could make to tackling harmful climate change would be replacing the high emitting fossil fuels we currently export around the world with a mix of clean energy exports. That is why it is essential the Safeguard Mechanism does not prolong the life of coal, oil and gas, or give these industries further public support at the expense of new domestic industries and existing scheme participants. Within this submission, Climate Council has identified further initiatives the Australian Government should consider implementing alongside reform of the Safeguard Mechanism to ensure we tackle all the major drivers of harmful climate change.

Strengthening the Safeguard Mechanism could be an important step in driving down harmful carbon pollution from Australia's biggest emitters, and incentivising key industries to transform so they can thrive in a net zero world. Climate Council welcomes the Australian Government prioritising this work early in its first Parliamentary term and encourages it to deliver the strongest possible reform. Our comments throughout this submission are intended to emphasise where the proposed settings can be further

strengthened to ensure the reforms work as intended and deliver the deep, genuine reductions in harmful carbon pollution Australia needs now.

Recommendations

The Climate Council's recommendations are summarised below; further discussion and supporting data on each is outlined through this submission.

Recommendation 1

Climate Council recommends the final Safeguard Mechanism settings require covered facilities to collectively achieve a 43 percent reduction in emissions by 2030 - in line with Australia's national emissions reduction target. This will ensure that our biggest industrial emitters genuinely pull their weight in the shared national effort to rapidly cut emissions this decade.

The proposed carbon budget of 1,233 million tonnes CO_2e emissions between 2021 and 2030 should be set as an absolute cap on scheme emissions, fixed in legislation or regulation.

Recommendation 2

Climate Council recommends the final Safeguard Mechanism settings explicitly establish a carbon mitigation hierarchy, whereby facilities must demonstrate genuine efforts to avoid and reduce emissions before relying on credits or offsets.

Within this hierarchy, we further recommend that Safeguard Mechanism facilities be required to use any available Safeguard Mechanism Credits (created within the scheme) to account for their emissions above baseline, before using Australian Carbon Credit Units (created through other methods) outside the scheme.

Corporations relying on offsets and credits to meet their Safeguard Mechanism baselines should be required to transparently report on the type and volume of each used, for each compliance year. This will provide valuable data for ongoing assessment of the role of offsets and credits in the scheme, and ensure that companies are accountable to their shareholders and the Australian community for the genuineness of their emissions reduction efforts.

Recommendation 3

Climate Council recommends use of offsets be progressively phased down following an initial period to enable business planning and investment. The Australian Government should outline a clear pathway for progressively declining offset use as part of the final scheme settings commencing on 1 July.

Recommendation 4

Climate Council recommends public funding provided to Safeguard Mechanism facilities through the Powering the Regions Fund should only be used to support genuine business transformation to decarbonise operations. The funding rules should explicitly state that the purchase of ACCUs is not eligible expenditure. Companies receiving public funds should be required to make a legally-binding commitment that these will not be used for this purpose as part of the grant terms.

Recommendation 5

Climate Council recommends the Australian Government remove 'adapted for the Australian context' from the final scheme settings for new entrants, and provide clear, specific guidance on what constitutes international best practice for each of the sectors represented within the Safeguard Mechanism as part of the final scheme settings.

Recommendation 6

Climate Council recommends any new or expanded project which would meet the threshold for entry to the Safeguard Mechanism be required to be assessed under a strengthened *Environment Protection, Biodiversity Conservation Act 1999.* A pause should be placed on any new or significantly expanded projects of this scale entering the Safeguard Mechanism until the government's in-train reforms to the EPBC Act are in place.

Recommendation 7

Climate Council does not support new fossil fuel facilities entering the Safeguard Mechanism. International expert advice and the science is

clear that new fossil fuel projects are inconsistent with holding global warming as close as possible to 1.5 degrees.

However, if any new or significantly expanded fossil fuel facilities do proceed, Climate Council recommends these be made ineligible for any forms of government support available to existing Safeguard Mechanism facilities. This includes making such facilities ineligible for funding under the Safeguard Transformation Scheme within the Powering the Regions Fund, and ensuring they are not able to access the proposed trade exposed baseline adjustment mechanism.

These steps will ensure that all public support available through the Safeguard Mechanism is directed to key national industries with a long-term future in a decarbonising world.

Recommendation 8

Climate Council recommends that access to the proposed trade exposed baseline adjustment arrangements should be tightly restricted. Access to these arrangements should not be expanded to a wider segment of facilities or industries within the Safeguard Mechanism as part of the final scheme settings. In particular, existing fossil fuel facilities within the mechanism should never be eligible for reduced baseline decline rates under these arrangements.

Climate Council recommends exploration of carbon border adjustment measures for Australia be pursued as a priority in parallel with reform of the Safeguard Mechanism.

Recommendation 9

Climate Council recommends the Australian Government deliver a major package of initiatives and investment explicitly aimed at developing Australian green export industries to replace exported fossil fuels over time, in parallel with reform of the Safeguard Mechanism. The size and scope of this package should reflect the once-in-a-century opportunity currently in front of Australia to become the world's supplier of choice for clean energy and green manufactured goods.

Ensuring the Safeguard Mechanism delivers genuine emissions reduction

Updated Safeguard Mechanism settings must see covered facilities pull their weight in our shared national efforts to cut emissions, and do so by prioritising genuine, absolute emissions reduction. The benchmark for success is whether onsite emissions from covered facilities genuinely and permanently decline over the years to 2030; this is the only lasting way to address harmful climate change.

The following section comments on scheme design settings related to the share of effort towards Australia's national emissions reduction targets that are proposed to be contributed by corporations within the Safeguard Mechanism, and the role of carbon offsets and credits.

Share of effort

The Australian Government has proposed that facilities covered by the Safeguard Mechanism will deliver a 'proportional share' of the national 2030 target. This has been calculated as 28 percent of the national target—reflecting the Safeguard Mechanism's share of national emissions in 2020-21.[10] This will see net emissions covered by the Safeguard Mechanism fall from a projected 143 million tonnes in 2022-23 to no more than 100 million tonnes by 2030, with a total effective carbon budget for the scheme of 1,233 million tonnes CO_2e emissions between 2021 and 2030.

Setting the reforms to achieve this level of emissions reduction would mean that entities which are covered by the Safeguard Mechanism have effectively had a free ride on their emissions between 2005 and 2021. This is because Australia's emissions reduction target is based on cutting harmful pollution below 2005 levels. The simplest way to ensure facilities in the mechanism are genuinely pulling their weight would be to require them to reduce their emissions by 43% by 2030, in line with the legislated national target. This would require companies to cut emissions at an accelerated rate compared with the 28 percent proposed in the Position Paper. If Safeguard Mechanism facilities do not pull their weight in reducing emissions, this will leave other sectors across the Australian economy to pick up the slack.

[10] Department of Climate Change, Energy, the Environment and Water (2023), Safeguard Mechanism reforms: Position Paper. Accessed: https://consult.dcceew.gov.au/safeguard-mechanism-reform-consult-on-design

If the government is not willing to countenance requiring a full 43% emissions reduction from this scheme, an alternative would be to ensure that companies within the Safeguard Mechanism do *at least as much* to reduce their emissions as anticipated by Labor's pre-election RepuTex modelling. This would see emissions under the Safeguard Mechanism reduce to 89 million tonnes CO_2e in 2030,[11] an improvement on the government's discussion paper proposal.

Further, there does not appear to be any specific mechanism in the proposed policy design to ensure that the scheme carbon budget of 1,233 million tonnes CO_2e to 2030 places a hard cap on emissions. The government has indicated that settings will be regularly reviewed with a view to keeping total emissions within this budget. However this will likely be difficult to achieve in a context where the production-adjusted basis for baseline setting means total emissions from individual facilities can rise. To ensure that the Safeguard Mechanism does not overshoot the proposed carbon budget, Climate Council recommends this be fixed in legislation or regulation as a hard cap on emissions within the scheme. This would provide far greater certainty to all scheme participants that the actions of some facilities will not necessitate large upwards revisions to baseline decline rates in the future, to remain within budget.

Recommendation 1

Climate Council recommends the final Safeguard Mechanism settings require covered facilities to collectively achieve a 43 percent reduction in emissions by 2030 from 2005 levels - in line with Australia's national emissions reduction target. This will ensure that our biggest industrial emitters genuinely pull their weight in the shared national effort to rapidly cut emissions this decade.

The proposed carbon budget of 1,233 million tonnes CO_2e emissions between 2021 and 2030 should be set as an absolute cap on scheme emissions, fixed in legislation or regulation.

[11]RepuTex (2021) Economic impacts of the ALP's Powering Australia Plan. Accessed: https://www.reputex.com/wp-content/uploads/2021/12/REPUTEX_The-economic-impact-of-the-ALPs-Powering-Australia-Plan_Summary-Report-1221-2.pdf

Role of credits and offsets

Facilities regulated by the Safeguard Mechanism are currently required to purchase and surrender Australian Carbon Credit Units (ACCUs) if they exceed their emissions baseline. The Position Paper notes that the Australian Government is establishing a second set of credits to operate alongside ACCUs in accounting for harmful emissions, called Safeguard Mechanism Credits (SMCs). The Position Paper proposes that facilities regulated by the Safeguard Mechanism will be able to use any combination of ACCUs and SMCs to offset up to 100 percent of their harmful emissions.

This is highly problematic because storing carbon on land as a means to "offset" carbon emissions from burning fossil fuels is scientifically flawed.[12] Furthermore, the unlimited use of offsets will simply encourage carbon accounting to cover up business as usual behaviour, resulting in an ongoing level of harmful emissions. The design of the Safeguard Mechanism should prioritise *genuine* emissions reduction, because tackling harmful climate change means Australia's emissions must decline rapidly this decade.

The use of offsets is supposed to be a last resort, for dealing with the small share of emissions that cannot be avoided or reduced. Climate Council recognises that offsets will have some role to play in the world's transition to net zero, particularly for sectors and industries where low and zero emission technologies are still under development. However, that role should be strictly limited and progressively decline over time as opportunities for genuine emissions reduction at source are developed and rapidly scaled. Unfortunately, at the moment paying for offsets is the first and only thing too many big companies are doing about their harmful emissions.

Allowing Safeguard Mechanism facilities unlimited use of offsets to meet their obligations risks substantially undermining Australia's overall emissions reduction effort, especially if the use of offsets is allowed to delay or replace the reduction of fossil fuel emissions. From a scientific perspective, and when giving due consideration to the nature of the Earth's carbon cycle, it is simply not possible to "offset" the burning of fossil fuels through regrowing forests, increasing the amount of carbon in soils or other such measures through which carbon credits are generated.[13] Put simply, one

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[12] Mackey, B., Prentice, I.C., Steffen, W., House, J, Lindenmayer, D. Keith, H. and Berry, S. (2013). Untangling the confusion around land carbon science and climate change mitigation. *Nature*, 3: 552-557. Accessed: https://www.nature.com/articles/nclimate1804

[13] Climate Analytics (2023), Why offsets are not a viable alternative to cutting emissions. https://climateanalytics.org/media/why_offsets_are_not_a_viable_alternative_to_cutting_emissions.pdf; Dooley, K. Nicholls, Z. Meinshausen, M. (2022) 'Carbon removals from nature restoration are no substitute for steep emission reductions', *One Earth*. 5, no.7 (July 15, 2022) 812-24

tonne of carbon emitted by burning fossil fuels is not the same as one tonne of carbon stored in land (by planting trees for example). When we burn fossil fuels, we release carbon that has been locked away for millions of years, introducing *new, additional* carbon to the active cycle of carbon between the land, the atmosphere and ocean (see Figure 2). Planting trees does not lock that carbon away again - instead the introduced fossil carbon remains part of the active carbon cycle.[14]

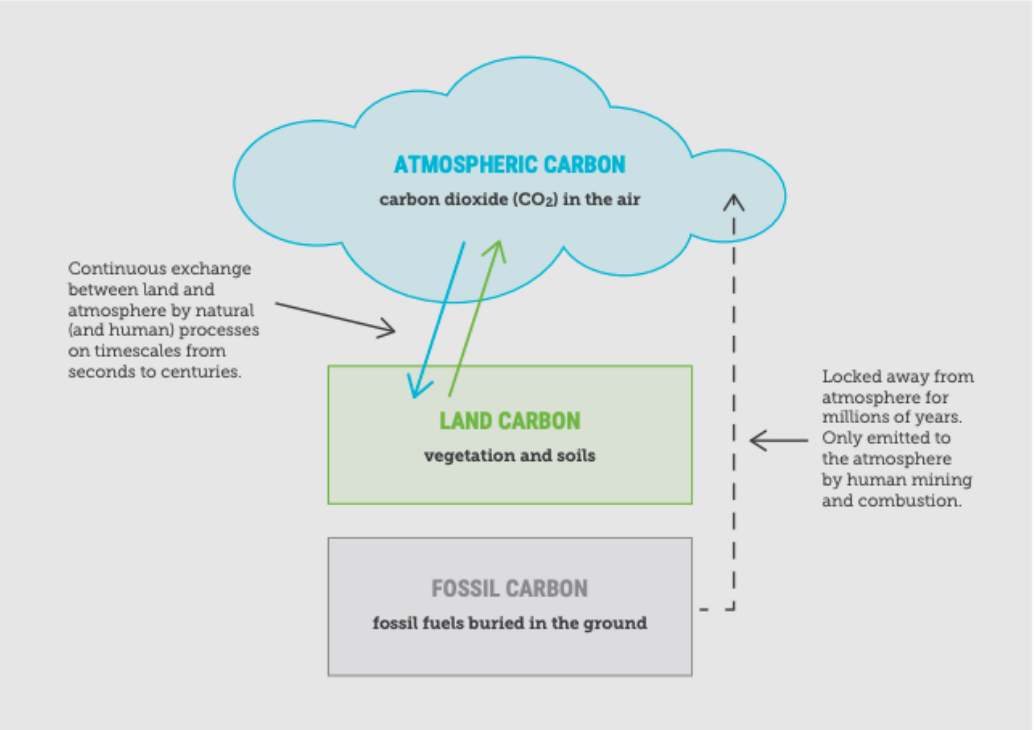

Figure 1: Carbon is continually exchanged between the land and the atmosphere on timescales of seconds, days, decades and centuries, whereas fossil carbon has been locked away from the atmosphere for millions of years.

In addition to the problem of bringing more carbon into the active carbon cycle, there is the problem of offset methods such as forest restoration being reversible. Forests may be destroyed in the future, by repeated fires, disease, floods and droughts, which are increasing with climate change. Fossil fuel emissions have a very long lifetime in the atmosphere. Each tonne of carbon released into the atmosphere is long-lived, with around 40 percent remaining after 100 years, 20-25 percent remaining after 1,000 years, and up

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https://www.sciencedirect.com/science/article/pii/S2590332222003232; Mackey, B., Prentice, I.C., Steffen, W., House, J, Lindenmayer, D. Keith, H. and Berry, S. (2013). Untangling the confusion around land carbon science and climate change mitigation. *Nature*, 3: 552-557. https://www.nature.com/articles/nclimate1804

[14] Climate Council (2016) Land Carbon: No Substitute for Action on Fossil Fuels. September 29, 2016. https://www.climatecouncil.org.au/uploads/aadc6ea123523a46102e2be45bfcedc8.pdf

to 20 percent after 10,000 years. Land based offsets do not guarantee such long-term sequestration.[15] Land-based "offsets" such as forest restoration cannot guarantee such long-term storage.

Furthermore, offsets can actually lead to increased harmful carbon emissions where these are used to licence the expansion of fossil fuel projects with a significant indirect emissions footprint. This is because a coal or gas facility will be required to offset its Scope 1 onsite emissions, but this will then lead to the production of significantly more Scope 3 emissions through the end use of fossil fuels. Analysis by Climate Analytics indicates that for every ACCU used to offset one tonne of CO_2e emissions from liquefied natural gas production, around 8.4 tonnes of equivalent lifecycle emissions are produced globally. For coal, the figure is even higher at between 58 and 67 tonnes of CO_2 equivalent emissions produced for every one tonne of direct emissions offset.[16] This demonstrates the significant negative impacts that arise from enabling fossil fuel companies to offset their emissions while continuing operations as usual, or expanding these.

It is essential we stop harmful emissions at the source, by incentivising corporations to transition to cleaner technologies, processes and fuel sources as rapidly as possible. The settings outlined in the Position Paper are inconsistent with this objective, as they propose that facilities which have emissions higher than their baseline can use any combination of ACCUs and SMCs to offset 100 percent of this excess pollution. There are no proposed limits on the total amount of offsets facilities can use, or any requirement for companies to take - and demonstrate - efforts to genuinely cut their on-site emissions.

If facilities regulated by the Safeguard Mechanism have unlimited, ongoing access to offsets, they will be much less likely to make the investments needed to genuinely - and permanently - reduce their emissions. This is because it will continue to be cheaper and easier to account for emissions by buying offsets, than to make genuine cuts by investing in process and technology changes. For example, analysis by the federal Parliamentary Library found that the cost of buying ACCUs to comply with new Safeguard Mechanism requirements for Australia's large mining and gas corporations

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[15] See: Climate Analytics (2023), Why offsets are not a viable alternative to cutting emissions.https://climateanalytics.org/media/why_offsets_are_not_a_viable_alternative_to_cutting_emissions.pdf See also: Climate Council (2016) Land Carbon: No Substitute for Action on Fossil Fuels. September 29, 2016. https://www.climatecouncil.org.au/uploads/aadc6ea123523a46102e2be45bfcedc8.pdf

[16] Climate Analytics (2023), Why offsets are not a viable alternative to cutting emissions. Accessed: https://climateanalytics.org/media/why_offsets_are_not_a_viable_alternative_to_cutting_emissions.pdf

could be less than 0.1 percent of these multinational firms' significant profits.[17]

In line with the carbon mitigation hierarchy, the Climate Council recommends that all facilities regulated by the Safeguard Mechanism be required to demonstrate genuine efforts to avoid and reduce emissions before relying on credits and/or offsets to meet their regulated baselines. For example, this could be achieved through amendments to the *National Greenhouse and Energy Reporting Act 2007*, as outlined in Climate Council's submission to the Senate inquiry into the *Safeguard Mechanism (Crediting) Amendment Bill*.[18] Furthermore, because SMCs will be created through reductions in emissions by facilities within the Safeguard Mechanism, they are the most directly comparable type of offset to the emissions produced within this scheme. For this reason, we recommend that SMCs be prioritised for use over ACCUs as the next step in a scheme-wide mitigation hierarchy, where offsets are to be used. Only once companies have exhausted any available SMCs - whether generated from their own operations or purchased from other facilities - should ACCUs then be used for any remaining emissions above baseline.

Recommendation 2

Climate Council recommends the final Safeguard Mechanism settings explicitly establish a carbon mitigation hierarchy whereby facilities must demonstrate genuine efforts to avoid and reduce emissions on-site before relying on credits or offsets.

Within this hierarchy, we further recommend that Safeguard Mechanism facilities be required to use any available Safeguard Mechanism Credits (created within the scheme) to account for their emissions above baseline, before using Australian Carbon Credit Units (created through other methods) outside the scheme.

Corporations relying on offsets and credits to meet their Safeguard Mechanism baselines should be required to transparently report on the type and volume of each used, for each compliance year. This will provide

[17] Sydney Morning Herald (2022), Cost of carbon credits would be 'coins down the couch' for coal, gas companies. Accessed: https://www.smh.com.au/politics/federal/cost-of-carbon-credits-would-be-coins-down-the-couch-for-coal-gas-companies-20221006-p5bnl4.html

[18] Climate Council (2022), Submission to the Senate Standing Committee on Environment and Communications - Inquiry into the Safeguard Mechanism (Crediting) Amendment Bill 2022. Accessed: https://www.climatecouncil.org.au/resources/submission-to-senate-committee-environment-communications-inquiry-into-safeguard-mechanism-crediting-amendment-bill-2022/

valuable data for ongoing assessment of the role of offsets and credits in the scheme, and ensure that companies are accountable to their shareholders and the Australian community for the genuineness of their emissions reduction efforts.

Climate Council recognises that access to offsets will be necessary in the initial phase of reformed scheme arrangements commencing from 1 July 2023, to give businesses time to implement and develop new technologies and business processes. However, it is essential that the Government sends a clear message that unlimited offsetting will not be a permanent feature of the scheme, so that Australia's largest emitters are incentivised to commence genuine transformation of their businesses as soon as possible.

In both the original RepuTex modelling conducted to inform the development of the Australian Government's Safeguard Mechanism reform policy,[19] and the Australian Government's emissions projections,[20] offsets are modelled to account for approximately 20 percent of total emissions abatement by 2030. This would be a positive outcome in that the majority of emissions reduction achieved by the reform would therefore be genuine cuts delivered through process, technology and fuel source changes. In strengthening the Safeguard Mechanism settings, the Australian Government should formalise this pathway to clarify that offsets may not account for more than 20 percent of total emissions reduction by 2030.

Recommendation 3

Climate Council recommends use of offsets be progressively phased down following an initial period to enable business planning and investment. Using land storage of carbon to "offset" fossil fuel emissions is scientifically flawed. The Australian Government should outline a clear pathway for progressively declining offset use as part of the final scheme settings commencing on 1 July.

[19] RepuTex (2021), The economic impact of the ALP's Powering Australia Plan. Accessed: https://www.reputex.com/wp-content/uploads/2021/12/REPUTEX_The-economic-impact-of-the-ALPs-Powering-Australia-Plan_Summary-Report-1221-2.pdf

[20] Department of Climate Change, Energy, the Environment and Water (2022), Australia's emissions projections. Accessed: https://www.dcceew.gov.au/sites/default/files/documents/australias-emissions-projections-2022.pdf

Finally, the Australian Government is proposing to provide transition funding to Safeguard Mechanism facilities through a dedicated stream within the Powering the Regions Fund. All funding provided to facilities through these arrangements should be used to support business transformation by investing in genuine process and/or technology changes. Public funds should not be spent on purchasing offsets or pursuing technologies which have failed to demonstrate a clear emissions reduction benefit despite large amounts of prior funding - such as some carbon capture and storage technologies in the fossil fuel sector.

Recommendation 4

Climate Council recommends public funding provided to Safeguard Mechanism facilities through the Powering the Regions Fund should only be used to support genuine business transformation. The funding rules should explicitly state that the purchase of ACCUs is not eligible expenditure. Companies receiving public funds should be required to make a legally-binding commitment that these will not be used for this purpose as part of the grant terms.

Together, these changes would help ensure the Safeguard Mechanism actively prioritises genuine emissions reduction by significantly curtailing the use of carbon offsets within the scheme over time.

Prioritising the transformation of future-focused industries

The Safeguard Mechanism effectively regulates two categories of industries. There are industries whose products are essential to Australia's ongoing development and have a long-term future in a net zero emissions world - like steel, aluminium, cement and critical minerals. These industries need to be supported and incentivised to transform so they can thrive and continue contributing to national prosperity. Then there are the fossil fuel industries - coal, oil and gas - for whom time is running out as the world seeks to rapidly decarbonise to avoid further harmful climate change. These industries should be incentivised to make a managed exit as soon as possible as supply of renewable alternative energy sources ramps up. Further, new projects should not proceed as global expert consensus is clear that we cannot open further new fossil fuel projects if the world is to have any chance of holding harmful warming to 1.5 degrees.[21]

Unfortunately, there are currently more than 100 new coal and gas projects in the development pipeline in Australia.[22] The impact of further fossil fuel projects on Australia's domestic emissions could be enormous. It is estimated that planned new gas and coal projects could result in almost 1.7 billion tonnes more CO_2e emissions annually if they all proceeded.[23] This is more than three times Australia's annual emissions. A large portion of these emissions would be released overseas - where they would also lead to climate damage - but each project would also be responsible for an increase in domestic emissions. Even if only considering the projects which are *likely* to proceed this decade, these could generate enough domestic emissions in 2030 for the coal and gas sector to exceed the Safeguard Mechanism's entire emissions budget.[24]

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[21] International Energy Agency (2021), Net zero by 2050 - A roadmap for the global energy sector. Accessed at: https://iea.blob.core.windows.net/assets/7ebafc81-74ed-412b-9c60-5cc32c8396e4/NetZeroby2050-ARoadmapfortheGlobalEnergySector-SummaryforPolicyMakers_CORR.pdf

[22] Department of Industry, Science and Resources (2022), Resources and Energy Major Projects 2022. Accessed: https://www.industry.gov.au/publications/resources-and-energy-major-projects-2022

[23] The Australia Institute (2021), Australia's fossil fuel expansion plans equivalent to over 200 new coal power stations. Accessed at: https://australiainstitute.org.au/post/australias-fossil-fuel-expansion-plans-equivalent-to-over-200-new-coal-power-stations

[24] Energy Resource Insights (2022), Impact of new and existing coal and gas projects under the safeguard mechanism. Accessed at: https://energyresourceinsights.com/wp-content/uploads/2022/12/Safeguard-mechanism-report-221219.pdf

In addition to putting a safe climate at risk globally, Australia's proposed pipeline of new coal and gas facilities threaten to bring a huge amount of additional emissions into the Safeguard Mechanism. This will not only force existing facilities to work harder to ensure scheme emissions as a whole stay within the proposed carbon budget, but also raises questions about the role of the Safeguard Mechanism in meeting Australia's legislated 2030 emissions reduction target.

Under the Australian Government's proposed settings, the unrestrained use of carbon offsets by new coal, oil and gas projects is also likely to soak up the limited supply of high integrity offsets. This will make these more expensive and less available for the sectors that truly need them because they have limited current opportunities for genuine emissions reduction. For all of the above reasons, Climate Council does not support new fossil fuel facilities entering the Safeguard Mechanism.

The best outcome for Australians and a safe climate would be for new fossil fuel projects to cease altogether. However, the Safeguard Mechanism alone is unlikely to be sufficient to deliver this outcome given its scope and powers.

The following section therefore addresses the proposed policy settings for new entrants to the Safeguard Mechanism, with a focus on tightening these to ensure they do not enable new and significantly expanded fossil fuel projects or see public funding and incentives directed to them. Other policies will be needed alongside the Safeguard Mechanism to deliver a definitive end to new coal and gas.

Treatment of new fossil fuel entrants

When it comes to climate change, coal, oil and gas cannot be treated like everything else. These fossil fuels are the primary drivers of harmful warming, and no amount of offsetting can replace limiting new developments and major expansions. The government's proposed settings do not differentiate between projects important to our future economy and those that will need to be phased out. The only dedicated provision proposed for addressing new entrants is the application of 'international best practice baselines adapted for the Australian context'. This is intended to ensure that *any* new facility commencing operation after 1 July 2023 uses the best low emissions technology available anywhere in the world. That is a step in the right direction but does not go far enough.

The inclusion of the term 'adapted for the Australian context' is problematic because it appears to provide a caveat that corporations can use to avoid

being held to the standard of genuine international best practice for their relevant sector. If a company is able to make its products with lower emissions somewhere in the world, this is the standard that Australian industry should also be required and incentivised to achieve. It would be beneficial for the Australian Government to publish clear guidance about what international best practice looks like for each individual sector regulated by the Safeguard Mechanism, as this would be a useful signal to corporations and their investors about the future benchmarks that will apply when considering new and significantly expanded projects.

Recommendation 5

Climate Council recommends the Australian Government remove 'adapted for the Australian context' from the final scheme settings for new entrants, and provide clear, specific guidance on what constitutes international best practice for each of the sectors represented within the Safeguard Mechanism as part of the final scheme settings.

Beyond the application of the international best practice baselines, the Position Paper does not outline any further specific conditions applying to new entrants to the Safeguard Mechanism. Under the proposed settings, new entrants are proposed to be given the same annual emissions decline rate that will be applied to existing facilities. They are proposed to be allowed unlimited use of ACCUs and SMCs to cover off their emissions obligations - meaning they can avoid reducing their pollution and buy offsets or credits instead. New entrants that are trade-exposed are proposed to have access to government assistance including the $600 million Safeguard Transformation Stream under the Powering the Regions Fund. The door is even left open for new highly polluting facilities to get access to a more lenient baseline decline rate by applying for special status as a trade-exposed facility.

Unless the Safeguard Mechanism is strengthened to apply tighter requirements to new and significantly expanded highly polluting fossil fuel projects, other facilities will be forced to carry their weight. Further, the expansion of fossil fuel projects will threaten Australia's ability to meet our legislated 2030 emissions reduction target. The government has said the current target - to cut emissions by 43 percent this decade - is a floor, not a ceiling on ambition. Australia will need to cut emissions by more than 43 percent this decade, in line with the scale of action needed to avoid locking in the worst impacts of harmful climate change.

To ensure that new projects do not blow Australia's emissions budget and scuttle the intended benefits of reforming the Safeguard Mechanism, the scheme should require that any proposed new entrants and significant project expansions have passed a rigorous environmental assessment. The Safeguard Mechanism is not designed as a review and assessment process for projects; that is the role of the *Environment Protection, Biodiversity Conservation Act 1999* (EPBC Act). Climate Council proposes that any new or expanded project which is expected to produce harmful carbon pollution of 100,000 tonnes or more a year - the threshold for the Safeguard Mechanism - should be considered under the EPBC Act regardless of whether it triggers any other current criteria for assessment. This includes projects which would otherwise be considered under the Offshore Project Proposal process managed by the National Offshore Petroleum Safety and Environmental Management Authority.

The Australian Government is currently in the process of reforming the EPBC Act to strengthen the assessment of carbon pollution in project approvals.[25] This will include direct consideration of Scope 1 and Scope 2 emissions. Until these reforms are in place, a pause should be placed on new projects entering the Safeguard Mechanism and being assessed for baselines within the scheme's overall project budget.

The Australian Government is pursuing two important reforms to our federal policy toolkit for driving down emissions, but these should not proceed on parallel tracks. New projects under the Safeguard Mechanism should be subject to scrutiny under a stronger EPBC Act to ensure that they will not drive more harmful climate change and put a safer climate further out of reach.

Recommendation 6

Climate Council recommends any new or expanded project which will meet the threshold for entry to the Safeguard Mechanism be required to be assessed under a strengthened *Environment Protection, Biodiversity Conservation Act 1999.* A pause should be placed on new or significantly expanded projects of this scale entering the Safeguard Mechanism until the government's in-train reforms to the EPBC Act are in place.

[25] Department of Climate Change, Energy, the Environment and Water (2022), Nature Positive Plan: better for the environment, better for business. Accessed at: https://www.dcceew.gov.au/sites/default/files/documents/nature-positive-plan.pdf

Prioritising industry support

Transforming Australia's heavy industries will require significant new investment - from financial markets, private capital and government co-investment. The Australian Government has established a dedicated funding pool to support businesses in the Safeguard Mechanism to undertake technology trials, buy new equipment and update their facilities to cut emissions. Companies will also be able to apply for other supports - like slower baseline decline rates - if they can demonstrate that they will be significantly affected by the new Safeguard Mechanism settings.

To ensure the Australian Government is not subsidising harmful fossil fuels or propping up industries that can have no long-term future, these industry supports should only be provided to sectors which can continue to thrive as the world decarbonises. This means prioritising key sectors like steel, aluminium, cement and chemicals rather than subsidising harmful fossil fuels or propping up industries that have no long-term future.

Emerging industries that will support the world's clean energy transformation - like critical minerals mining, the production of green metals, and renewable hydrogen - should also be prioritised for support over polluting fossil fuels. Australians made it clear at the last federal election that they want to see much stronger climate action at a national level. They expect that our national policies and public money will back in industries that will help ensure our ongoing prosperity, over high polluting fossil fuels that are fuelling the climate crisis.

This means that new and significantly expanded coal and gas facilities would not have access to financial or other supports intended to help existing facilities cut their emissions. This includes co-investment offered to trade-exposed facilities through the Powering the Regions Fund. The Safeguard Transformation Stream within the Fund should explicitly state that it is not available to new fossil fuel projects. Its defined purpose is to support decarbonisation activities of emissions-intensive trade-exposed facilities. The Fund should therefore focus its support on enabling the genuine transformation of critical industries needed for decarbonising domestic and global economies - not fossil fuel facilities which are adding more fuel to the fire.

Similarly, new and significantly expanded fossil fuel projects should not have access to a more lenient baseline decline rate through proposed 'trade exposed baseline adjustments.' These adjustments offer lower baseline

decline rates for a three-year period, for trade-exposed facilities that have an elevated risk of carbon leakage. These special conditions should be reserved for facilities in genuinely hard-to-abate sectors which are essential for Australia's ongoing development in a net zero emissions economy.

Recommendation 7

Climate Council does not support new fossil fuel facilities entering the Safeguard Mechanism. International expert advice and the science is clear that new fossil fuel projects are inconsistent with holding global warming as close as possible to 1.5 degrees.

However, if any new or significantly expanded fossil fuel facilities do proceed, Climate Council recommends these facilities be made ineligible for any forms of government support available to existing Safeguard Mechanism facilities. This includes making such facilities ineligible for funding under the Safeguard Transformation Scheme within the Powering the Regions Fund, and ensuring they are not able to access the proposed trade exposed baseline adjustment mechanism.

These steps will ensure that all public support available through the Safeguard Mechanism is directed to key national industries with a long-term future in a decarbonising world.

There is no room for new fossil fuel projects if Australia is to have any hope of avoiding the worst impacts of harmful climate change. That means the Safeguard Mechanism should not enable new, high polluting projects by treating them like any other existing facility already operating in the scheme.

Setting Australian industry up to thrive in a global net zero marketplace

High-emitting industries engaged in global trade have long argued they deserve special treatment in Australian climate policy, including exemptions from requirements to cut carbon emissions. They have traditionally argued that if they are required to meet the costs of reducing emissions, they will be disadvantaged relative to competitors in other parts of the world who do not face the same constraints. These arguments have recently been revived in relation to policy settings within the Safeguard Mechanism applying to so-called Emissions-Intensive Trade-Exposed industries (EITEs).

The Position Paper outlines several types of support which are intended to be provided to companies trading internationally which can demonstrate they may be adversely affected by the new Safeguard Mechanism settings. Climate Council acknowledges that the primary form of support to be offered is co-investment in business transformation through the Safeguard Transformation Stream within the Powering the Regions Fund. We support this approach as it separates decisions about support for specific companies or sectors from the operation of the mechanism itself. However, the Position Paper also outlines proposed arrangements whereby facilities can apply for a lower baseline decline rate on the basis of being trade-exposed and having 'an elevated risk of carbon leakage due to estimated cost impacts at the facility level'. While Climate Council recognises that such arrangements may be needed in a very small number of instances, these arrangements should not be made available to the vast majority of scheme participants. The following section outlines the significant developments in international markets since Australia last had a formal mechanism for reducing industrial emissions, and highlights why EITE status should not be granted to the majority of Safeguard Mechanism facilities.

Major markets and competitors are now driving towards net zero

As the world shifts toward a net-zero future, a growing number of Australia's trading partners have introduced domestic measures to restrict carbon emissions and are imposing carbon border costs on higher-emissions imports as well. Reducing emissions is no longer a competitive disadvantage for Australian industry. Instead, setting requirements under the Safeguard Mechanism for Australian industry to genuinely cut their emissions will put them on a level playing field with competitors in key markets that have also introduced equivalent policies. Providing a clear pathway toward

decarbonisation will help our industries thrive in a future where net-zero is business as usual.

Since 2015, well over 100 countries representing more than 90% of the global economy, have pledged to achieve net-zero emissions by mid-century.[26] More importantly, many of the world's leading economies - including the United States, United Kingdom, European Union, Japan, South Korea, and Canada - have signalled plans for deep cuts to their emissions by 2030.[27]

The global shift toward net-zero has fundamentally reshaped Australia's economic prospects. Key destination markets - such as Japan, China and South Korea, which account for two thirds of Australia's coal and gas exports - have set timeframes for phasing out fossil fuels.[28] A growing number of markets for Australian goods are also imposing border costs on key imports - such as iron and steel, aluminium, cement and fertilisers - that are produced without carbon constraint.[29]

In the years ahead, major economies in our region and elsewhere will continue to want Australian energy, minerals and commodities, but they will be seeking clean alternatives. Requirements for Australian industries to genuinely cut their emissions will not disadvantage them in international trade, instead it will put them on a level playing field with competitors in key markets that are also introducing initiatives to reduce carbon pollution.

A growing number of Australia's trading competitors are setting a price on carbon, or introducing cap-and-trade schemes that impose costs on carbon in the production of industrial goods. As of 2022, 70 regional, national, or subnational carbon prices were in effect - covering many of the world's largest economies, key nations in our region, and markets that compete with Australia.[30]

As these policies become more common, nations are also pursuing policies designed to ensure their domestic industries are not disadvantaged. In December 2022, the European Union (EU) agreed to implement a Carbon Border Adjustment Mechanism (CBAM), which is intended to ensure companies do not move production offshore to avoid the EU's domestic carbon policies. Under the arrangement, costs are to be imposed on imports

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[26] New Climate Institute (2022) Net Zero Stocktake 2022: Assessing the status and trends of net zero target setting across countries, sub-national governments and companies.
[27] See: Climate Council (2022) G'Day COP27: Australia's global climate reset
[28] Kemp J, McCowage M, Wang F (2021) 'Toward Net Zero: Implications for Australia of Energy Policies in East Asia'. Bulletin - September 2021. Reserve Bank of Australia.
[29] Minas, S (2023) 'Crossing the carbon border'. *The Interpreter*. Lowy Institute
[30] World Bank (2023) Carbon Pricing Dashboard.

from countries which do not place equivalent restrictions on carbon pollution.

This is just the beginning of a wider shift. Carbon border measures are under consideration by other jurisdictions including the United States, the United Kingdom, Canada and Japan.[31] Indeed, as the Position Paper notes, Australian industry favours the adoption of a carbon border adjustment mechanism as a way of levelling the playing field for Australian businesses, as they move toward low-carbon production.[32]

Modelling commissioned by the Climate Council suggests that if China, South Korea and the G7 group of countries adopt similar measures to the EU, and Australia does not require industries to reduce emissions from their production, losses to Australia's national income could reach more than $12 billion, and thousands of jobs could be at risk - especially in Queensland and New South Wales.[33] Climate Council notes Climate Change and Energy Minister Chris Bowen's comments in January 2023 that the Australian Government will further consider implementation of carbon border adjustment measures for Australia, and encourages this work to be pursued as a priority in parallel with reform of the Safeguard Mechanism.

Australian industry should not fear the global shift toward a low-carbon future. We have a globally significant comparative advantage in renewable energy and critical minerals, and Australian industry is well-placed to thrive in a net-zero world. Reforming the Safeguard Mechanism to require an annual reduction in emissions will provide important certainty for businesses, allowing them to shift their investment toward low-carbon production. In turn, this will help Australian business seize opportunities as global demand for clean products accelerates. That is why the Safeguard Mechanism's headline settings should not be undermined by granting a large number of facilities access to the trade exposed baseline adjustment arrangements.

The Australian Government should make clear that this aspect of the scheme is intended to be available only to a small number of essential facilities which do not currently have access to technology, process or other changes which could achieve significant emissions reduction in the near term. Further, the Australian Government should clarify that fossil fuel

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[31] Climate Council (2021) Markets are moving: The economic costs of Australia's climate inaction

[32] https://www.abc.net.au/radionational/programs/breakfast/could-australia-adopt-eu-style-green-tariffs-/101847080

[33] Climate Council (2021) Markets are moving: The economic costs of Australia's climate inaction

companies will not be eligible for any reduced baseline arrangements - now or in the future.

While it is likely that industry will strongly advocate for expanded access to these arrangements in the final Safeguard Mechanism settings, this feedback should not be adopted. Every additional facility that receives special treatment under the trade exposed baseline adjustment arrangements weakens the overall emissions reduction that will be delivered by the Safeguard Mechanism.

Recommendation 8

Climate Council recommends that access to the proposed trade exposed baseline adjustment arrangements should be tightly restricted. Access to these arrangements should not be expanded to a wider segment of facilities or industries within the Safeguard Mechanism as part of the final scheme settings. In particular, fossil fuel facilities within the mechanism should never be eligible for reduced baseline decline rates under these arrangements.

Climate Council recommends exploration of carbon border adjustment measures for Australia be pursued as a priority in parallel with reform of the Safeguard Mechanism.

The world - and Australia's major trading partners - are now rapidly seeking to cut carbon emissions. Putting in place domestic policies to address emissions from industrial polluters will not damage their international trade competitiveness. Rather, it will strengthen this by ensuring that as major markets increasingly seek low-carbon inputs and products, Australian manufacturers are set up to deliver.

Cutting emissions beyond the Safeguard Mechanism

Reducing direct, domestic emissions from Australia's largest industrial facilities is an important step in our broader national effort to cut harmful carbon pollution. That is why it is essential we put in place strong new settings for the Safeguard Mechanism as soon as possible.

However, even if the Safeguard Mechanism works as intended to reduce direct, domestic emissions, Australia will continue to fuel the climate crisis through our enormous fossil fuel exports. These are our nation's biggest contribution to the climate crisis, as emissions from Australian coal and gas burned in other countries are more than double our domestic emissions.[34] By one account, when emissions from fossil fuel exports are added, Australia's overall contribution to climate change represents four to five percent of total global emissions.[35] Today Australia is the world's third largest fossil fuel exporter, behind only Russia and Saudi Arabia. Australia is the world's largest exporter of coking coal - used to make steel; the second largest exporter of thermal coal - used in coal-fired power stations to make electricity; and the largest exporter of liquified gas. Since 2005, Australia's fossil fuel exports have doubled.[36] Continued expansion of Australian coal and gas is causing harm by locking in further extreme weather, driving sea level rise and catastrophic biodiversity loss.

There is another way. Australia can play a significant role in tackling the climate crisis by exporting the clean energy commodities and critical minerals that other countries need to shift to net zero economies. As Prime Minister Anthony Albanese has argued, Australia has a once-in-a-generation opportunity to become a renewable energy superpower.[37] Recent estimates suggest that, by providing the resources the world needs for decarbonisation,

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[34] Climate Council (2022), G'day COP 27: Australia's global climate reset. Accessed: https://www.climatecouncil.org.au/wp-content/uploads/2022/11/Gday-COP27-Australias-Global-Climate-Reset-Single.pdf

[35] Hare (2022), 'The ultra-polluting Scarborough-Pluto gas project could blow through Labor's climate target - and it just got the green light'. The Conversation. Accessed: https://theconversation.com/the-ultrapolluting-scarborough-pluto-gas-project-could-blowthrough-labors-climate-target-and-it-just-got-the-greenlight-184379

[36] Moss (2021), 'Australia's net-zero plan fails to tackle our biggest contribution to climate change: fossil fuels'. The Conversation. Accessed: https://theconversation.com/australias-net-zero-plan-fails-to-tackle-our-biggest-contribution-to-climate-change-fossil-fuel-exports-170646#:~:text=No%20net%2Dzero%20without%20exports,more%20than%20doubled%20since%202005.

[37] Albanese (2022) Address to the Sydney Energy Forum. 12 July 2022. Prime Minister and Cabinet. Accessed: https://www.pm.gov.au/media/address-sydney-energy-forum

Australia could cut global emissions by eight percent.[38] This would be the equivalent of cutting all the emissions of Europe and the UK, or as much as Japan reaching net zero twice over. Australia should embrace our clean energy opportunity by pursuing a new green exports agenda alongside reform of the Safeguard Mechanism.

US President Biden's *Inflation Reduction Act 2022* has been widely hailed for its historic investments in growing new, zero emission industries in the world's largest economy. With a strong focus on kickstarting the widespread roll out of wind and solar, rapidly scaling up a domestic green hydrogen industry and supporting households to electrify and choose more energy efficient appliances and vehicles, the package represents a once-in-a-century investment in transforming the US economy for a zero emissions future. Australia is already well advanced in some of the key areas pursued through this Act, particularly due to the efforts of state and territory governments to shift our energy system to renewables and support households on this journey. But there remains much more to do, particularly on establishing and rapidly scaling up green export industries which can replace Australia's fossil fuel exports in the coming decades.

Modelling from Beyond Zero Emissions has found Australia has the potential to grow a new green export mix worth $333 billion a year, which is almost triple the value of existing fossil fuel exports.[39] A key advantage is our world-class renewable energy resources. Australia receives the most sunlight per square metre of any continent. Theoretically, we receive enough sunlight to power our nation approximately 100,000 times over.[40] Australia also has some of the best onshore and offshore wind resources in the world. This means we can produce low-cost renewable electricity, which gives us the crucial commercial advantage needed to develop new clean industries.

The rest of the world is heavily investing in green industrial production. For example, the Inflation Reduction Act is expected to substantially lower the costs of renewable energy and hydrogen that benefit industrial producers and enable green exports. Similarly, the EU's Green Deal has a range of efforts to incentivise clean energy and industry development. The potential benefits for Australia in similarly embracing clean energy export industries are huge – and will be measured in jobs, investment and economic growth.

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[38] Garnaut (2022), The Superpower Transformation: Making Australia's zero-carbon future. La Trobe University Press.

[39] Beyond Zero Emissions (2021), Export powerhouse: Australia's $333 billion opportunity. Accessed at: https://bze.org.au/research_release/export-powerhouse/

[40] Geoscience Australia (2021), Solar Energy. Accessed: https://www.ga.gov.au/scientific-topics/energy/resources/other-renewable-energy-resources/solar-energy

By conservative estimates, Australia's clean energy exports have the potential to generate 395,000 jobs by 2040 – with many of these jobs in the same regions and communities that are currently home to fossil fuel industries.[41]

Climate Council recommends the Australian Government seize these opportunities by delivering a major package of initiatives directly enabling the development and growth of Australian green export industries.[42] This package should explicitly seek to grow new industries capable of:

- providing ongoing jobs and economic security for communities which currently produce fossil fuels;
- meeting the energy and other input needs of our major trading partners to accelerate their decarbonisation efforts;
- leveraging Australia's comparative advantages to provide a sustainable, long-term base for national prosperity in a net zero world.

Growing successful green export industries will require focused effort, investment and partnerships, but Australia is ideally situated to succeed. A clear public commitment from the Australian Government to advance such an agenda - including a specific package of investments and initiatives - would help to address significant concerns that Australia has no current plans to address our biggest contribution to global warming - Scope 3 emissions exported overseas. Pursued in tandem with strong reform of the Safeguard Mechanism and its existing positive initiatives on energy system transformation, a green exports agenda would see the Australian Government genuinely start to tackle all key drivers of harmful climate change.

Recommendation 9

Climate Council recommends the Australian Government deliver a major package of initiatives and investment explicitly aimed at developing Australian green export industries to replace exported fossil fuels over time, in parallel with reform of the Safeguard Mechanism. The size and

[41] Business Council of Australia (2021), Sunshot: Australia's opportunity to create 395,000 clean export jobs. Report with WWF-Australia and the Australian Council of Trade Unions. Accessed at: https://www.bca.com.au/sunshot_australia_s_opportunity_to_create_395_000_clean_export_jobs

[42] See: Climate Council 2022. Submission to Parliamentary Inquiry into Australia's transition to a green energy superpower. Accessed at: https://www.aph.gov.au/DocumentStore.ashx?id=d4c35460-2bcc-4d9a-a317-faf43869b030&subId=726495

scope of this package should reflect the once-in-a-century opportunity currently in front of Australia to become the world's supplier of choice for clean energy and green manufactured goods.

Conclusion

A reformed Safeguard Mechanism can play an important role in driving the urgent emissions reduction Australia must now achieve. For the Safeguard Mechanism to deliver this, the new settings must be calibrated to prioritise genuine emissions reduction at every level. Furthermore, the scheme should ensure that any new facility which seeks to commence operations in Australia is set up to thrive as net zero increasingly becomes business as usual. This means placing much tighter restrictions on new and significantly expanded coal, oil and gas projects within the Safeguard Mechanism.

There is much at stake in the reform of this key policy lever. But getting it right will deliver enormous benefits: continued prosperity in a zero emissions economy; new job and industry creation through innovation; and a safe and liveable environment for Australians - now and in the decades to come.