



# AUSTRALIAN PARENTS FOR CLIMATE ACTION

Australian Parents for Climate Action

**Submission to the Department of Industry, Science & Resources:**

## Safeguard Mechanism reform: consultation paper

20 September 2022

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Australian Parents for Climate Action represents over 17,000 parents, grandparents and carers from across Australia. We are Australia's leading organisation for parents advocating for a safe climate. Our supporters are from across the political spectrum, across all Australian electorates, and from varied socio-economic positions. We seek non-partisan responses to climate change and its impacts.

We advocate for Australian governments and businesses to take urgent action to cut Australia's carbon emissions to net zero as quickly as possible. We encourage Australia to take a leadership role on the world stage, leading by example and calling for other nations to take the necessary action to protect our children's futures.

For more information, visit [www.ap4ca.org](http://www.ap4ca.org)

This submission was prepared by volunteer David McEwen and has been approved by Nic Seton, Chief Executive Officer of Australian Parents for Climate Action.

## Submission

Australian Parents for Climate Action **welcomes reform of the Safeguards Mechanism (SGM)** and appreciates the opportunity to provide comment on the consultation paper. It is refreshing to respond to detailed and considered queries. We hope there is a sincere intention to fix the loophole-ridden SGM and ensure it contributes to actual and verifiable emissions reduction.

However, we were disappointed by the limitations of consultation, in particular the decision not to lower the threshold from 100kT. Given the underlying objective of the SGM is to set Australia on its path to net zero emissions, we strongly recommend the threshold be progressively lowered over time, eventually to include all NGERs reporting facilities and entities.

For example, if the 137 MT covered by the SGM is to decrease at 5 MT per annum, then if the decrease is distributed evenly, that represents a 3.65% decrease in the first year, 3.79% in the second year, etc. Based on 2020/21 data, if facilities close to the 100kT threshold achieved this reduction, then 5-6% of SGM facilities would fall below the threshold within two years, and no longer be required to continue reducing their emissions under the mechanism. That will not get us to net zero. Accordingly, the threshold should be lowered at the same rate as the reducing cap.

We also reiterate, as per our [submission to the Senate Inquiry on the Climate Change Act \(2022\)](#) that the 2030 and 2050 targets are manifestly inadequate. Instead they (including the associated budgets) should be aligned, in accordance with the science and the Paris Agreement's equity principles, with reductions of 75% by 2030 and net zero by 2035. Arguments that such targets are "economically infeasible" or "technologically impossible" do not hold sway: targets shape our ambition and it is, simply put, what needs to be done by Australia to say that we are doing our part to give our children a fighting chance of a safe(ish) future. Anything less is an unconscionable failure. There won't be an economy if the global community doesn't get this right.

As such, it is *essential* that changes to the SGM arising from the current process facilitate future improvements to the emissions reduction trajectory. Operators of SGM facilities should understand that their opportunity to support Australia's safe climate future through genuine emissions reduction will only become more demanding over time.

Penalties for non-performance against SGM targets is another issue that does not appear to be considered in the consultation paper. Non-performance must attract a penalty of a magnitude that will genuinely encourage compliance. We have already seen the lost lives, shattered livelihoods, multi-billion dollar property damage, and permanently destroyed biodiversity from the initial impacts of climate change. Warnings and paltry penalties should be replaced with tough sanctions, including mandated production halts and criminal penalties attracting material fines and jail time for responsible directors and executives.

<p><b>The Safeguard Mechanism’s share of the national abatement task</b></p>	
<p>· What should the Safeguard Mechanism’s share of Australia’s climate targets be?</p>	<p><u><b>SGM Emissions Are Dominated by Fossil Fuel Facilities</b></u>  Facilities covered by the SGM are dominated by companies in the fossil fuel extraction business. Of the top 20 facilities by emissions source, 13 are gas or coal extraction sites. Four of the top five are gas wells. In fact, the 10 largest gas facilities alone (by emissions) were responsible for <b>seven percent</b> of Australia’s total emissions (i.e. a quarter of the emissions covered by the SGM).<sup>1</sup></p> <p>Collectively, gas (34 facilities / 31% of SGM emissions) and coal (62 facilities, 25% of SGM emissions) contribute an outsized 56% of total SGM emissions as shown in Figure 1 and 2. Gas and to a lesser extent coal operations are amongst the most emissions intensive facilities covered by the SGM.</p> <p><u><b>The Fossil Industry Owes Australia</b></u>  Given the <a href="#">overwhelming culpability</a> of the fossil fuel industry since at least the 1980s in obscuring the evidence about the causes of anthropogenic global warming, creating doubt about the science, and lobbying governments to maintain the status quo, we feel very strongly that the fossil fuel sector must shoulder the largest burden of emissions reduction. The simplest way for that to happen, of course, is for them to <i>leave it in the ground</i> (which is also the only truly effective method of carbon capture and storage).</p> <p>Further, given the largely <a href="#">untaxed superprofits</a> such firms have enjoyed for many years (compounded by <a href="#">low royalties</a> and <a href="#">high subsidies</a>) we maintain that the fossil fuel industry is well placed financially to provide an outsized contribution to emissions reduction.</p> <p>The export coal and LNG industries have acted like a parasite that threatens its host, significantly inflating Australia’s per capita emissions without delivering commensurate economic benefits to the Australian people (please refer to this <a href="#">article</a> published on our website, which summarises evidence of the paltry economic and employment contribution made by the industry).</p> <p><u><b>Fossil Firms Must Shoulder More of the Emissions Reduction Burden</b></u>  We recommend fossil fuel facilities (along with those whose principal <i>raison d’etre</i> is supporting fossil fuel extraction, which includes a number of SGM Power and Transport facilities) shoulder a greater burden for Australian emissions reduction, while other industries should be more closely aligned to national emissions reduction targets.</p> <p>Specifically, in accordance with the recommendations of the <a href="#">IEA</a> and <a href="#">IPCC</a>, we recommend that no more fossil fuel facilities are approved, and that the SGM includes a specific phase out timeline for existing SGM gas, oil and coal facilities that is aligned with Australia’s net zero pathway (both to 2030 and 2050).</p> <p><u><b>Emissions Reduction Across the Broader SGM Should be Faster Than for Most Other Parts of the Economy (Apart from Electricity)</b></u>  In terms of the broader domestic economy, we note that the <b>electricity</b> sector is the easiest to decarbonise given the ever-more favourable economics of renewables and storage (though ensuring adequate</p>

<sup>1</sup> Data and graphs have been derived from the [2020-21 Safeguard Facility Data spreadsheet](#).

transmission and sensible market regulation remains a challenge). Electricity must be decarbonising at a faster rate than the national target, particularly given it needs to supply clean energy to enable decarbonisation of transport and stationary energy.

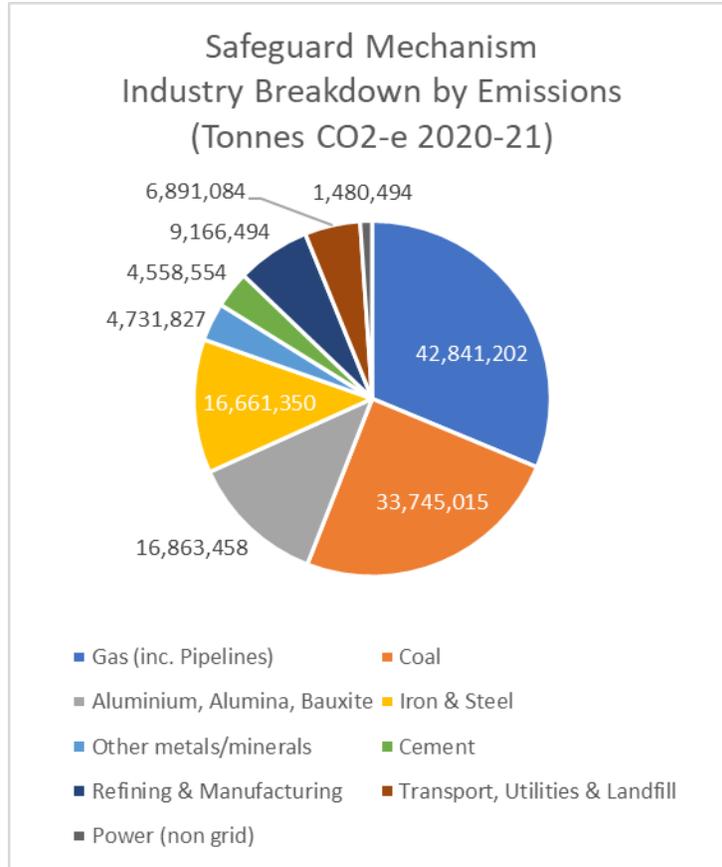
**Transportation and Stationary Energy** are more challenging given the highly diffuse and privately owned nature of emissions sources. Given the potential of electrification for buildings (and a range of industrial uses), a ban on new gas connections and a phase out of the sale of gas appliances and plant would go some way towards addressing the latter.

**LULUCF** offers untapped potential if laws enabling forestry and land clearing are reversed, though it should be noted that negative emissions from genuine afforestation and re-wilding take time, are fragile and can easily be undone by bushfires or other extreme weather. Soil carbon sequestration and reduction of livestock emissions offer potential in the Agricultural sector, but again, the diffuse nature of land ownership means progress on *genuine* reductions will be slow.

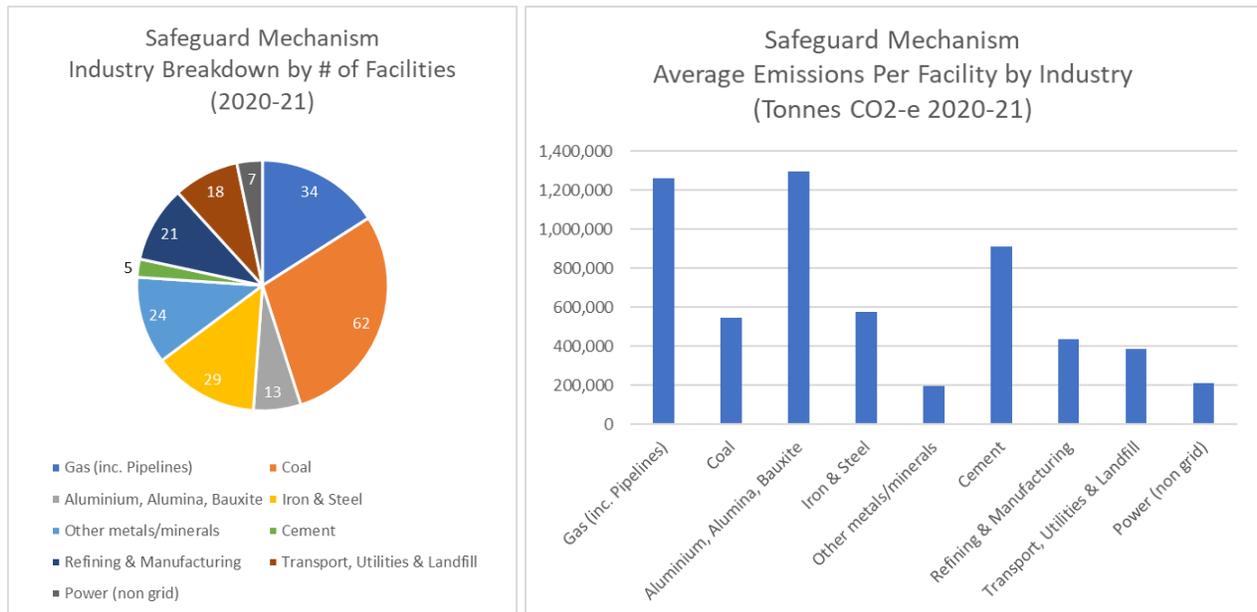
In terms of industrial facilities covered by the SGM, the steel, aluminium, cement and fertiliser sectors have clear abatement pathways that could be taken to significantly reduce their emissions intensity, though we acknowledge that they may be capital intensive and will take time to scale. Steel can be made with green hydrogen, and even more directly using [electricity](#), and the [first shipments of zero emissions steel](#) commenced last year in Europe. Aluminium has a [clear road to decarbonisation](#). Various [lower-emissions substitutes](#) exist for cement and building products are being produced that could [permanently sequester carbon dioxide](#). Fertiliser can also be produced via [green hydrogen](#). An emissions reduction aligned timeline should be set for these industries to fully transition to only using lower emissions options to incentivise investment, scaling and roll out.

**Just 10 companies are responsible for over half of the emissions from SGM facilities** (across all sectors). The highly concentrated nature of the SGM is perfect for the government to engage directly with the major emitters and help chart their path to zero.

Accordingly, **the SGM should exceed the share of reductions in line with the contribution that broader policies are expected to influence reductions in other sectors.** By far the easiest way to reduce *half* of the emissions covered by the SGM, without significantly affecting the domestic economy (as reiterated by the [RBA](#)) would be to *end fossil fuel exports*. Not approving any new gas or coal extraction facilities would be an excellent start.



**Figure 1 - Fossil fuel facilities represent 56% of SGM emissions.**



**Figure 2 - Gas and coal facilities are relatively more emissions intensive than many industries apart from steelworks, alumina refineries and cement works. In particular, gas and coal mining involves more emissions per facility than iron ore and other metals/minerals, because of high fugitive methane and carbon dioxide emissions. Noting that fugitive emissions are also currently under-measured.**

Industry Category	Highest Emitting SGM Facility per Industry	Reported Emissions of Highest Emitting Facility (Tonnes CO <sub>2</sub> -e 2020-21)	Share of Total Australian Emissions (498.9MT CO <sub>2</sub> -e 2020-21)
Gas	Woodside North West Shelf Project	6,784,581	1.36%
Steel	Bluescope Steel Port Kembla Works	6,260,763	1.25%
Aluminium	South 32 Worsley Alumina Refinery/Mine	3,657,800	0.73%
Coal	Anglo Coal Capcoal Mine	3,245,172	0.65%
Transport	Qantas Airways National Transport Facility	2,466,674	0.49%
Cement	Cement Australia Fisherman's Landing	1,618,328	0.32%
Refining & manufacturing	Yara Pilbara Fertilisers YPF Ammonia Plant	1,456,927	0.29%
Other metals / minerals mining	Newcrest Mining Telfer Gold Mine	500,048	0.10%
Power (non grid)	BHP Iron Ore Yarnima Power Station	343,639	0.07%

*Table 1 - Highest Emitting SGM Facilities per industry. Non-fossil mining facilities produce significantly lower emissions than comparable coal mining operations.*

<p><b>Fixed (absolute) versus production-adjusted (intensity) framework</b></p>	<p>· Should we retain, and build on, the existing production-adjusted (intensity) baseline setting framework or return to a fixed (absolute) approach?</p> <p>It is essential that all SGM facilities are genuinely working towards <b>zero absolute Scope 1 emissions</b>. The policy intention behind the SGM is to help achieve net zero emissions across all sectors. <b>The pool of viable carbon offsets</b> (removal-based, additional, permanent, leakage-proof, verifiable) <b>is limited</b> and must be reserved for <i>genuinely</i> hard to abate activities that objectively have <i>high social utility</i>.</p> <p>An emissions-intensity baseline would facilitate increased production of high emissions outputs through incremental emissions reduction at a time when we need to be rapidly ramping those outputs down by switching to zero emissions substitutes. <b>As such, a fixed (absolute) framework is the only sensible option.</b></p> <p>Coal and gas intrinsically have no social utility. It's the energy they provide in the form of electricity, as fuel for stationary energy and transport applications, and as feedstock for chemical products that provide a societal benefit. Metallurgical coal is currently used in steel production, a useful product.</p> <p>However, renewables can and are economically substituting coal and gas in global electricity grids. Given the enormous emissions payload of fossil electricity, we maintain coal and gas has no social utility in electricity, <i>except</i> as a short term measure to firm grids until they can fully transition to renewables and zero emissions forms of storage. Electrification in turn can replace a majority of stationary energy uses.</p> <p>As noted, steel has a low emissions pathway that does not require metallurgical coal. Green hydrogen can eventually replace gas for most chemical and high heat applications.</p>
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	<p>As such, there is no rationale to expand fossil fuel production. An absolute timeline for the end of metallurgical coal use would provide certainty for investment and scaling of green hydrogen industrial development.</p> <p><b>Hard to abate emissions intensive activities with low social utility, or available low-emissions substitutes <i>must be curtailed</i>.</b></p>
<b>Setting baselines for existing and new facilities</b>	
<p>· Views are sought on the proposal to reset baselines in a way that removes aggregate headroom so crediting and trading can commence when baselines start to decline.</p>	<p>We agree <b>aggregate headroom should be removed</b>. The current average 37% headroom (based on facilities with a reported baseline in the 2020-21 dataset) makes a mockery of the Mechanism.</p> <p>We also note that in the case of many fossil fuel facilities covered by the SGM, <a href="#">chronic under-reporting of fugitive emissions</a> is likely to be distorting the results. <b>We strongly recommend that <i>independent satellite and ground-based measurement of fugitives be adopted and reflected in official measurements</i></b>. The body appointed to monitor emissions should be properly resourced and chartered to ensure absolute independence with public reporting requirements.</p> <p>More broadly, the time for industry self-reported emissions must end. <b>Strong oversight and independent verification of measurement must be applied to all SGM facilities.</b></p>
<p>· What is the preferred approach for setting baselines for existing facilities? Approaches may include:</p> <ul style="list-style-type: none"> <li>- Option 1: setting all baselines using industry-average benchmark emissions-intensity values.</li> <li>- Option 2: setting all baselines using facility-specific emissions-intensity values.</li> <li>- Other proposals, noting there are many possible approaches.</li> </ul>	<p>Poorly performing facilities (high emissions intensity as an industry average) should be penalised. Therefore we <b>tentatively support Option 1</b> but would like to see more detail about how such a scheme would operate.</p>
<p>· What are the advantages of best practice, industry average benchmarks or alternative approaches for setting baselines for new entrants, noting that a final decision will be informed by baseline setting arrangements for existing facilities?</p>	<p><b>Total emissions allowed under the SGM <i>must not increase to make way for new facilities</i></b>. The SGM cap for existing facilities would need to be reduced to accommodate new facilities or existing non-SGM facilities whose emissions increase to the point they fall within the threshold.</p> <p><b>Accordingly, new facilities must verifiably be net zero from commencement</b> and throughout their planned life. All facilities should have in their approval conditions a plan towards absolute zero emissions in line with or ahead of Australia’s legislated emissions reduction trajectory (which may be accelerated from time to time).</p> <p>Facilities that demonstrably have <i>high social utility</i> (such as the critical minerals mining that will facilitate the broader transition to net zero emissions) but for which there is not a zero emissions pathway, could be granted an exemption from achieving absolute zero. However, in granting such an exemption, the government / regulator must assess the total quantum of <i>credible, viable</i> offsets (for both SGM facilities and the wider economy) and ensure there is sufficient supply to meet Australia’s net zero target.</p>
<b>Crediting and trading, domestic offsets and international units</b>	

<p>· Are there any other issues to consider with the proposal to allow the Clean Energy Regulator to automatically issue tradable credits to Safeguard facilities whose emissions are below their baseline, with crediting and trading commencing on 1 July 2023 subject to baseline setting arrangements that remove aggregate headroom?</p>	<p>We cannot offset our way to net zero. <b>Offsets must not be a substitute for genuine scope 1 emissions reduction measures at the facility.</b> The use of offsets should be capped at no more than, say, 5% of the SGM target for each facility. <b>Use of international offsets should not be permitted for SGM facilities:</b> there is too much scope for poor quality credits.</p> <p><b>We urge the government to await the findings of the Chubb Review</b> into Australian Carbon Credit Units <i>before</i> finalising use of offsets in the SGM.</p> <p>In <i>genuinely</i> hard to abate sectors (excluding fossil fuels), it may be appropriate to allow higher allowances, particularly to provide a bridge until capital expenditure accrued for planned plant replacements can be allocated towards emissions reduction projects (such as retooling a steelworks to use green hydrogen). In such circumstances, evidence would need to be provided, such as board endorsed strategic plans committing future capital for such purposes.</p> <p>Given the inherent problems with many emissions offsets, we strongly encourage the government to <b>establish a hierarchy of offsets</b>. SGM facilities should be required to use the highest quality of offsets:</p> <ol style="list-style-type: none"> <li>1. High quality offsets would <i>verifiably remove atmospheric emissions</i> and permanently (geologically) sequester them, using demonstrably renewable energy. The <a href="#">Climeworks facility in Iceland</a> is a good (but currently rare) example of this.</li> <li>2. Mid quality <i>nature-based offsets</i> also remove atmospheric emissions, but have material issues with permanence (and often with additionality). Some <a href="#">soil carbon projects</a>, for example, may only trap emissions for a decade, which is meaningless in the scheme of things. Soil carbon also lacks verifiability given measurement challenges. Both soil carbon and re/afforestation offsets are subject to extreme weather including erosion and bushfires. Even when projects include a buffer specifically for such an eventuality, this is not always sufficient - recent California bushfires destroyed the credit forests and a <a href="#">buffer intended to last a century</a>.</li> <li>3. Most other offsets are of the “<i>avoidance</i>” variety, where an emitter pays someone else not to increase their emissions. Again, <a href="#">numerous issues</a> have been found with additionality, verifiability and permanence. Avoidance offsets <i>do not actually neutralise the emissions of the entity that purchases and surrenders them</i>: the equation is “my tonne of emissions minus your non-emission equals a tonne of emissions.” For this reason avoidance offsets <i>must not be used by regulated markets</i> such as the SGM.</li> </ol> <p>The absolute independence of the CER is difficult to determine given its multi-hatted role. We recommend that key functions of the regulator be broken up to improve independence, transparency and accountability between agencies and from political interference.</p>
<p>· Should banking and borrowing arrangements be implemented for Safeguard Mechanism Credits?</p>	<p><b>No.</b> Banking and borrowing arrangements will create loopholes.</p> <p>We acknowledge that recently commenced projects may have a ramp up period, and late stage mining projects may have a ramp down period. In such cases the baseline could reflect the project’s EIS “run of mine” (or equivalent) projections for the given year of the project’s life, with each year reduced to ensure the SGM delivers its fair share of national emissions reductions in line with the national trajectory.</p>

<p>· Should Safeguard facilities no longer be able to generate ACCUs for reducing direct (scope 1) emissions unless they have an existing registered ERF project? Further, should no new ERF projects be able to be registered at Safeguard facilities? Additional feedback is sought on:</p>	<p>We are <b>strongly against the current practice of allowing the creation of ACCU's from SGM facilities</b> - this should be discontinued immediately.</p> <p>The Chubb review of the ACCU debacle should also be examining how some facilities are creating credits for emissions reduction measures that were <i>included in their Environmental Impact Statements</i>. Allowing facilities to do so makes a mockery of the process and creates a double counting issue.</p>
<p>- allowing existing ERF projects at Safeguard facilities to continue to generate credits and retaining double counting provisions to prevent a facility from generating ACCUs and SMCs;</p>	<p>As above. <b>SGM ERF projects should be discontinued</b>. These are low quality avoidance offsets and there is considerable risk of double counting.</p>
<p>- options for the treatment of deemed surrender;</p>	<p>As above.</p>
<p>- continuing to allow Safeguard facilities to participate in ERF projects that reduce emissions from electricity use (scope 2) emissions; and</p>	<p>As above. Reducing electricity use is a low quality avoidance offset with considerable risk of double counting. They should not be treated as ERF projects.</p>
<p>- mechanisms to promote the transparency of the ACCU market, such as publishing unit holding, to assist with market decision making, supply and cost effectiveness.</p>	<p>AP4CA supports measures that would improve the integrity, transparency and accountability of carbon credit markets.</p>
<p>· Should international units be able to be used for compliance under the Safeguard Mechanism at a future time, noting that any decision would depend on the rules for international trading?</p>	<p><b>No</b>. Again, this simply encourages use of cheap, poor quality credits and raises the risk of double counting.</p>
<p><b>Tailored treatment for emissions-intensive, trade-exposed (EITE) businesses</b></p>	<p>The most emissions intensive SGM facilities involve fossil gas extraction for the LNG export market. <b>EITE businesses do not deserve any “tailored treatment” that might delay their implementation of genuine emissions reduction</b> (except as discussed above with regards to offsets for manufacturing operations).</p>
<p>· Should a facility-specific comparative impact assessment that builds on existing EITEs definitions be used rather than a sector wide designation?</p>	

· Would additional funding opportunities effectively assist EITE facilities to adapt to declining Safeguard baselines?	
· What kinds of funding, finance or other arrangements and measures would best support EITE Safeguard facilities to reduce their emissions?	
· In particular, what potential design features of the Powering the Regions Fund would support covered facilities with their decarbonisation priorities?	
· Is the direct provision of SMCs an appropriate way to mitigate cost impacts for EITE facilities?	
· Are differential decline rates an appropriate way to reduce the impact on EITE facilities?	
· How could differential decline rates be structured so that emissions reduction and fairness outcomes are maintained?	
<b>Taking account of available and emerging technologies</b>	
· Should multi-year monitoring periods be extended to allow facilities with limited near-term abatement opportunities to manage their own abatement path?	<b>No.</b> Multi-year monitoring periods should be eliminated.
<b>Indicative baseline decline rates</b>	
· What are the appropriate characteristics for the decline trajectory to 2030 that can deliver the Safeguard Mechanism's share of Australia's climate targets, and the process for setting baselines post-2030?	After a decade of inaction, it is essential that Australia rapidly and genuinely reduces its emissions. <b>At a minimum the baseline decline trajectory towards 2030 should be linear.</b> We have run out of time for incremental efforts. As mentioned at the beginning of our submission, <b>changes to the Mechanism must make it possible for more ambitious reduction targets to be implemented in future.</b>
<b>Other policy issues</b>	As above, after a decade of inaction, it is essential that Australia rapidly and genuinely reduces its emissions. <b>The existing SGM has been ineffective due to padded</b>

<ul style="list-style-type: none"> <li>· What transitional or other arrangements should be in place for site-specific production variables, including:</li> </ul>	<p><b>baselines and numerous loopholes. Flexibility should be minimised. The scheme must demonstrate the highest levels of integrity, transparency and accountability.</b> The regulatory arrangements must demonstrate independence from industry and political interference.</p>
<ul style="list-style-type: none"> <li>- whether the use of Government-defined production variables (prescribed in Schedule 2 of the Safeguard Mechanism Rule) should be mandatory from the start of Phase 1;</li> </ul>	
<ul style="list-style-type: none"> <li>- whether transitional arrangements for facilities using bespoke, site specific production variables should be considered for phase 1; and</li> </ul>	
<ul style="list-style-type: none"> <li>- the proposal that only Schedule 2 production variables could generate Safeguard Mechanism Credits (SMCs)?</li> </ul>	
<ul style="list-style-type: none"> <li>· Should oil refinery production variables:</li> </ul>	
<ul style="list-style-type: none"> <li>- remain fixed (in Schedule 3) and not generate SMCs; or</li> </ul>	
<ul style="list-style-type: none"> <li>- become production-adjusted (move to Schedule 2) and be eligible to generate SMCs?</li> </ul>	
<ul style="list-style-type: none"> <li>· Are existing Government-defined production variables suitable for the Safeguard Mechanism to drive least cost emissions reductions?</li> </ul>	
<ul style="list-style-type: none"> <li>· Should the inherent emissions variability calculated baseline approach be removed?</li> </ul>	
<ul style="list-style-type: none"> <li>· How should landfills be treated, including:</li> </ul>	<p>Landfills are obviously in an interesting situation that they cannot necessarily stem the flow of supply of emissions-producing wastes to the site. However, they can - and an increasing number are - adopt effective approaches to reduce on-site emissions. Where those approaches (such as biomethane to energy) are cost effective, there is clearly no additionality and crediting should not be permitted.</p>
<ul style="list-style-type: none"> <li>- should landfill baselines decline at the same rate as other facilities;</li> </ul>	<p>Refer to our earlier response about the relative treatment of SGM facilities by sector. There is an opportunity for landfill operators to monetise their methane emissions, so no special treatment should be offered within the 2021-2030 period.</p>

<p>- should landfills be able to generate SMCs in phase 1; and</p>	<p>No.</p>
<p>- should long-term arrangements for landfills be considered prior to phase 2?</p>	<p>Yes. Currently only one landfill facility is covered by the SGM. Lowering the threshold as we have proposed would mean additional landfills are covered over time. Their operators should be encouraged to take cost effective steps to voluntarily reduce their emissions before being captured by a lowering threshold.</p>