`

ENGINEERS
AUSTRALIA

King Review Safeguard Crediting Mechanism consultation
Department of Industry, Science, Energy and Resources
By email: via consult.industry.gov.au

5 October 2021

Re: King Review Safeguard Crediting Mechanism

Dear Sir or Madam,

Engineers Australia is the peak body representing the engineering profession in Australia. We are the voice of over 100,000 individual members working in nearly every sector of the economy, with expertise across all disciplines and branches of engineering.

Engineers Australia welcomes the opportunity to provide input to the development of the proposed Safeguard Crediting Mechanism (the mechanism). Our outlook on climate change is guided by an engineering approach to problem-solving – paying full regard to the scientific evidence and the risks to communities and natural systems. Engineers Australia's professional Code of Ethics also focuses heavily on engineers' obligations to promote positive environmental outcomes and balance present needs with those of future generations. This perspective compels us to recognise the profound threats to societies, economies, and the natural world presented by climate change. Engineers Australia advocates urgent and large-scale actions in every sector to mitigate climate change, as well as adapt and achieve resilience in the changing climate.

The industrial, transport and resources sectors - the principal targets of the proposed mechanism - form an important part of Australia's emissions mitigation challenge. Collectively, they comprise about half of the country's total greenhouse gas emissions,[1] with abatement of many activities technically challenging and/or commercially unfeasible. Emissions in these sectors rose steadily over the last decade, despite modest but relatively steady declines in Australia's overall emissions.[2]

Equally, however, we recognise that economic output from these sectors is crucial to Australia's prosperity - both in its own right and as a key enabler of activity throughout the economy.

We suggest a genuinely robust mechanism can and should reward facilities that realise both improved emissions intensity and actual emission reductions. In doing so, it should foster improved industry capabilities and practices. We support a pilot phase of the mechanism. We also believe that, as a voluntary mechanism, it must avoid imposing adverse impacts on economic output. These objectives should not be seen as mutually exclusive: they are likely to be mutually reinforcing in many cases.

It is also important that the mechanism is designed with a forward leaning lens to complement future climate policy settings, as well as to ensure a level of additionality in its supported abatement outcomes. We recognise that the proposal has arisen due to the inability of the Emissions Reduction Fund (ERF) to incentivise industrial abatement

[1] Department of Industry, Science, Energy and Resources, *Quarterly Update of Australia's National Greenhouse Gas Inventory: March 2021*, 2021, p. 9. Available at https://www.industry.gov.au/sites/default/files/August%202021/document/quarterly_update_of_australias_national_greenhouse_gas_inventory_-_march_2021.pdf. Accessed 16 September 2021.

[2] Department of Industry, Science, Energy and Resources, *Quarterly Update of Australia's National Greenhouse Gas Inventory: March 2021*, 2021, pp. 9, 13-15. Available at https://www.industry.gov.au/sites/default/files/August%202021/document/quarterly_update_of_australias_national_greenhouse_gas_inventory_-_march_2021.pdf. Accessed 16 September 2021.

Engineering House
11 National Circuit, Barton ACT 2600
Phone: +61 2 6270 6555 | Facsimile: +61 2 6273 1488
engineersaustralia.org.au

over the past six years, due to barriers presented by additionality requirements and the facilities method (among other factors). The proposed mechanism must be able to attract commercial participation, including by firms for which the ERF may prove inaccessible. However, it must not follow that the additionality principle is disregarded in its design. Absent credible additionality requirements, the mechanism will almost certainly deliver windfall gains to facilities for business as usual activities – delivering little or no 'return' by way of emissions reduction. Such outcomes would seriously undermine market and public confidence in the scheme, as well as representing a poor use of taxpayer monies used to purchase Safeguard Mechanism Credits (SMCs).

We believe the engineering profession is well-placed to contribute to the operation of the mechanism. The discussion paper states that initiatives attracting credits are likely to consist, in large part, of facilities upgrades. Particularly in the industrial sector, such projects are likely to be technically complex. Engineering insight will be required at the assessment and verification stages, to ensure credited facilities can and do deliver emissions reductions and emissions intensity improvements. Engineers Australia would welcome the opportunity to explore our profession's role in ensuring the efficacy of the mechanism with the Department of Industry, Science, Energy and Resources (the Department) prior to the commencement of a pilot.

While welcoming the proposal as a pathway to evolve the Safeguard Mechanism as a mainstream emissions reduction measure, Engineers Australia supports the development of an economy-wide, legally binding carbon pricing mechanism for Australia. Such a mechanism is key to facilitating a comparatively simple, efficient (least-cost) and rapid transition to a net zero emissions economy. We note it has been 27 years since the United Nations Framework Convention on Climate Change entered into force. Offsetting measures such as the proposed mechanism and ERF appear more akin to early action initiatives, rather than those of the scale and urgency necessary to support the achievement of carbon neutrality within a generation. At a minimum, measures such as the Safeguard Crediting Mechanism should be designed to efficiently support a more rapid implementation of a market-based mechanism covering all sectors of the economy. This would also help negate the need for administrators to make judgment calls on what might constitute as additional and 'transformational' abatement.

We are pleased to offer the following in relation to the mechanism's particular design elements, and in relation to questions posed in the discussion paper.

Design principles

The design principles proposed by the Department are largely consistent with Engineers Australia's vision for a mechanism that supports emissions abatement, in addition to sustaining economic output and supporting industry participation. In particular, the principle supporting "*low cost emissions reductions*" is highly consistent with our support for a mechanism that supports actual emissions reductions, in addition to emissions intensity improvements.

Moreover, that the mechanism should support the deployment of "*transformational low-emissions technologies*" is consistent with Engineers Australia's position that credited facilities and related projects should be able to demonstrate additionality, as well as a capacity to deliver emissions reductions at scale and pace. Any transformational project is highly likely to meet an additionality threshold.

However, though we acknowledge that the mechanism's design should be as simple as possible, we suggest that this principle ought to be secondary to those promoting positive emissions outcomes. That is, the mechanism should be as simple as is required to support its key objectives, but should not impose perverse outcomes for the sake of greater simplicity.

Eligibility

Engineers Australia suggests that, in order to satisfy the emissions reduction, emissions intensity, and economic objectives of the scheme, proposals cannot be assessed against a single measure. Rather, we advocate that credited

facilities should be assessed as demonstrating all of the following:

- **To ensure actual emissions reductions:** that the credited facility's emissions have reduced, relative to a 'rolling' average of its emissions over the past several years. The precise period would need to account for recurrent economic downcycles which may see a facility's emissions reduced by reason of decreased activity alone.

- **To ensure emissions intensity improvements**: that the credited facility's emissions intensity has improved, relative to the facility's average emissions intensity over the past several years.

- **In support of the additionality requirement, and to encourage the adoption of transformative technologies and practices:** that the credited facility's emissions fall below an emissions intensity baseline for the relevant industry. Careful deliberation is required as to whether this baseline should reflect an industry's average emissions intensity, median emissions intensity, or another measure. Nonetheless, it should be steadily reduced in absolute terms (declining baseline) over time in support of achieving Australia's Paris Agreement pledges, and to increase the demand for and value of SMCs for compliance purposes under the Safeguard Mechanism and/or any economy-wide pricing scheme.

Assessing both absolute emissions and emissions intensity would ensure the mechanism both supports genuine emissions reductions, and avoids crediting facilities that have reduced emissions simply by decreasing production. Assessing a facility against its 'rolling' average emissions over the past several years would also minimise complications arising from short-term abnormalities in the data (for example, those associated with economic disruption amid the COVID-19 pandemic).

We suggest that assessing a facility against a fixed, historic yardstick – for example, its emissions intensity as at a set year – is inadequate. Such assessment fails to account for the expected advancement in lower emissions technologies, and improved industry practices, year-on-year. For this reason, it allows for the crediting of business-as-usual activities. Such measures also allow lower-emitting facilities to attract credits without taking action to further reduce their emissions. Similarly, industry average measures and baselines, used in isolation, may credit lower-emitting facilities that have taken little or no action to reduce their carbon footprint.

Engineers Australia acknowledges that its preferred means of assessing eligibility for credits is more complex than potential alternatives. However, we submit that a multifaceted assessment - taking account of both industry best practice and facility-specific measures - is necessary to ensure the scheme meets its environmental and economic objectives, as well as the additionality requirement.

In addition, while a more complex scheme is likely to result in a higher cost of participation, it is also likely to increase the value of credits in the voluntary market. A more rigorous assessment process would ensure market confidence in the integrity of SMCs. Both the market for Australian Carbon Credit Units (ACCUs) and international voluntary credit markets demonstrate a preference for products associated with superior environmental and emissions reduction outcomes.[3] In addition, increasing the value of SMCs would guard against the risk that the introduction of such credits could erode the value of the ACCU market.[4] Ideally, SMCs and ACCUs would be perfectly substitutable – an outcome that would require SMCs to support emissions and environmental outcomes as effectively as ACCUs.

[3] Discussion paper, pp. 16-17; Reputex Energy, *How could Safeguard Mechanism Credits impact Australian Carbon Credit Unit prices?*, 2021. Available at https://www.reputex.com/research-insights/how-could-safeguard-mechanism-credits-impact-australian-carbon-credit-unit-prices/. Accessed 16 September 2021.

[4] Carbon Market Institute, *CMI welcomes Safeguard Mechanism consultation, Grattan report findings*, 2021. Available at https://carbonmarketinstitute.org/2021/08/23/cmi-welcomes-safeguard-mechanism-consultation-grattan-report-findings/. Accessed 16 September 2021.

Transformation statements

Engineers Australia notes that the King Review concluded that the proposed mechanism should (rather than could) require participants to provide a transformation statement.[5] We strongly support the use of transformation statements as an important means of assessing whether credited facilities meet the scheme's objectives, and holding facility owners accountable into the future. Engineers are well-placed to provide expert technical assessment of transformation statements – in particular, advising the Clean Energy Regulator as to whether facilities have undertaken genuinely 'transformative' steps that reduce emissions as required.

We submit further that transformation statements should be made available on a public register. This would foster confidence in the integrity of SMCs in the voluntary market. It would also support expert and public scrutiny of the scheme and of credited facilities, thereby guarding against misuse and maladministration.

To support participation in the scheme, the regular should require that transformation statements provide only key data points and other evidence to evince consistency with key objectives and requirements. It should avoid any requirement to provide extraneous information, or rigorous requirements as to format and similar.

Pilot

Engineers Australia recommends that the Department roll out a pilot safeguard mechanism as soon as practicable. A pilot is essential to identify shortcomings and unintended consequences, and ensure they are addressed prior to the rollout of a permanent scheme. The pilot mechanism should be designed in accordance with the positions articulated in this submission. Evaluation of the pilot should pay particular regard to:

- Actual emissions reductions supported,
- Emissions intensity improvements supported,
- Additionality of supported projects,
- Participation rates and barriers to further participation, and
- Return on government investment.

More information

Engineers Australia would welcome an opportunity to engage directly with the Department on the design, rollout, and operation of the Safeguard Crediting Mechanism. Please contact Thomas Mortimer, Senior Policy Adviser – Climate Change, via tmortimer@engineersaustralia.org.au or 0422 361 462.

Sincerely,

Jonathan Russell
General Manager, Policy and Advocacy

[5] Department of Industry, Science, Energy and Resources, *Report of the Expert Panel examining additional sources of low cost abatement*, 2020, p. 11. Available at https://www.industry.gov.au/sites/default/files/2020-05/expert-panel-report-examining-additional-sources-of-low-cost-abatement.pdf. Accessed 16 September 2021.