

24 February 2023

## Submission to the Department of Climate Change, Energy, the Environment and Water Safeguard Mechanism Reforms Position Paper

### Introduction

Climate Friendly is broadly supportive of the proposed approach to reforming the Safeguard Mechanism and appreciates the government's open consultative process as these reforms have developed. The proposed Safeguard reforms set and reduce baselines in a predictable and orderly way and will play a significant role in helping Australia achieve its climate targets and decarbonising the economy.

In parallel with genuine industrial emissions reductions, high integrity land-based carbon farming is currently the only viable mechanism to draw down carbon at scale and is hence critical to limiting global warming to 1.5 °C. As Australia's leading carbon farming partner to land managers, we know how the generation and trading of high integrity carbon credits make a significant contribution in helping businesses manage the transition and accounting of hard to abate emissions as one component of implementing comprehensive plans to avoid, reduce and minimise their emissions. This has the added benefit of supporting nature repair and fostering sustainable land management practices in rural communities around Australia.

This submission outlines key points that will ensure the reforms help industry to reduce Australia's emissions in line with national targets and international commitments. We understand that the current 43% emissions reduction target is a floor and that the proposed Safeguard Mechanism provides a solid foundation to increase ambition and align with science-based targets to help achieve net zero by 2050. The Australian Government can demonstrate clear climate leadership with some modest updates to the proposed Safeguard Mechanism reforms.

### Key Issues

#### 1 Coverage of the Scheme

Our analysis shows that almost 25% of safeguard facilities will fall below the current 100,000 tonnes per annum threshold by 2030. This will reduce the effectiveness of the Mechanism as facilities that fall under the threshold will no longer have regulated emissions limits.

Introducing a recalibration tool to ensure the Safeguard's 28% share of national emissions reductions targets is benchmarked over time is a simple fix to maintain levels of coverage

and facility participation. This may include legislating a progress reduction in the threshold from 100,000 tonnes to 25,000 tonnes by 2030. At minimum it should include an annual reduction in the threshold equivalent to the decline rate, that is 4.9% reduction annually or greater annual reduction linked to any future increases in the decline rate.

## **2 Use of ACCUs**

It takes time for liable entities to implement practice changes that avoid, reduce and minimise emissions. It is critical that business are accountable for their emissions while robust transition plans are formulated, approved and implemented. It is also critical that they remain accountable for hard to abatement emissions which do not yet have a viable transition pathway. As such, we support the ability of liable entities to use high integrity ACCUs as one component of their plans.

While we support the use of land sector ACCUs as offsets, it is important that safeguard facilities demonstrate 'demand-side integrity' by taking real steps to deliver genuine emissions reductions and use ACCUs as one part of a credible climate strategy. Climate Friendly encourages the Government to continue its work to ensure transparency around corporate climate commitments as well as putting protections in place to guard against greenwashing.

Climate Friendly also notes that ACCUs abatement generated as part of high integrity carbon farming projects should not automatically be considered offsets. Many of our land manager partners wish to use ACCUs to meet their own carbon neutrality goals or wish to sell ACCUs to other sectors who are taking voluntary action to reduce emissions.

## **3 Stable trading environment**

The policy environment impacting the Australian carbon market has been volatile over the last decade, including the repeal of the Carbon Pricing Mechanism in June 2014 and further changes to carbon contract arrangements in March 2022. This volatility has impacted investment in carbon farming and other emissions reduction initiatives. Once the Safeguard Mechanism reforms are in place, it is essential that the Government provides stability in trading policies to enable carbon farmers and businesses to focus on delivering emissions reductions, both in the form of ACCUs generated by the land sector and reduction across other sectors of the economy. The administrative burden and time delays caused by frequent changes in contractual arrangements directly impacts investment confidence and the pace of climate action. Clear purchasing policies are needed in relation to any ACCU purchases that may be conducted as part of the proposed Cost Containment Measure to help create this market stability.

## **4 Risk management**

Multi-year monitoring periods can be an effective tool when long-term investments in emissions reduction technologies are needed. However, multi-year monitoring periods push emissions targets to the end of a five-year window and amplify the risk that the Mechanism exceeds its 2030 emissions budget. The introduction of a minimum annual compliance targets for these facilities could reduce this risk. Minimum annual targets would also help avoid a future supply crunch if emission reduction activities do not deliver as forecast.

Additionally, prescribing a carbon budget for the covered facilities could provide an extra risk mitigant to ensure that overall emissions decline. This may be coupled with other policies, such as a climate trigger in the Environment Protection and Biodiversity Conservation (EPBC) Act, which would ensure that the impact of new facilities was fully considered as part of any development approval processes.

## Summary

The Safeguard Mechanism reforms are critical to taking a forecast 205 million tonnes of emission out of the economy by 2030. With some modest amendments, the proposed mechanism can be improved to enhance the integrity of its emissions targets.

This year marks 20 years that Climate Friendly has been operating as a profit for purpose business. During this time, we have collaborated with our partners to achieve more than 20 million tonnes of greenhouse gas reductions by 2020, with an ambitious goal of scaling this up to 100 million tonnes by 2025.

Climate Friendly would welcome the opportunity to provide further context to our submission.