



# MINERALS COUNCIL OF AUSTRALIA

## SUBMISSION TO SAFEGUARD MECHANISM REFORMS CONSULTATION PAPER

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## EXECUTIVE SUMMARY

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Australia's ability to successfully reduce emissions and adapt to climate change will rely on a strong economy, including a robust and internationally competitive Australian mining industry. Mining is essential for the transition to net zero emissions by 2050. Further, the economic contribution of mining is essential to supporting the range of policies the Australian government is bringing to this task. This includes the contribution that can come from modifications to the safeguard mechanism. It is the combination of policy instruments working together that will deliver the long term goal of net zero emissions by 2050.

The MCA supports the ambition of net zero emissions by 2050. The MCA supports schemes that help new low emissions technologies to come into mining and other sectors, which will accelerate the adoption of low emissions technologies and contribute to Australia's emissions reduction ambitions while ensuring industry remains globally competitive.

As the Australian Government has recognised, policy must be enacted in a manner which keeps Australian industries strong. The complex nature of industrial operations such as mining and minerals processing means government must proceed carefully to ensure there are no adverse impacts on international competitiveness, jobs and economic contribution (which includes financing and delivering low emissions).

Mining is a large scale, capital intensive activity. Unlike other industrial enterprises, geology dictates activities and can significantly influence emissions profiles. Today's operations have defined lives over many years which see intense activity at some stages followed eventually by closure and rehabilitation between now and 2050. Flexible application of policy to recognise these elements is vital to meet the government's goal to maintain the international competitiveness of Australian mining operations on the national path through 2030 to net zero emissions by 2050.

An important consideration in maintaining international competitiveness is the relative costs of production brought about by the introduction of new policies. The government has rightly identified the need for a facility by facility assessment of obligations and the technological ability to adapt and respond in the principles behind its changes.

Further to this fundamental commitment to competitiveness is providing the means to manage the costs of the safeguard mechanism. A form of price risk management occurs in comparable international schemes to protect competitiveness and lower the risk of carbon leakage (see Appendix I).

The MCA acknowledges that the consultation paper is offering choices that will provide some flexibility in managing price risk. Specifically, these include intentional credits, banking and borrowing, multi-year monitoring and proposed safeguard mechanism credits.

The administrative allocation of safeguard mechanism credits are an important part of the scheme's cost containment architecture as this supports facilities to reduce emissions by investing in abatement.

These mechanisms are all useful for helping to manage price risk, but the proposed changes to the safeguard mechanism still leave the scheme attractive to speculators because, unlike other carbon markets, there are no upside price risk controls.

The MCA makes the following recommendations with respect to the proposed safeguard mechanism changes:

- The policy principles (section 1.2) must be extended to include competitiveness and the scheme should explicitly aim to avoid carbon leakage. Where Australia's trade competitors do not have comparable carbon constraints, future investment may be negatively impacted and in some circumstances this may even lead to the premature closure of facilities potentially resulting in carbon leakage. The baseline decline rates should be calibrated to align with the

availability of technologies. Declining baselines ahead of technology solutions will increase costs for safeguard mechanism covered export facilities

- The government must include an additional pathway, similar to the Renewable Energy Target (RET) shortfall charge or price cap in other international schemes, for facilities to satisfy compliance obligations and manage upside price and scheme risks by paying per tonne of CO<sub>2</sub>-e. This is in addition to safeguard mechanism credits, the existing official carbon credit systems (Australian Carbon Credit Units), and international credits
- The economy wide approach outlined in the Nationally Determined Contribution should be reflected in domestic legislation with all sectors of the economy contributing to the abatement challenge. Reform of federal, state and territory emissions approaches are urgently needed to ensure a least cost approach to achieving the 2030 target. Safeguard mechanism-covered facilities should be exempted from additional state based emissions reduction obligations
- Crediting and trading should commence from the start of the scheme. The administrative allocation of SMCs is very important as this encourages facilities that can reduce emissions by investing in abatement to do so, which is critical to achieving the 2030 target
- Existing SGM facilities should not be competitively disadvantaged against new entrants due to the baseline approach taken
- The government should allow flexibility mechanisms such as multi-year monitoring that allow facilities to manage their abatement pathways at least cost
- The government should allow flexibility for facilities to choose between using facility specific production-adjusted baselines, facility specific fixed baselines, or industry average production adjusted baselines
- The government should provide certainty to industry that baselines will not be declined ahead of any supporting legislation needed to enact cost management measures contained in the consultation paper such as safeguard mechanism credits
- The government should undertake a comprehensive regulatory impact analysis that includes both cost benefit analysis as well as transparency on the model and assumptions used in order to provide much needed detail. This modelling should include an assessment of the economy wide cost of carbon needed to achieve the 2030 target
- The government should consider additional policy supports for technology, such as accelerated tax depreciation and R&D tax incentives.

Additionally, mining supports the continued growth of renewable energy into the Australian electricity sector to reduce the emissions intensity of Australian grid electricity. The importance of reliable cost effective electrification as a means of reducing scope 1 (safeguard mechanism) emissions is critical to the sector.

## 1. TRADE EXPOSED SGM FACILITIES INCLUDING EMISSIONS INTENSIVE TRADE EXPOSED (EITE)

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The policy principles (section 1.2) must be extended to include competitiveness and the scheme should explicitly aim to avoid carbon leakage. Where Australia's trade competitors do not have comparable carbon constraints, future investment may be negatively impacted and in some circumstances this may even lead to the premature closure of facilities potentially resulting in carbon leakage. The baseline decline rates should be calibrated to align with the availability of technologies. Declining baselines ahead of technology solutions will increase costs for safeguard mechanism covered export facilities.

The capacity of any facility to pass-through costs associated with pricing carbon depends on market structure and how prices are set for the given product or service. Certain emissions-intensive and trade exposed (EITE) industries may be unable to pass-through the costs associated with pricing carbon, increasing the risk of carbon leakage. It is important that the scheme design minimises the risk of carbon leakage in the form of both production and investment leakage.

Under the current large-scale renewable energy target (L-RET) definitions of EITE, almost four-fifths of current covered emissions under the SGM and over half of all facilities would be classified as EITE facilities.

With such a significant portion of Australia's industrial sector captured in the safeguard mechanism being trade exposed, flawed scheme design could result in carbon leakage.

The government must ensure all trade exposed facilities regardless of industry or commodity are supported if necessary through the transition.

The MCA supports providing assistance to EITE facilities to maintain their international competitiveness.

The MCA also recognises that not all facilities that are trade exposed will be able to meet the EITE definition, and those facilities may also require assistance through the transition.

Assistance to EITE and trade exposed facilities should not competitively disadvantage non-EITE facilities.

The MCA supports the use of the Powering the Regions Fund to support EITE facilities to uptake new low emissions technologies in mining and other sectors, which contribute to Australia's emissions reduction ambitions. Specific consideration should be given to how to incentivise electrification as part of the implementation of transformative technology.

Additionally, the MCA supports providing access to accelerated tax depreciation to encourage the early replacement or upgrades of equipment and support the uptake of cost effective abatement opportunities ahead of normal investment cycles.

The MCA supports providing direct provision of SMCs to EITE facilities as long as other SGM facilities that do not meet the EITE definition are not adversely impacted.

The MCA supports providing differential decline rates to EITE facilities as long as other SGM facilities that do not meet the EITE definition are not adversely impacted.

The MCA supports regular reviews of competitiveness impacts on EITE facilities and other trade exposed facilities.

As a general principle, baselines should be declined in a manner which recognises the competitive environment in which many SGM facilities operate. The baseline decline rates should be calibrated to align with the availability of technologies.

Declining baselines ahead of technology solutions will increase costs for SGM covered facilities and may disproportionately impact EITE facilities and lead to carbon leakage.

While major Original Equipment Manufacturers (OEMs) are working in partnership with mining companies to advance low and zero emissions haul truck technologies, this decade is likely to be a period of development to precede more widespread deployment in the 2030s.

For example, [Komatsu](#) announced in 2021 the creation of its Greenhouse Gas (GHG) alliance with customers to actively collaborate on product planning, development, testing and deployment of the next generation of zero-emission mining equipment and infrastructure. The alliance's initial target is advancing Komatsu's power-agnostic truck concept, with a goal of commercial offering in 2030.

Similarly, [Caterpillar](#) has said that zero emissions machine agreements with customers are primarily focussed on the deployment of battery electric zero emissions trucks. They are focussed initially on introducing four zero emission truck models. They've said they are working with customers to place the trucks, the infrastructure and the technology on their sites to allow validation of extremes – long haul roads, deep pits, altitude, hot and cold conditions, and 'hit the timelines for beginning introduction before 2030'.

Once commercially available, deployment rates of these new technologies will be determined by the supply and availability of materials, supporting infrastructure and skills, and other factors.

## 2. A COMPREHENSIVE APPROACH TO PRICE RISK MANAGEMENT IS NEEDED

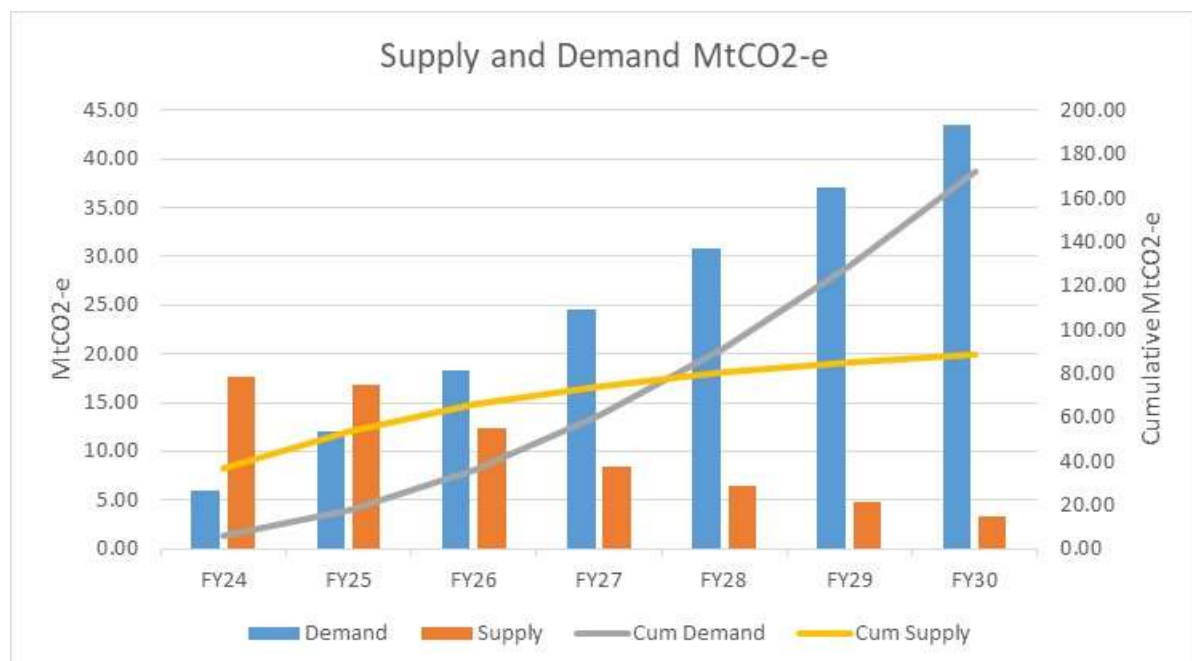
The government must include an additional pathway, similar to the Renewable Energy Target (RET) shortfall charge or price cap in other international schemes, for facilities to satisfy compliance obligations and manage upside price and scheme risks by paying per tonne of CO<sub>2</sub>-e. This is in addition to safeguard mechanism credits, the existing official carbon credit systems (Australian Carbon Credit Units), and international credits.

The proposed changes to the safeguard mechanism make the market attractive to speculators because unlike other carbon markets, the safeguard mechanism has no upside price risk controls. Comparable international schemes such as the Canadian Federal Output Based Scheme, European Emissions Trading Scheme and the UK Emissions Trading Scheme have price risk management to protect competitiveness and prevent carbon leakage (see Appendix I).

North American subnational schemes such as the Californian Emissions Trading Scheme, Regional Green House Gas Initiative and Quebec Emissions Trading Scheme have price risk management baked into their scheme designs (see Appendix II). In Australia, schemes such as the Renewable Energy Target (RET) and the National Electricity Market (NEM) have cost containment mechanisms (see Appendix III).

MCA modelling projects that the safeguard mechanism market is short of Australian Carbon Credit Units (ACCUs) out to 2030, and that the market may be short on a yearly basis as early as 2026. The extent and timing of this deficit depends on the projected abatement being delivered. If less than the projected abatement is delivered, the market may be short even earlier.

Supply is estimated to be a potential of 126 million ACCUs, but it is unclear how much of this will be available to compliance buyers, and demand is a potential 170 MtCO<sub>2</sub>-e from compliance buyers (see Figure 1). This does not include demand from state based schemes and non-compliance buyers, such as investors, who add additional demand.



**Figure 1:** Yearly and cumulative supply (ACCUs) and demand (MtCO<sub>2</sub>-e). Assumptions include emissions growth of 0.5 per cent per year to 2030 and the supply of ACCUs in MtCO<sub>2</sub>-e from the Carbon Abatement Contract Table (8 May 2022) re-spread to account for the scheme start date of 1 July 2023.

The impact of non-compliance buyers on the ACCUs market and the 2030 target needs careful consideration. Non-compliance buyers may not immediately acquit the ACCUs they purchase and carry these over between compliance periods.

This may mean that a corresponding adjustment that increases the 2030 target by the amount held by non-compliance buyers and carried forward beyond 2030 may be needed, thus increasing the effort from the rest of the economy (including SGM facilities) to achieve the 2030 target.

If a corresponding adjustment is not made then ACCUs carried forward may not be able to be used for compliance post-2030.

The adoption of low emissions technologies such as electric haul trucks could reduce the volume of ACCUs needed, but technology studies suggest the availability, timing, and readiness of technology solutions are uncertain, and deployment of significant abatement technologies is unlikely before 2030. This will leave facilities highly exposed to upside price risks in absence of a price risk management mechanism.

The MCA acknowledges that the consultation paper is offering choices that will provide some flexibility in managing price risk. Specifically, these include international credits, banking and borrowing, multi-year monitoring, and SMCs. While these are important design features, they do not adequately protect against upside price risk.

Specifically:

- The MCA supports access to international credits for compliance purposes that can count towards Australia's NDC. Access to such credits is likely to be several years into the future and depends on countries outperforming their NDCs
- Banking and borrowing also does not resolve the upside price risk problem. Borrowing temporarily defers a small proportion of the obligation. As demand is rising under declining baselines, there is upward pressure on prices making temporary deferrals useful, but likely costly
- Extended multi-year monitoring periods may be a useful for allowing facilities with limited near-term abatement opportunities to manage their own abatement path. This approach would deliver the same emissions result at the end of the multi-year period, but provide flexibility within that period. Being able to benefit from this depends on technology availability within the period
- SMCs have been proposed as a solution. While the MCA supports crediting outperformance, the volume of SMCs is dependent on technology step changes.

The absence of a price risk management mechanism in Australia will make the Australian scheme very attractive to international speculators because unlike other schemes, there is no price limit. Speculators stand to make considerable financial gains at the expense of SGM facilities negatively impacting competitiveness and potentially leading to leakage.

The MCA supports the Independent Review of Australian Carbon Credit Units led by former Chief Scientist Professor Ian Chubb, but notes that recommendations from the review may impact (i.e. reduce) the supply of ACCUs and in turn increase compliance costs. However, it is essential that the ACCUs market remains a strong and credible scheme supported by participants, purchasers and the broader community. As it stands, the proposed changed safeguard mechanism scheme appears very reliant on the continuation of a deep liquid and affordable ACCUs market.

Many scheme design decisions, current review processes and evolving economic conditions will feed into scheme costs in potentially unpredictable ways. Another potential price risk is the hoarding of SMCs within phases and between phases should the government decide to allow this. In such circumstances, it is prudent to ensure adequate risk management processes are available to mitigate price risk.



The MCA recommends that the government introduce an additional pathway, similar to the Renewable Energy Target (RET) shortfall charge or price cap in other international schemes, for facilities to satisfy compliance and manage upside price and scheme risks by paying for abatement per tonne of CO<sub>2</sub>-e. In the absence of an appropriate understanding of the economy-wide cost of carbon needed to achieve the 2030 target, the cost could be set in the interim at the \$24 per tonne referenced in the modelling of the then opposition (and now government) released in December 2021. This abatement per tonne cost could be reviewed regularly with reference to any increasing ambition in Australia's major trade competitors.

Such a mechanism would be consistent with international, subnational and domestic schemes examined by the MCA (see Appendix I, II, III).

### 3. AN ECONOMY WIDE APPROACH IS NEEDED THAT ADDRESSES STATE AND TERRITORY SCHEMES

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The economy wide approach outlined in the Nationally Determined Contribution should be reflected in domestic legislation with all sectors of the economy contributing to the abatement challenge. Reform of federal, state and territory emissions approaches are urgently needed to ensure a least cost approach to achieving the 2030 target. Safeguard mechanism-covered facilities should be exempted from additional state based emissions reduction obligations.

Under the Nationally Determined Contribution (NDC) submitted to the United Nations Framework Convention on Climate Change (UNFCCC), Australia has committed to an economy wide target without equivalent economy wide domestic legislation to achieve the target. At the same time, the plethora of state and territory approaches will continue leading to duplication and overlapping regulatory requirements increasing the costs of meeting Australia's 2030 emissions reduction target.

The MCA supports the economy wide approach outlined in the NDC and views that other sectors of the economy should be subject to the same abatement challenge that export facing safeguard mechanism (SGM) covered facilities are being asked to meet. The proposed SGM reforms disproportionately rely on the export facing industrial sector to do the heavy lifting needed to achieve the national target.

Requiring all sectors of the economy to equitably contribute to the abatement challenge will better align domestic policy settings with the NDC and support least cost abatement while still achieving the national 2030 target.

The MCA supports a nationally-coordinated, consistent and complementary regulatory approvals regime across all levels of government. Actions by state or territory governments should be aligned with national rules and practices to give investors consistency and certainty. Investor confidence is essential for encouraging the development of minerals and metals that are essential to securing a net zero emissions future, and for deploying the technologies needed to reduce emissions.

The potential for achieving least cost abatement while achieving environmental objectives is reduced by state and territory requirements for local Australian Carbon Credit Units (ACCUs) development to meet local emissions objectives. Failing to reform state-federal approaches in this area may result in MCA members increasingly locked into buying ACCUs from a highly segmented state-based ACCUs market.

The MCA recommends that the federal government:

1. Exempt SGM covered facilities from additional state based emissions reduction obligations. This is needed to encourage a national least cost approach to achieving Australia's 2030 target
2. Allow corporate entities with SGM covered facilities to opt-in other facilities below the 100,000 tCO<sub>2</sub>-e SGM threshold. This would need to be done in a non-discriminatory way to avoid the perception of gaming the system.

These reforms may potentially change the volume of ACCUs needed for SGM compliance. It also means that it is important to have a comprehensive approach to price risk management that encompasses Australia's competitive situation, the rapidly changing global environment and the need to support achieving the 2030 emissions reduction target.

The MCA acknowledges that there may be other approaches to expanding coverage such as declining the 100,000 tCO<sub>2</sub>-e SGM threshold in a predictable way or aligning the SGM with the

NGERs thresholds. Any expansion in SGM coverage should be done in conjunction with requiring state and territory governments to align with the national approach.

Greenhouse gases are produced locally, but have a global impact and are therefore addressed through international agreements. Australia, under the Paris Agreement, has a national obligation covering its emissions reduction target. Meeting this obligation is based on national inventories reported to the UNFCCC using agreed methodologies. Given the international architecture, the MCA recommends the government adopt a coordinated national approach for the SGM by exempting SGM covered facilities from additional state based emissions reduction obligations.

## 4. REMOVAL OF HEADROOM

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Crediting and trading should commence from the start of the scheme. The administrative allocation of SMCs is very important as this encourages facilities that can reduce emissions by investing in abatement to do so, which is critical to achieving the 2030 target.

The MCA supports crediting and trading from the commencement of the scheme, but notes that the published timeline implies baselines may be declined independent of the passage of any legislation needed to support other parts of the reform.

Depending on the final scheme design, SGM facilities operating below their baselines should be rewarded for outperformance. Therefore the MCA supports an administrative allocation of SMCs as this encourages facilities to reduce emissions by investing in abatement. This is an important component of the scheme that allows SGM covered facilities to contribute to the 2030 target.

The unilateral removal of headroom may not adequately reflect the investments made in abatement technologies prior to the start of the scheme. Therefore retention of headroom at some facilities may be justified to reasonably reflect prior investments made that have allowed those facilities to be below their baselines.

The MCA acknowledges that the removal of aggregate headroom does not mean that all facilities will necessarily lose headroom. However, depending on the final scheme design, it is possible for a facility to be above the industry average baseline and have taken all reasonable steps to reduce emissions. Under current proposals such a facility may still be penalised for past good practices.

## 5. NEW FACILITIES

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Existing SGM facilities should not be competitively disadvantaged against new entrants due to the baseline approach taken.

The proposed policy applies to production that occurs at an entirely new safeguard facility coming into the SGM, but not to the expansion of production at existing safeguard facilities. The MCA agrees with the position expressed in the consultation paper:

*“This introduces the potential for competitive imbalances between ‘greenfield’ and ‘brownfield’ developments if different rules apply. While not the only factor, a decision on new facility baselines should consider the approach for existing facilities with the aim of minimising this imbalance.”*

Existing SGM facilities should not be competitively disadvantaged against new entrants due to the baseline approach taken.

Using industry average benchmarks or best practice benchmarks with a fixed carbon budget for SGM facilities may mean that future baselines will need to be lower than they would otherwise have been for existing facilities to achieve the same carbon budget.

Both proposed approaches (baselines set using industry-average benchmark values or baselines set using facility-specific emissions-intensity values), potentially impact existing facilities.

To ensure international competitiveness of all facilities with an increasing number of SGM facilities may therefore require additional government support measures coming from outside the scheme and not at the expense of other facilities in the scheme.

The consultation paper does not appear to contain any information on the approach that would be taken by facilities that fall below the safeguard mechanism threshold of 100,000 tonnes CO<sub>2</sub>-e during a compliance year. A facility that is no longer in the SGM may still hold SMCs, but under the proposed rules only SGM covered facilities are eligible to trade SMCs.

Nor does the paper explicitly deal with facility closures that cause a facility to leave the SGM. In such cases the MCA supports the controlling entity having flexibility to increase production at alternative facilities or establish new facilities. Further consultation is needed on the details of a facility exiting the SGM due to closure or falling below the threshold.

## 6. SETTING BASELINES

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The government should allow flexibility for facilities to choose between using facility specific production-adjusted baselines, facility specific fixed baselines, or industry average production adjusted baselines.

The MCA acknowledges that setting baselines is a key element of scheme design that will determine the costs and benefits faced by each facility in meeting its safeguard obligations. How baselines are set also plays an important role in determining the decline trajectory. The consultation paper outlines three approaches to baseline setting:

1. Industry average production adjusted baselines
2. Facility specific production-adjusted baselines or
3. Facility specific fixed baselines.

It is argued in the consultation paper that there are benefits with production adjusted baselines as they adjust with business output, which can help with the dual goals of reducing emissions and growing the economy. It is argued that this makes production-adjusted baselines well suited to sectors that have difficulty passing on costs, such as those with emissions-intensive, trade-exposed activities.

However, the government has legislated a fixed carbon budget. This means that contrary to the position in the discussion paper, production adjusted baselines will not decouple emissions from economic growth.

Given this constraint, the MCA supports facility flexibility in selecting either a production-adjusted baseline or a fixed baseline depending on the individual circumstances of the facility.

The MCA does not support the mandatory use of government-defined production variables in the first phase of the scheme. Bespoke, site specific production variables should be allowed. In keeping with the MCA's position, SMCs should be available to all facilities irrespective of using prescribed government-defined production variables.

Flexibility in choice provides options for cost containment while still contributing equitably to meeting overall emissions reduction goals.

Unnecessarily limiting flexibility may have unintended consequences such as making it more expensive to manage a portfolio of SGM facilities for no material emission reduction benefit.

However, more detail is needed to adequately assess the impact of using production-adjusted industry average benchmarks compared with the impact of using facility-specific emissions-intensity values.

MCA analysis suggests that production-adjusted industry average benchmarks may disproportionately disadvantage some facilities who will be ineligible to receive an administrative allocation of SMCs. This impact appears to be acknowledged in the consultation paper:

*'Option 1 holds all facilities making the same product to a common standard, and provides a relative advantage to low emissions producers. ... It places relatively high emission producers within each sector at an initial disadvantage relative to low emission competitors'*

Given many of the technology constraints that exist, these facilities may never be able to obtain an administrative allocation of SMCs. Therefore impacted facilities may carry a disproportionate burden in meeting the 2030 target compared to other facilities.

Where this occurs in an internationally competitive environment, future investment may be negatively impacted and in some circumstances this may even lead to the premature closure of facilities potentially resulting in carbon leakage.

The MCA supports the retention of the inherent emissions variability calculated baseline during phase one. Providing the greatest flexibility during the first phase of the scheme will allow time for facilities to transition without risk of business disruptions.

## 7. FLEXIBILITY MECHANISMS – MANAGING RISK

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The government should allow flexibility mechanisms such as multi-year monitoring that allow facilities to manage their abatement pathways at least cost.

The MCA supports flexibility mechanisms that allow facilities to manage their abatement pathways at least cost. The linear decline as embedded in the NDC may not be the most cost effective way for SGM facilities to achieve the 2030 target. Flexibility to better align baseline declines with the availability of low emissions technologies may help reduce SGM compliance costs.

The MCA supports allowing extended multi-year monitoring periods that may assist certain facilities to better align baseline declines with the adoption of new technologies that reduce emissions.

The MCA supports banking and borrowing of SMCs as a flexibility mechanism that may assist facilities to achieve least cost compliance with the SGM.

Clarity is required on when and how safeguard mechanism credits will be issued to facilities. It is unclear from the consultation paper if credits will be issued during the year they are being 'generated' – i.e. monthly or quarterly as a facility is performing below its baseline. Or if they will be issued following completion of the year and reporting of emissions to NGERs, resulting in a lag in their availability for trading.

The MCA supports access to international credits with the aim of achieving least cost abatement. The MCA also supports access to voluntary credits where these could reasonably substitute for ACCUs on a like-for-like basis and not competitively disadvantage ACCUs project developers. There should be no windfall gains from arbitrage between standards.

The MCA supports a consistent approach to international, voluntary and domestic credit integrity standards such as being additional, measureable and verifiable, permanent, eligible to meet Australia's international mitigation obligations, and ensuring the avoidance of carbon leakage. The objective is that the quality of international and voluntary credits should be consistent with that for ACCUs so that they can be used for compliance purposes.

It is important that the ACCUs market remains a strong and credible scheme supported by participants, purchasers and the broader community. Any continuation of crediting ERF projects should meet these requirements.

MCA supports facilities having flexibility to achieve abatement at least cost and notes that some abatement technologies such as carbon capture and storage (CCS) may benefit from being able to create ACCUs.

Continuing to publish information on the ACCUs market that supports transparency over ACCUs volume and can be used to assist with decision making should be retained at least during the first compliance period of the scheme. This can be reassessed for the second phase depending on the market infrastructure that develops to support the ACCUs market during the first phase.



## 8. LEGISLATIVE TIMELINE

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The government should provide certainty to industry that baselines will not be declined ahead of any supporting legislation needed to enact cost management measures contained in the consultation paper such as safeguard mechanism credits

The timeframe for consulting on the designing and implementing of the SGM reforms is ambitious. It is important to take the time needed to ensure that this significant reform avoids unintended consequences. Implementing an untested designed policy can have adverse real-world consequences.

The level of supporting details on the proposed reforms are limited. Given the scale of the reform and the significance of the industry sector to the national economy, it is essential that rigorous modelling is undertaken to avoid unintended consequences and provide greater transparency on the options being considered.

A comprehensive regulatory impact analysis that includes both cost benefit analysis as well as transparency on the model and assumptions used would provide much needed detail. This modelling should include an assessment of the economy wide cost of carbon needed to achieve the 2030 target.

The MCA is concerned that the published timeline suggests that baselines will be declined irrespective of the passage of any legislation needed to support other parts of the reform.

The MCA recommends the Government provide certainty to industry that baselines will not be declined ahead of any supporting legislation needed to enact cost management measures contained in the consultation paper such as SMCs.

## APPENDIX I – SCHEME COMPARISONS AND PRICE RISK MANAGEMENT

	AU	EU	UK	Canada Federal OPBS
<b>2050 Target</b>	NZE by 2050	NZE by 2050	NZE by 2050	NZE by 2050
<b>2035 Target</b>	N/A	N/A	A 78 per cent reduction in GHG emission by 2035 compared to 1990 levels	TBA
<b>2030 Target</b>	A 43 per cent reduction in GHG emissions by 2030 compared to 2005 levels	A 55 per cent reduction in GHG emissions by 2030 compared to 1990 levels	A 68 per cent reduction in GHG emissions by 2030 compared to 1990 levels	A 40-45 per cent reduction in GHG emissions by 2030 compared to 2005 levels
<b>General description of the target</b>	Absolute economy wide emissions budget	N/A	Absolute economy wide emissions budget	
<b>Domestic legislation of target</b>	Legislated NZE by 2050 and interim 2030 target	N/A	Planned	Legislated NZE by 2050
<b>Carbon Border Adjustment Mechanism (CBAM)</b>	No	Planned	Planned	Planned
<b>Carbon Leakage</b>	Nothing specific	100 per cent free allowance allocation for <b>high risk</b> sectors.	Use of free allowance allocations	Output-based standards for sectors assessed to be at low or medium risk are set at 80 per cent of the sector's average emissions intensity, while those assessed to be at high risk are set at 90 per cent or 95 per cent of the sector's average
<b>Global Methane Pledge</b>	Methane covered under SGM	Yes by country – Methane not covered elsewhere	Yes – Methane not covered elsewhere	Yes – Methane not covered elsewhere
<b>Gases covered</b>	CO <sub>2</sub> , CH <sub>4</sub> , N <sub>2</sub> O, SF <sub>6</sub> , NF <sub>3</sub> , HFCs, PFCs	CO <sub>2</sub> , N <sub>2</sub> O, PFCs	CO <sub>2</sub> , N <sub>2</sub> O, PFCs	CO <sub>2</sub> , CH <sub>4</sub> , N <sub>2</sub> O, SF <sub>6</sub> , PFCs, HFCs
<b>Domestic scheme</b>	Safeguard Mechanism (SGM) – baseline-and-credit	EU ETS – EU wide	Cap-and-trade	Output based system
<b>Thresholds</b>	Applies to facilities emit over 100,000 tCO <sub>2</sub> -e/year	N/A	N/A	Applies to facilities that emit over 50,000 tCO <sub>2</sub> -e/year. Facilities that emit over 10,000 tCO <sub>2</sub> -e/year in regulated sectors can opt-in
<b>Scope</b>	1	1	1	1
<b>Allocation</b>	Purchase of ACCUs, Safeguard Mechanism Credits (SMC)	Auctioning, with varying levels of free allocation to industrial sectors and power producers in some lower-income EU Member States.	Auction but free allocation to industrial sectors	Offsets, fixed price units, and facilities performing better than the standard are issued surplus credits that they can sell or save to use later
<b>Cost containment</b>	None	<a href="#">EU ETS Market Stability Reserve (MSR)</a> .	UK ETS has important design features to guard against instability - <a href="#">Cost containment mechanism (CCM)</a> and further intervention.	Fixed price units – <a href="#">excess emissions charge</a> .
<b>Revenue Use</b>	No revenue	N/A	N/A	Proceeds from the OBPS are returned to support industrial projects to cut emissions and use new cleaner technologies and processes.

## APPENDIX II – PRICE RISK MANAGEMENT APPROACHES IN SUBNATIONAL SCHEMES

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Scheme	Approach
California Cap-and-Trade programs	Sale of emissions allowances to liable entities. A <a href="#">price ceiling sale</a> will only be offered if at least one California covered entity or opt-in covered entity does not have sufficient eligible compliance instruments in their holding and compliance accounts for the next compliance surrender deadline.
Regional Greenhouse Gas Initiative (RGGI) – north-east USA	The RGGI states have established a <a href="#">Cost Containment Reserve (CCR)</a> , consisting of a quantity of allowances in addition to the cap which are held in reserve. These are sold if allowance prices exceed predefined price levels, so that the CCR will only trigger if emission reduction costs are higher than projected. The CCR is replenished at the start of each calendar year. The CCR trigger price is \$13.91 in 2022 and will increase by 7 per cent per year thereafter. The size of the CCR is 10 per cent of the regional cap each year.
Quebec cap-and- trade system	<a href="#">Fixed price allowance</a> sold by mutual agreement with the Minister. Participation in sales by mutual agreement by the Minister is restricted to Québec emitters with a CITSS account whose general account does not hold sufficient emission units needed to cover their emissions for the compliance period for which the sale is held.

## APPENDIX III – AUSTRALIAN APPROACHES TO PRICE RISK MANAGEMENT

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Scheme	Approach
Carbon Pollution Reduction Scheme (CPRS) – Australia (not enacted)	The CPRS set a <a href="#">fixed price</a> on an emissions permit for the first year and an upper limit on the price for the following four years.
L-RET	L-Ret Certificates are commonly traded through brokers on spot markets, or through long-term contracts between generators and liable entities. Should a liable entity fail to surrender enough certificates to cover their electricity purchases, they must pay a <a href="#">shortfall charge</a> of \$65 per megawatt-hour for each certificate not surrendered. This effectively caps the price of an LGC (and hence the L-RET).
S-RET	STCs can be traded either through a secondary market, or via the STC Clearing House. STCs sold through the Clearing House are sold for \$40, which is effectively a <a href="#">price cap</a> .
NEM	The <a href="#">price cap</a> is the maximum price that can be reached on the spot market during any dispatch and trading interval.
AER	The Australian Energy Regulator (AER) Default Market Offer (DMO) is the <a href="#">safety-net price cap</a> that ensures consumers are protected from unjustifiably high prices.