



Safeguard Mechanism: Submission due 24th Feb 2023

Lighter Footprints is a community-based group that aims to influence Australian local, state, and national decision makers to take the necessary actions to halt global warming as a matter of urgency.

Since 2006, Lighter Footprints has educated, advocated, and worked in Boroondara, east Melbourne and beyond, to inform the community and promote a de-carbonised future. We have made numerous submissions at Federal, State and Local government levels and have over 3,500 people on our mailing list.

One of our working groups, the '**Energy Transition Group**', includes a number of people who have worked in the Oil and Gas industries, including an ex CFO in gas distribution, and an engineer from one of the world's top three Oil companies.

Lighter Footprints welcomes the opportunity to respond to the Australian Government's '**Safeguard Mechanism Reforms**' consultation.

Our submission is structured as follows:

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CONTEXT:

Safeguard Mechanism Position paper and Amendment Bill - Summary

The Australian government is consulting on a proposed approach to reforming the **Safeguard Mechanism**. The reforms will help industry reduce emissions in line with Australia's climate targets.

The position paper outlines the proposed approach on:

- The Safeguard Mechanism's share of the national emissions reduction target
- Setting baselines for existing and new facilities, including the rate of decline
- Arrangements for issuing and using **Safeguard Mechanism** credits
- Access to flexible compliance arrangements. These include access to credits, offsets, banking and borrowing arrangements, multi-year monitoring periods and a cost containment measure.
- Tailored treatment of emissions-intensive, trade-exposed facilities

The Safeguard Mechanisms (Crediting) Amendment Bill 2022 seeks to amend the *National Greenhouse and Energy Reporting Act 2007* and *Australian National Registry of Emissions Units Act 2011* to enable the trading of Safeguard Mechanism Credits (SMCs).



Lighter Footprints Submission:

Introduction:

Lighter Footprints previously submitted a response to the '**Safeguard Mechanism reforms consultation Paper**, 20th Sept 2022'.

At the outset of this submission, we wish to express our total opposition to any expansion of existing gas and coal, or development of new gas and coal. The reasons are very well documented elsewhere by the International Energy Agency, (IEA), the Climate Council (Australia), and the UN's Paris Agreement.

In writing this submission, we face a kind of [Hobson's choice](#). (*From Tobias Hobson, a man who hired out horses in the 17th century. He gave his customers the choice of the horse nearest the stable door or none at all*).

Do we:

A) Advocate for Safeguard Mechanism reforms that assume there would be no new, or expansion, of gas and coal reserves?

OR

B) Do we write a submission that does foresee the development of new or expanded gas or coal in the future? Despite our total opposition? If we do, we could seek to curb the destructive impact any new gas and coal will have.

We know that the gas and coal industry has been making windfall profits over the last 12 months. Yet even now, *'Both Shell and BP are prioritising returning windfall fossil-fuel profits to shareholders, rather than deploying more of these profits towards accelerating much needed funding for the energy transition'.¹*

Recently, and in the past, the gas and coal industry have demonstrated time and time again, that their corporate structures cannot be trusted to withstand market influences to maximise corporate profit above all else. There is no evidence that this sector's corporate will to maintain the drive to reduce total Scope 1, 2 and 3 emissions can be maintained over time.

To think corporate behaviour by gas and coal corporations will over time determinedly drive down emissions has proven to be naïve.

So, it is clear, governments must regulate gas and coal industries to drive down emissions.

Given this Hobson's choice, we have chosen to write a submission.

We write our submission on the basis that, firstly our **total opposition to new gas and coal** be noted, secondly, that the Safeguard Mechanism (SM) legislation be written in such a way that new gas and coal cannot impact the ***existing non-gas, non-coal entities***. And thirdly, that the **gas and coal sector total emissions** be progressively reduced (and not by the un-fettered use of offsets).

¹ [Investor Bulletin: Shell and BP FY22 Q4 results and CO2 implications - ACCR](#)

PROPOSAL – High level:

1. We propose that there be **two separate** Registries under the SM legislation:
 - **Registry #1** – covering gas facilities and coal facilities.
 - **Registry #2** - covering non-gas & non-coal facilities (e.g. aluminium, steel facilities, etc)

1.1 **Registry #1** - with respect to the **'gas facilities and coal facilities' registry**, under the SM:

- Total emissions should be capped.
- Irrespective of expansion or new developments, total emissions for gas and coal should be progressively lowered.
- Baselines should be progressively lowered.
- Intensity measures should *not* be allowed to overrule the cap or baselines.
- SM reform legislation should be written such that **total emissions caps** are protected at every level of governance, against 'gaming' by the gas and coal industries.
- The SM must ensure not only direct CO₂ emissions are covered by caps, but fugitive emissions (CO₂-e) are also included, across the entire supply chain, with a focus on methane. Self-reporting of fugitive methane emissions has been at best an abject failure, at worst fraudulent. Independent, transparent and continuous monitoring and reporting must be funded by the gas and coal industries and rigorously audited and policed.
- The SM be given ability to regulate the quantity and percentage (%) of ACCUs allowed to be used by entities.
- SM given the ability to regulate 'floor' and 'ceiling' price of ACCUs.
- In addition, it is extremely important that the Safeguard Mechanism legislation ensures there is the highest integrity by having the strongest governance, transparency, monitoring and compliance. This includes transparent measurement and reporting and auditing of company emissions, emissions cuts, and accumulated credits.

1.2 **Registry #2** - with respect to the **'non-gas and non-coal' registry**, under the SM:

- Expansion of operations together with reduction of intensity could be contemplated. There may need to be expansion of steel-making and aluminium production for example in the transition to a de-carbonised economy.

Proposal - Detailed Recommendations specifically on SMC's versus ACCU's

We make the following comments with regard to Safeguard Mechanism Credits (SMCs).

2.1 We propose *on average*, one (1) ACCU will be worth *less than 1 tonne* due to lack of permanence - associated with future events such as fire or drought, or a percentage of ACCUs lack integrity in their measurement or performance. In short, we say *'there can be no guarantee the tree will be there in 2050'*.

2.2 We should also recognize that limiting global warming to 1.5 to 2 degrees C requires action **this decade**. Earlier reductions are more important than later reductions. Apart from the integrity issue of ACCUs, the 'net present value' of the same size tree in 2030 is more value than a similar size tree in 2040. The issue of earlier than later emissions cuts further diminish the value of ACCUs compared to SMCs.

2.3 We argue that the success of the Safeguard Mechanism should not be primarily built on the integrity and longer-term permanence or otherwise, of ACCUs.

2.4 Regulation to only use ACCUs (and only high integrity ACCUs) *as a last resort* – ACCUs should be devalued compared with SMCs. We suggest to this end that Safeguard Mechanism Legislation and Regulation:

- A)** Incentivize purchase of SMC's rather than ACCUs through comparative tonnes value and price, including:
- Incentivize creation of SMC's. This implies that a SMC price *'floor'* needs to be legislated and regulated – so that the SMC price cannot fall below, say \$30/tonne, so that a company spending capex in order to reduce emissions, has surety on the forecast return-on-investment (ROI). Otherwise, without a SMC *'floor price'*, a 'Capex request-for-approval' before a Board will have uncertainty and risk associated with the ROI.
 - Make 1 x ACCU worth **less than** 1 x SMC. i.e. able to Regulate such that a surrendered ACCU is worth less than 1 tonne CO₂. For example, if ACCUs reach the cap of \$75/tonne, then it can be regulated so that it is less cost to surrender 1 x SMC. The actual value of an ACCU versus an SMC (ratio) could be decreased each year i.e. value of ACCU is worth 0.8 in year 2025, 0.7 in year 2026 etc.
 - The percentage of ACCUs able to be used by facilities should have much lower cap limits (e.g. able to use 20% ACCUs in year 2025) compared to the quantum of SMCs (able to use 100% in 2025).
- B)** Recognize more overtly in all legislation (and language) that Safeguard Mechanism Credit (SMC) favours real emissions cuts and industry de-carbonisation.

- C)** Do not allow corporations to buy unlimited carbon offsets to cover up pollution-as-usual. This would not achieve de-carbonisation. It would not encourage Australian industry to invest in being competitive in a de-carbonised world. Buying offsets each year is an increasing expense year-on-year (YOY) that has no long-term effect on de-carbonisation of the business. In a probable future where some jurisdictions have carbon border tariffs, these jurisdictions would either demand reduced emissions intensity goods or they will impose a carbon border tariff.
- D)** Take a sectoral approach to phase-out of ACCUs. Legislation might need to recognize that Steel-making for example, cannot use any ACCUs after year **2035**, whereas Aluminium smelting companies should phase out ACCUs earlier than steel – say by year **2030**.
- E)** We repeat that it is imperative, that there be transparent methodology, measurement and reporting and auditing of all company emissions, emissions cuts, and accumulated credits. ‘Gaming’ of SMC prices should be prevented or discouraged by such legislation, to ensure that companies making real emissions cuts get rewarded with higher prices rather than see the price driven down by market manipulation.
- F)** NOTE: That we disagree with the fundamental concern and premise put by some Carbon Credit advocates, that creating too many SMCs might undermine the domestic ACCU industry. The possible oversupply of below-baseline SMCs would indicate that emissions are falling more rapidly than required to meet the baselines. This would be ideal and if the baselines need to be tightened up in subsequent years, they could be.
- G)** The new Safeguard Mechanism legislation and regulation should not be the vehicle for expansion of the industry for generating ACCUs. ACCU’s are valuable and should be rewarded, however use of ACCU’s in the SM should be severely limited.

Thank you to the many fellow researchers and organisations who have helped inform Lighter Footprints submission along the way.

End Submission