20 September 2022

The Clean Energy Regulator
GPO Box 621
Canberra
ACT 2601

Via website: https://consult.industry.gov.au/safeguard-mechanism-reform-consultation-paper/submission

Dear Sir / Madam

Safeguard Mechanism reform: consultation paper

CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) welcome the opportunity to respond to the proposed changes to the Safeguard Mechanism contained within the Consultation Paper ("the CP").

We broadly support the proposed changes to the Safeguard Mechanism in line with the Commonwealth Government's increased National Disclosure Commitment. This is an important step to align the overarching policy response to climate change with the legal framework that will support delivering on the government's commitments.

It will be important for Government to consider a broader balanced industrial transformation approach and how this would overlay the Safeguard Mechanism and the overarching *Powering Australia* policy. Consideration will need to be given to appropriate support for industries with a clear future, and more importantly, for industries that will decline (or be non-existant) in a net zero world. A clear transition approach which is openly communicated, is apolitical and strives to uphold competitiveness, will be critical to match policy settings in other international jurisdictions.

Given the technical nature of this consultation, particularly as it relates to commentary on the science-based variables that would need to be considered as part of the amendments, we have based our responses to what would fall within our own areas of expertise and broader purview. Moreover, the focus of this submission is from the vantage point of where the accounting profession can add value to the amended methodology and processes contemplated by the Commonwealth Government.

Given the caveat above we have selected to frame our responses around the key themes that are provided in the CP.

3.1 Fixed (absolute) versus production-adjusted (intensity) framework

- We agree with the proposal to continue to move towards a production-adjusted (intensity) framework. The legacy approach, that utilised a fixed (absolute) framework, lacked sophistication in as much as it did not provide a focus on the intensity of production lines and provided no incentive for a critical review of the underlying drivers of greenhouse gas (GHG) emissions.

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- This approach would provide a more appropriate costing model for products, with GHG emissions allocated to production lines, rather than being absorbed through an arbitrary allocation to overheads.

3.3 and 3.4 Setting of baselines for existing and new facilities.

- We support the removal of headroom from the Safeguard Mechanism to both lessen the abatement task that would be required, and to provide a circuit breaker to the current inflated aggregate baselines. However, we note that any removal would require a balanced, pragmatic approach which is equitable and ambitious.

- The consultation argues for the adoption of an industry-average benchmark emissions-intensity value. We note that this approach would remove the requirement for site specific external assurance requirements and the provision of an overarching average to be vested with the Commonwealth Government.

- Whilst we appreciate the logic of having industry wide averages, this does not acknowledge the differences in maturity between industry participants, notably where certain organisations may have already adapted their own operations by incorporating existing and new lower carbon processes. This may inadvertently cause the creation of additional headroom for these entities, which is contrary to the intent of the proposed amendments.

- We also note that the provision of industry averages would require a substantial amount of transparent, evidence based due diligence to support the robust nature of these averages. We suggest that this process would benefit from an independent review and assurance to lend credibility to the averages proposed.

4. Crediting and trading, domestic offsets and international units.

- The CP proposes that safeguard mechanism credits (SMCs) would be automatically issued by the Clean Energy Regulator. Additional clarity is required in terms of the mechanisms that would support the issuance, notably, whether this would flow through the normal NGES reporting that facilities would need to provide. Furthermore, we encourage that consideration be given to re-introducing a requirement for independent assurance of GHG emissions reported by facilities. This would assist in supporting the credibility of the data underlying the Safeguard Mechanism and, in turn, the structural soundness of the market being created.

- We note that the intertemporal nature of emissions would presumably require both banking and borrowing arrangements for SMCs. The provisions for the maximum potential overshoot in a particular year appear prudent, particularly when viewed against the carbon budget that the proposal contemplates.

- Reporting on current unit holdings of Australian Carbon Credit Units (ACCUs) would also be prudent as this would support transparency.

5. Tailored treatment for emissions-intensive, trade-exposed (EITE) businesses

- We agree with the CP's assertion that emissions-intensity at the industry level may not be a good indicator of cost impacts at a facility level. This is in recognition that compliance costs would vary across facilities.

- We recognise the wide range of options being provided as a means of assistance and acknowledge that the list provided is not exhaustive. With this in mind, our first preference would be for support that provides organisations with the ability to pivot their operations directly towards a lower GHG emissions state. Support through low emissions technology would therefore be the first option, with the use of SMCs only being used for residual emissions. We note, however, that the availability and deployment of technology would not be linear.

- We consider differentiated baseline rates would add complexity and could lead to a fragmented and unwieldy approach that may prove difficult to manage.

6. Taking account of available and emerging technologies

- As mentioned previously on the non-linear nature of technology, both in terms of availability and cost, we agree with the use of multi-year monitoring periods. This would also align with our view on the intertemporal nature of emissions and potentially provide a holistic view on the alignment between emissions and technology.

If you have any questions about our submission, please contact either Karen McWilliams (CA ANZ) at karen.mcwilliams@charteredaccountantsanz.com or Patrick Viljoen (CPA Australia) at patrick.viljoen@cpaaustralia.com.au.

Yours sincerely

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