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Safeguard and Industry Policy
Climate Change Division
Commonwealth Department of Industry, Science, Energy and Resources
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Discussion Paper: King Review Safeguard Crediting Mechanism

The Public Interest Advocacy Centre (PIAC) is a leading social justice law and policy centre. Established in 1982, we are an independent, non-profit organisation that works with people and communities who are marginalised and facing disadvantage. PIAC builds a fairer, stronger society by helping to change laws, policies and practices that cause injustice and inequality. The Energy and Water Consumers' Advocacy Program (EWCAP) represents the interests of low-income and other residential consumers of electricity, gas and water in NSW. The program develops policy and advocates in the interests of low-income and other residential consumers in the NSW energy and water markets.

PIAC welcomes the opportunity to respond to the King Review Safeguard Crediting Mechanism Discussion Paper (the Paper).

PIAC strongly supports a strategic approach to emissions reduction to ensure efforts are coordinated across the economy, and the risks and costs associated with a rapid transition to a zero-carbon economy are shared equitably. Households must not be required to assume all the costs of transitioning the economy, either through taxpayer subsidy or undue costs added to energy bills.

Objectives and principles

PIAC recommends any proposed safeguard crediting mechanism is implemented as part of a coordinated emissions reduction strategy, with an overarching objective and consistent principles. This would help enable better co-ordination between emissions reduction policies, for instance between the existing Safeguard Mechanism and the proposed Safeguard Crediting Mechanism. While we understand this process is more directly concerned with the proposed crediting mechanism, the design of the mechanism should explicitly consider how it could contribute to such an objective and be shaped accordingly.

The objective of the crediting mechanism outlined in the Paper is not sufficient. This objective is crucial, as it both guides design of the mechanism and determines how its impact and contribution towards decarbonisation can be monitored and evaluated. Subjective or non-specific language does not provide an effective basis for either of these functions. A more appropriate objective for the Safeguard Crediting Mechanism could be:

To incentivise the implementation of emissions reductions projects to contribute to the transition to a net zero-emissions economy by 2050.

PIAC welcomes the intent to design the crediting mechanisms according to defined principles. We consider they should be aligned with the principles of an overarching emissions reduction strategy to which the crediting mechanism would

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contribute. The proposed principles outlined in the Paper should be refined and expanded upon as follows:

- **Material**
The mechanism should lead to significant emissions outcomes and preference the most material emissions reductions.
- **Non-contingent**
The mechanism should lead to direct emissions outcomes, not involve reductions contingent upon other processes.
- **Credible and verifiable**
The mechanism should lead to emissions outcomes which are able to be demonstrated and independently verified.
- **Durable**
The mechanism should lead to emissions reductions which are durable, predictable and consistent over the long term.
- **Efficient**
The mechanism should deliver emissions outcomes that involve the greatest emissions impact for the least Government outlay. The use of other Government grants or subsidies by any project should be considered in this assessment.
- **Simple**
The mechanism should be as simple as possible and readily implementable.

Scheme design

The crediting mechanism should not be designed to be applicable in all circumstances and to all industries. Detailed aspects, such as the crediting framework and thresholds, should be designed to recognise areas of greatest emissions intensity and incentivise a transition to zero emissions via the most material emissions reductions possible. Where baselines cannot be reliably established or material reductions not reliably or measurably achieved, the mechanism should not apply. As the Government is committing limited resources to this scheme, the priority should be to deliver the maximum verifiable emissions benefit for that commitment. Thresholds can be adapted and expanded at a later date should the mechanism demonstrate success

In relation to specific issues raised in the Paper, PIAC notes the following:

- Emissions intensity reference points should be the most credible and accurate reflection of the actual baseline emissions intensity. An average of the emissions intensity over a fixed, recent period (not more than 2 years) could be appropriate.
- The emissions intensity reference point should adjust for any process changes within the reference period that may skew or raise the reference point. It should be adjusted down to reflect any enduring emissions reductions that have already occurred over the reference period.
- Calculation of the reference point for emissions intensity should outline other circumstances where the emissions intensity baseline would be adjusted. These criteria should include adjustments to remove the impact of irregular operational conditions that are not reflective of normal operational emissions intensity.

- New facilities should only have access to the mechanism where they can operate with zero emissions intensity according to the parameters of the scheme. That is, new facilities should be compared to the future target, rather than historic industrial performance. The purpose of the scheme is reduction of existing industrial emissions, not crediting notional performance improvements or new investments that meet otherwise existing best practice.
- There should be a requirement for a minimum level of abatements. This minimum should be high enough to reflect the design principles for the scheme, and ensure that all credited abatement is delivering material emissions intensity reductions contributing to the objective of the scheme.
- Co-ordination with the Safeguard Mechanism should be prioritised, with the objective of accelerating the transition to low-emissions intensity industrial processes. Avoiding or reducing emissions is more efficient, cost-effective and reliable than offsetting. The schemes should be aligned to ensure that the limited opportunities to offset are increasingly reserved for emissions that cannot be avoided or mitigated by other means. The design of the Crediting Mechanism should incentivise the enduring elimination or reduction of emissions, in preference to offsetting. This could involve changes to the existing Safeguard Mechanism to signal staged reductions in emissions baselines.

PIAC welcomes further opportunity to discuss these or any other issues in more detail with the Department.

Yours sincerely

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