Australian Government
Department of Climate Change, Energy, the Environment and Water

Climate Change Act 2022

Andrew Bray, Director, Climate Strategy, DCCEEW

5 October 2022

DCCEEW.gov.au

Acknowledgement of Country

Our department recognises the First Peoples of this nation and their ongoing connection to culture and country. We acknowledge First Nations Peoples as the Traditional Owners, Custodians and Lore Keepers of the world's oldest living culture and pay respects to their Elders past, present and emerging.

Climate Change Act 2022 & Consequential Amendments

- **House of Representatives:** Introduced 27 July, passed 4 August 2022
- **Senate Committee inquiry:** Report 31 August
- **Senate:** Introduced 5 July, passed 8 September
- Amendments agreed by House of Representatives: 8 September 2022
- **Royal Assent:** 13 September 2022

Climate Change Act 2022

- Sets Greenhouse Gas Emissions Reduction Targets
- Annual Statement to Parliament
- Climate Change Authority advisory functions
- Periodic reviews

Greenhouse Gas Emissions Reductions Targets

Section 10 of the Act

- **43% by 2030**
  - **Point target**
  - **Budget covering period 2021-2030**
- **Net Zero by 2050**

Left: Townsville. Credit: Posnov/Getty Images

Annual Statement to Parliament

- Covers Financial Year
- Covers progress towards meeting the targets, international developments, climate policy
- Must discuss effectiveness of Commonwealth policies in contributing to targets by sector
- Impact of policies on rural and regional Australia
- Must be prepared by Minister within 6 months, tabled within 5 sitting days

Climate Change Authority

- Advice on Annual Statement
- Advice on new targets
- Authority must undertake public consultation
- Advice must be published, Minister must state why if decides not to accept advice

Periodic Reviews

- Must be independent
- First review of Act within 5 years
- Reviews of Act every 10 years after previous review

Climate Change (Consequential Amendments) Act 2022

- Climate Change Authority – review function, changes to qualifications for members
- Introduce targets into enabling legislation for Commonwealth Agencies: ARENA, CEFC, Infrastructure Australia, Export Finance Agency, CSIRO, CER, NAIF
- Introduce reference to targets: CFI Act, NGER Act, Building Energy Disclosure Act, Offshore Electricity Infrastructure Act.
- Review of other legislation – by second annual statement.

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Safeguard Mechanism Reforms

David Gourlay, Manager, Safeguard Mechanism Taskforce, DCCEEW

5 October 2022

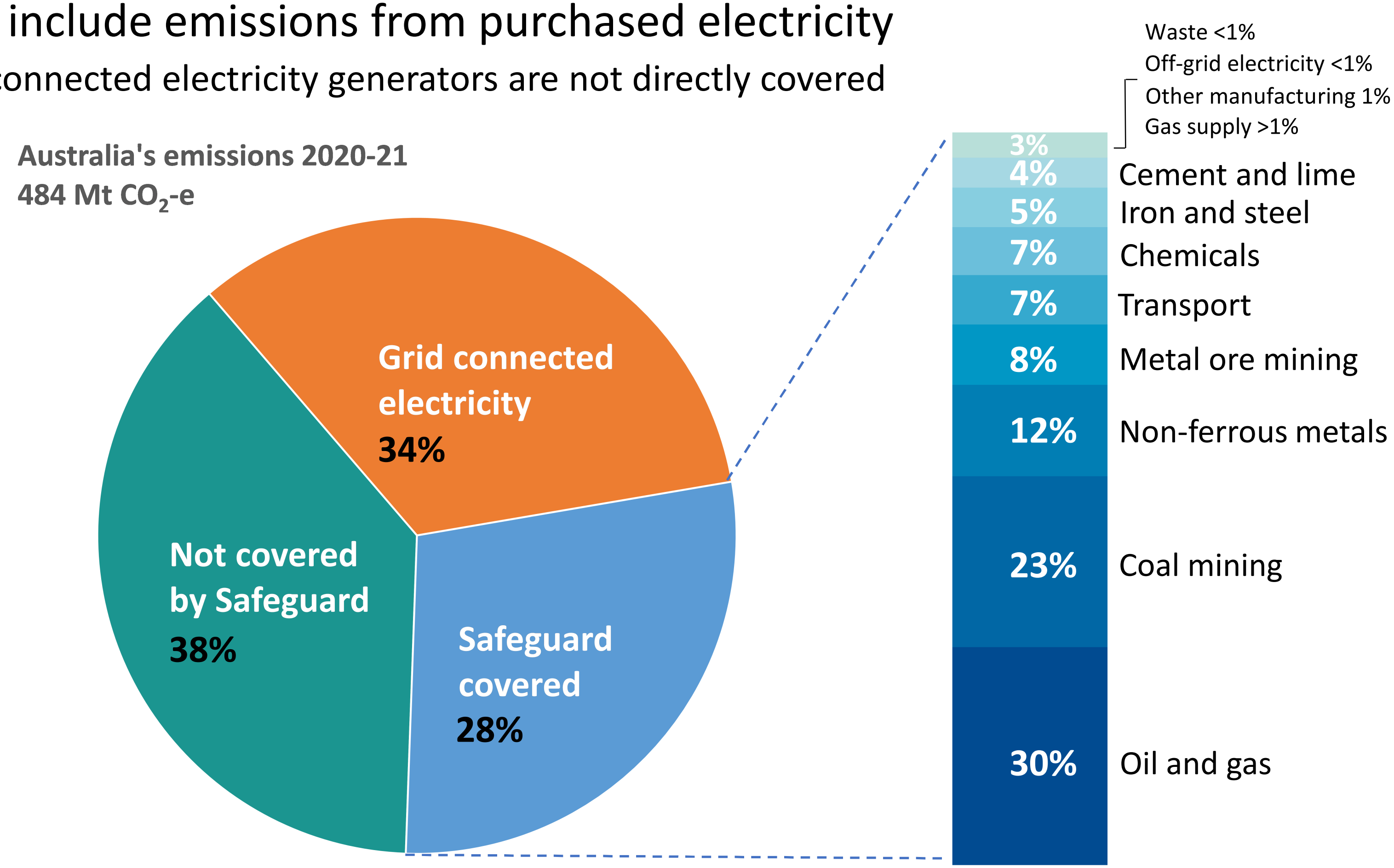
The current Safeguard Mechanism

The current Safeguard Mechanism

- Commenced on 1 July 2016
- Sets limits - known as baselines - on the direct (Scope 1) emissions of covered facilities
- Established under the *National Greenhouse and Energy Reporting (NGER) Act 2007*
  - Most detail is in the *NGER (Safeguard Mechanism) Rule 2015* (Safeguard Rule).

Coverage

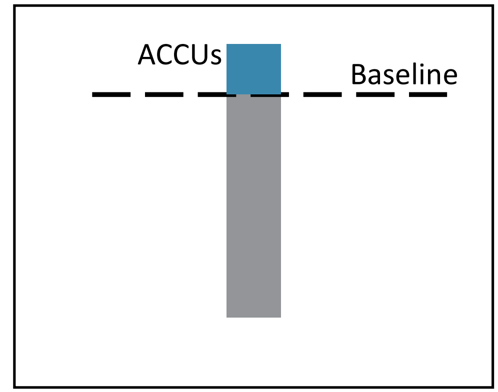
- Covers around 215 facilities with more than 100,000 tonnes CO_2-e
  - Including mining, oil and gas, manufacturing, transport and waste facilities
- Does not include emissions from purchased electricity
  - Grid-connected electricity generators are not directly covered



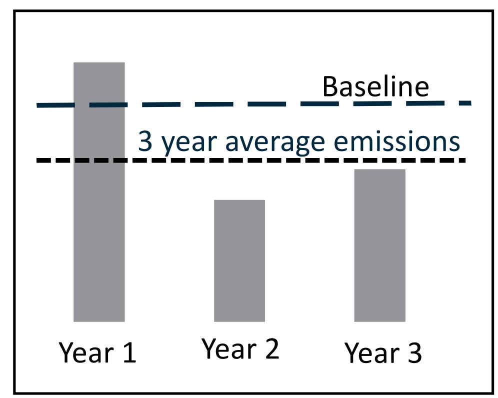
Current compliance options

- Facilities can meet their baselines by:
    - reducing emissions on-site
    - surrendering offsets (ACCUs) or
    - applying for a multi-year monitoring period.

Surrender eligible offsets



Apply for a multi-year monitoring period



Reforms in the Powering Australia Plan

Government's plan includes commitments across the economy to create jobs, reduce emissions and increase renewable energy.

Independent Review of Australian Carbon Credit Units
Ensuring the integrity of Australian Carbon Credit Units and their consistency with agricultural, environmental and economic outcomes.

Powering the Regions Fund
Supporting industry to decarbonisation, developing of new clean energy industries, supporting workforce development and purchasing ACCUs on behalf of the Commonwealth.

Safeguard Mechanism
Reducing Safeguard Mechanism baselines on a broad trajectory to net zero by 2050

National Reconstruction Fund
A $15 billion fund to diversify and transform Australia's economy and industry, including investments in green metals, clean energy component manufacturing, and deployment of low-emissions technologies.

National Electric Vehicle Strategy
https://consult.industry.gov.au/national-electric-vehicle-strategy

Net-zero Australian Public Service
Australian Public Service's emissions to net zero by 2030.

Amending ARENA Regulations
Allow ARENA to invest in electrification and energy efficiency technologies and repeal the broader mandates attempted by the previous government.

New Investment Mandate for the CEFC
Directing CEFC to focus investments in line with Australia's updated NDC.

Rewiring the Nation
$20 billion to upgrade the electricity grid to support more renewable power, helping deliver cheaper and more reliable electricity to homes and businesses.

Australian made batteries
Developing a National Battery Strategy, creating a Battery Manufacturing Precinct in Queensland, and supporting local manufacture renewable energy technologies.

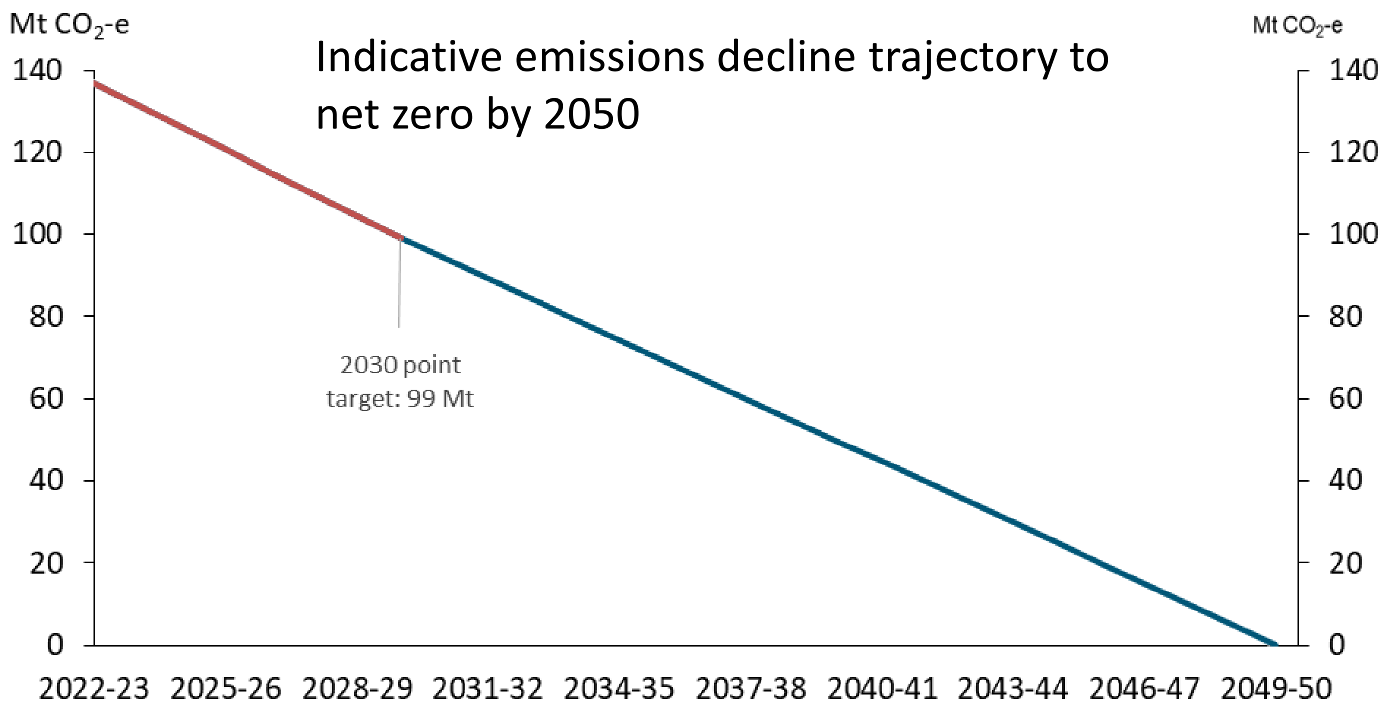
Reducing emissions from Agriculture
Supporting research and innovation to reduce methane emissions, including a new livestock feed supplement.

Options to reform the Safeguard Mechanism

Safeguard Mechanism's share of the national abatement task

Safeguard facilities contributed 28% of national emissions in 2020-21

→ reducing baselines to 99 Mt CO_2-e in 2030 would deliver a proportional share of the 2030 target on a trajectory to net zero by 2050



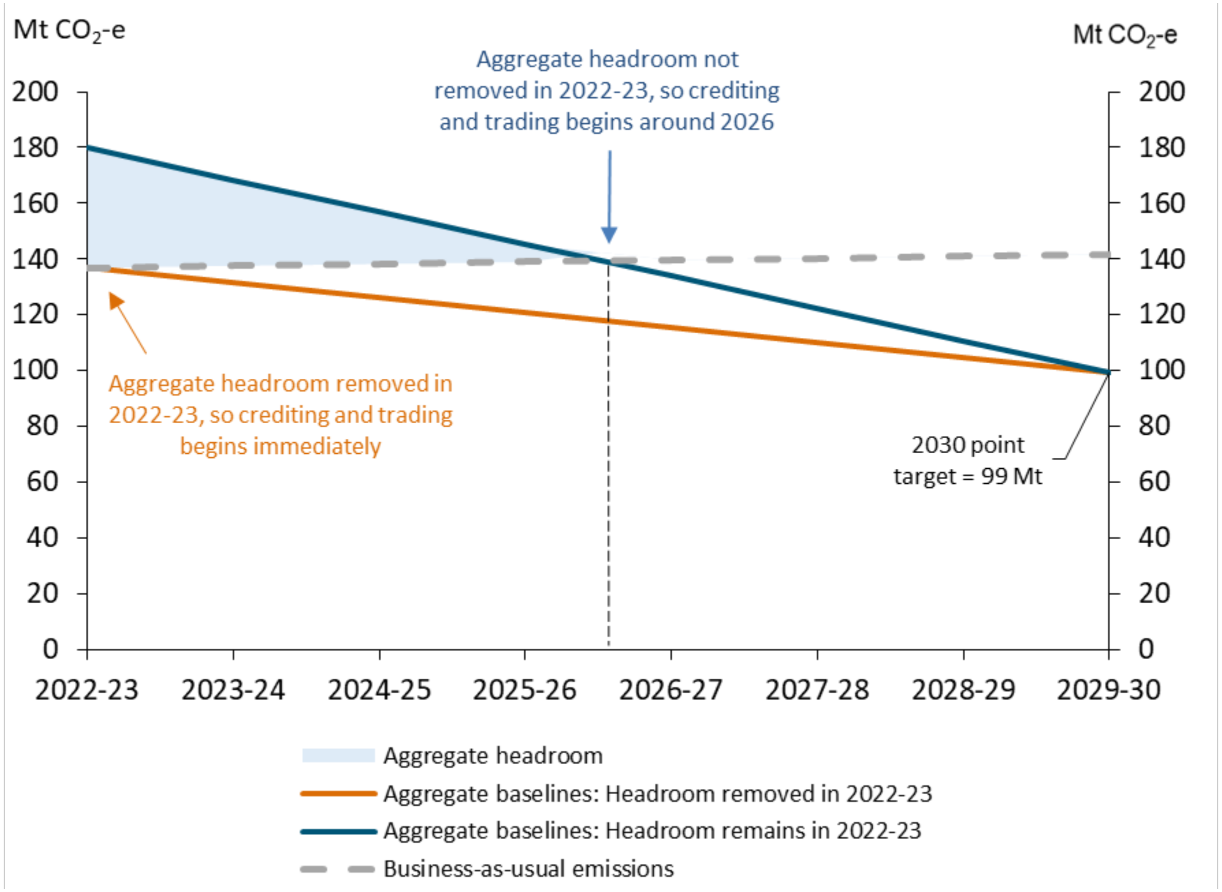
Fixed and production-adjusted baselines

- **Fixed** (absolute) baselines place an absolute limit on covered emissions.
  - Can be met by reducing output and/or improving emissions-intensity.
  - Provide greater certainty of emissions outcome.
  - Involve greater marginal costs.

- **Production-adjusted** (intensity) baselines rise and fall annually with production.
  - Can only be met by improving the emissions-intensity of production.
  - Allow for growth in production.
  - Reduced marginal costs.

Headroom and the need to remove it

Indicative decline trajectory with and without headroom



Setting baselines for existing facilities

There are two main options for setting baselines that would remove headroom:

- **Option 1:** all baselines are set using benchmark (industry average) emissions-intensity values
- **Option 2:** all baselines are set using site-specific emissions-intensity values

Hybrid approaches could also be considered, if they are designed in a way that removes headroom:

- Facilities could initially retain their existing baselines, but be scaled to remove headroom in the first year

Setting baselines for new facilities

- New entrants are defined as facilities that first trigger the Safeguard Mechanism coverage threshold of 100,000 tonnes CO_2-e after 1 July 2021
- New entrant baselines could be set using emissions-intensity benchmarks. Two broad options:
  - **best practice**: based on the average emissions intensity of the top 10 percent of Australian industry performance
  - **industry average**: consistent with the current framework for existing facilities
- New facility baselines would be subject to an annual decline rate, consistent with existing facilities

Crediting and trading

- Businesses do not currently have an incentive to reduce emissions below their baseline
- Crediting and trading can provide this incentive
- Businesses who reduce their emissions below their baseline could earn a **Safeguard Mechanism Credit**
- This credit could be sold to another facility with fewer cost effective abatement options
- This would help to ensure the lowest cost abatement

Offsets & international offsets

- Declining baselines will make Safeguard Mechanism facilities a source of demand for **ACCUs**
- An **independent review of ACCUs** by the end of 2022 will ensure their integrity
- To avoid double counting, it is proposed that new ERF projects could not be registered at Safeguard facilities
- **International offsets** are not proposed to be part of the initial enhanced Safeguard Mechanism
- There may be benefit in amending Safeguard legislation to allow for the possibility that high integrity international units could be used for at some point in the future
- International offsets would only be considered if they have high integrity and count towards Australia's climate commitments

Emissions-intensive, trade-exposed businesses (EITEs)

- Treatment for EITEs seeks to ensure Australian businesses are not competitively disadvantaged, and emissions do not leak overseas
- This will be based on the comparative impact principle which could be assessed at the facility level, based on:
  - **Trade exposure:** assessed as a trade share greater than 10 per cent or a lack of capacity to pass through costs due to international competition, and
  - **Emissions-intensity:** could relate to cost intensity—cost per unit of revenue or value added at the facility level—rather than emissions

Tailored treatment for EITEs

Potential tailored treatments could include:

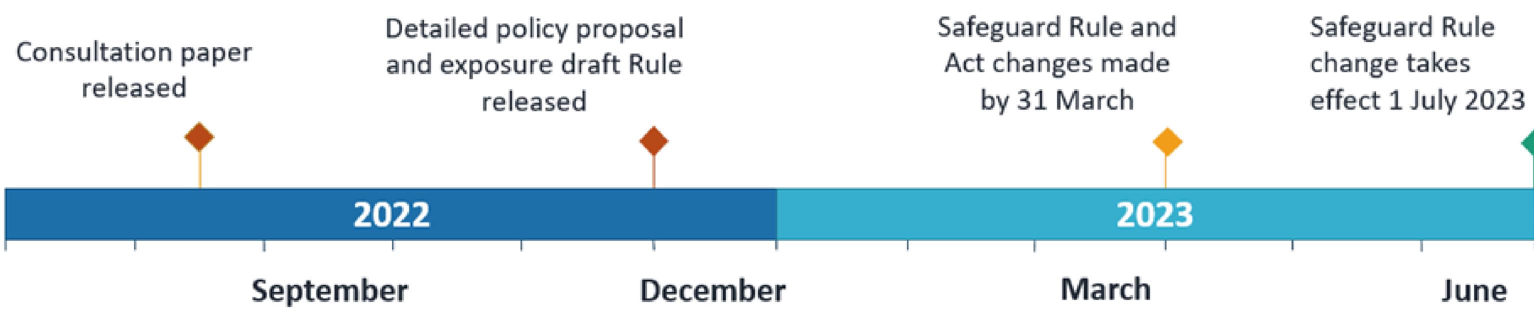
- **Low emissions technology funding** including grants from the new Powering the Regions Fund and finance from the National Reconstruction Fund
- **Direct provision of SMCs to EITEs** obtained through a mechanism that reserves a percentage of all SMCs in a Government holding account
- **Differentiated baseline decline rates** could be considered to directly reduce the impacts of declining baselines

Each of these measures may be more or less appropriate depending on the broader scheme design, including how baselines are set

Timing and legislation

Safeguard reform: timing and legislative process

- Consultation paper released on 18 August 2022, consultation closed on 20 September 2022.
- **Primary legislative changes** will be needed to implement crediting and related changes, and processed in parallel
- Details will be implemented through **subordinate legislation**, including the **Safeguard Mechanism Rule**
- Feedback on a more detailed design proposal accompanied by proposed changes to the **Safeguard Mechanism Rule** will be sought later this year following feedback on this paper.
- The start date for Safeguard Mechanism reforms is **1 July 2023**



Questions?