Investor Group on Climate Change

Investor Group On Climate Change (IGCC)

Submission to:

CONSULTATION ON THE OPERATION OF THE SAFEGUARD MECHANISM

4 April 2018

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Safeguard and Industrial Policy Section
Department of the Environment and Energy
GPO Box 787
CANBERRA ACT 2601

Consultation on the operation of the Safeguard Mechanism

The Investor Group on Climate Change (IGCC) welcomes the opportunity to provide input into the review of the Safeguard Mechanism.

IGCC represents over 68 Australian and New Zealand institutional investors with more than $2 trillion of funds under management, along with members of the investment community focused on the impacts of climate and energy issues.

IGCC members are invested across the Australian economy and are part owners of most of Australia's large companies. As managers of retirement savings and pooled investments we are concerned with the evident and increasing impacts of climate change on the global and Australian economies and the flow through impacts for investment returns.

Australia's response to climate change needs be inclusive of considerations for the economic and investment implications of the global response to climate change. This includes the setting out a practical pathway for ensuring Australia's economic competitiveness in a carbon constrained global operating environment over the longer term.

We are concerned that the Safeguard Mechanism does not currently deliver on Australia's commitments under the Paris Agreement to limit global warming to below 2°C. Further weakening the constraints established through the Safeguard Mechanism, will further undermine Australia's ability to reduce emissions in a cost efficient manner.

Principles and priorities for investors

In reviewing the efficacy of Australia's climate change policies, it is crucial to consider the role and impact of each policy mechanism in the context of the wider economy and the transition towards decarbonisation. Across the suite of policies, the overall goals and outcomes must be consistent with the commitments made under the Paris Agreement, and the long-term goals that it sets out for both national and the global economies.

Australia has a carbon intensive economy which is exposed to the regulatory, physical and market risks of climate change. Investors are seeking an integrated climate change policy framework where the key elements are grounded in broad-based bipartisan support, credible emissions reduction ambition and an ability to deliver investor certainty.

IGCC notes that the Australian Government, along with the COAG Energy Council and the Energy Security Board, is currently undertaking design work towards the establishment of the National Energy Guarantee. With the right design parameters, an effective policy mechanism applied to the electricity sector could make significant contributions towards reducing Australia's emissions.

However, the proposed emissions reduction task allocated to the electricity sector under the National Energy Guarantee, a proportional reduction equivalent to a 26% emissions reduction from the electricity sector by 2030, will be insufficient to achieve the Australian Government's national 2030 emissions reduction target alone, let alone deliver a credible longer term pathway to decarbonisation.

As highlighted in a recent update to Australia's Emissions Projections by the Department of Environment and Energy, further policy action is required to meet Australia's 2030 emissions reduction commitments under the Paris Agreement.

As Australia seeks to achieve ambitious reductions in greenhouse gas emissions, a whole-of-economy approach is essential to ensure emissions reductions goals are achieved at lowest cost.

A policy response for other major emitting sectors of the economy, such as the Safeguard Mechanism, is therefore an integral part of the Government's suite of climate change policies.

The Safeguard Mechanism must therefore provide a credible means of driving emissions reductions across other sectors of the Australian economy. Attention should be given to how the mechanism may be strengthened to support increased investment in low-carbon technologies throughout industry, not weakened.

The Operation of the Safeguard Mechanism

The Safeguard Mechanism was intended to provide a framework for the monitoring and reporting of emissions, and a means by which growth in Australian emissions could be constrained.

To operate as a credible emissions reduction mechanism, the design parameters of the Safeguard Mechanism must therefore demonstrate a clear contribution by covered sectors towards meeting the goals of the Paris Agreement.

A credible pathway towards meeting the Paris Agreement commitments is an essential feature of any climate policy suite that seeks to provide certainty for investors to drive a transition to a low carbon economy and to provide a clear and transparent market signals which support investment confidence. Where those policy settings are credible, investment capital will flow.

As such, there is no clear case for amendments to be made to the Safeguard Mechanism that would lead to a weakening of the limits to emissions growth placed on large emitters through the safeguard mechanism.

A transition to a low emissions economy will require limitations on the ability for unmitigated growth in emissions from emissions intensive industries and a clear signal for new investment to be made in achieving emissions reductions across all sectors of the Australian economy.

Proposed Changes to the Safeguard Mechanism

IGCC supports the principle that the setting of baselines for covered entities should be relatively straightforward, transparent and efficient. It should promote comparability across facilitates for investors, and allow for proper analysis and assessment of ongoing operational performance against regulatory constraints in an up to date manner.

The Safeguard Mechanism should aim to actually constrain emissions growth across covered sectors.

IGCC is concerned that the proposed changes to the Safeguard Mechanism towards calculated emissions baselines tied to levels of production and reviewed on an on-going basis is likely to significantly diminish the ability of the Safeguard Mechanism to effectively constrain further growth in Australia's emissions.

While acknowledging the need for regular review and adjustment to reflect up to date production levels and unforeseen production expansion, by linking the emissions number under the Safeguard Mechanism to the levels of actual production by facilities, adjusted annually, the effectiveness of the scheme to constrain increases in emissions is undermined.

For example, with an ability to adjust emissions baselines annually, the emissions number (the baseline) would simply increase as the actual volume of emissions from a company increases.

If the emissions baselines set for companies before which offsets are required are continuously increased proportionally to production levels, then companies will face little need to invest in reductions to their emissions levels.

This undermines the incentive to invest over the medium term to improve the emissions intensity of operations. If the intent of the scheme is to encourage companies to increase their emission efficiency as they increase their production levels, the proposed changes to the Safeguard Mechanism would not achieve the stated climate policy aim to constrain emissions growth.

Further, any weakening of the Safeguard Mechanism will lead to a diminished market for emissions reductions generated under the Emissions Reduction Fund. With limited remaining funding allocated for the purchase of further emissions reductions under the Emissions Reduction Fund, the Safeguard Mechanism is likely to remain the only source of future demand for ACCUs.

If emissions intensive industries are provided further flexibility to increase their levels of emissions without an obligation to source appropriate levels of offsets, the market for ACCUs will remain limited, restricting growth in further investments in low carbon technologies and industry and stymie the emergence of a domestic market for emissions offsets.

This works to further undermine any business case for investment in reducing emissions within high emissions industries in Australia, increasing the difficulty of achieving Australia’s long-term emissions reductions goals.

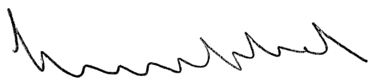
Finally, IGCC in-principle supports the establishment of agreed ‘production variables’, while noting the challenges of determining an industry standard in areas with substantive variance across covered entities and with facility level complexities.

With Australia’s commitments under the Paris Agreement to further review and increase the level of emissions reduction ambition, the Commonwealth Government must work to establish a set of policies that can enable a scaling up of the Australian abatement task.

With the electricity sector now expected to deliver less abatement, other industry sectors will be expected to deliver more emission reductions to help achieve Australia’s national commitments. Real caps capable of delivering real emission reductions across the economy are therefore required.

The IGCC thanks the Department for Environment and Energy for the opportunity to provide a submission to the review of the Safeguard Mechanism and would be happy to facilitate further this discussion of the issues raised in this submission.

Kind regards



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