



# Safeguard Mechanism reform: consultation paper submission

20th September 2022

## Introduction

The *Beyond Gas Network* is a network of volunteer citizen based climate action networks with links across Australia. It is committed to publicising the scale and impact of fossil gas on emissions both domestic and exported, on people and on country. On the precipice of climate calamity, it advocates the rapid replacement of a fossil fuel based economy with a renewably based future.

## Our response is in two parts

**First**, we focus on the questions posed in the consultation document we understand to be most pertinent to our mission. Note, although our focus is on gas extraction and export, the comments below apply to fossil fuel producers (coal and gas) in general.

**Second**, we outline some of our specific considerations and make corresponding recommendations for consideration.

## Part One: response to matters where feedback is sought

### The Safeguard Mechanism's share of the national abatement task

What should the Safeguard Mechanism's share of Australia's climate targets be?

#### Response

As the current threshold of 100000 tons annually only captures 28% of emissions this would mean that 72% of Australia's domestic emissions by 2050 is not subject to any legislative regulation as current law stands and 87% of emissions in the critical decade to 2030. The

threshold should be reduced to capture more emissions. The Australian Conservation Foundation proposes a threshold of 25,000 tons to capture a greater share of Australia's emissions which we endorse.

### **Fixed (absolute) versus production-adjusted (intensity) framework**

Should we retain, and build on, the existing production-adjusted (intensity) baseline setting framework or return to a fixed (absolute) approach?

#### **Response**

The baseline setting framework should be a fixed framework. An intensity framework will not ensure real emission reductions. A halving of emission intensity with a simultaneous doubling in production would mean the same absolute emissions.

### **Setting baselines for existing and new facilities**

Views are sought on the proposal to reset baselines in a way that removes aggregate headroom.

#### **Response**

New projects should not be permitted in fossil fuel extraction. This is the position of the United Nations through especially the IPCC, and the International Energy Agency. It follows that there should be no new fossil fuel facilities in the Mechanism. Other new entrants and brownfields expansions should be required to be at net zero emissions, with their use of offsets limited to 5% of total emissions.

All baselines should be reset using industry best practice.

Production-adjusted (intensity) baselines conflate productivity and emissions. The Mechanism should reduce emissions, not reward reduction in emissions-intensity. There must be some disincentive for increased production where it compromises the 2030 target.

### **Crediting and trading, domestic offsets and international units**

Are there any other issues to consider with the proposal to allow the Clean Energy Regulator to automatically issue tradable credits to Safeguard facilities whose emissions are below their baseline..?

#### **Response**

- The notion of offsets is inherently problematic. As Greenpeace states 'Fossil carbon kept underground is far more stable than carbon actively cycling between the land, ocean and atmosphere. The priority should therefore be to keep the fossil carbon in the ground and not equate this with land-based carbon offsets'. In any case, there should be no use of ACCUs at the earliest, until the findings of the Chubb inquiry are made public.
- SMCs are inherently problematic - substitute them with a grant, and best practice information and dissemination and award process
- Fossil fuel producers, the greatest emitters and the biggest profit makers, should not have access to SMCs which will amount to another source of profits. Their emission trajectory declines should be determined and required by Government, based on expert best practice criteria.

- The system should not allow Fossil fuel companies which propose to use unproven Carbon Capture and Storage to claim ACCUs or SMCs.

Should international units be able to be used for compliance under the Safeguard Mechanism at a future time, noting that any decision would depend on the rules for international trading?

### **Response**

As there is no legitimate international carbon credit system international units should not be used at least until there is a high-integrity validated international system - which is not currently in prospect - or until selected international credits are subject to an ongoing verification process by the Australian government.

### **Taking account of available and emerging technologies**

Should multi-year monitoring periods be extended to allow facilities with limited near-term abatement opportunities to manage their own abatement path?

### **Response**

Fossil fuel corporations should not be permitted to manage their abatement path. Their existing track record in complying with regulatory requirements is poor and the Government should have little confidence that they would meet any self imposed abatement path. Witness Gorgon's promises about CCS which have completely failed.

### **Indicative baseline decline rates**

What are the appropriate characteristics for the decline trajectory to 2030 that can deliver the Safeguard Mechanism's share of Australia's climate targets, and the process for setting baselines post-2030?

### **Response**

The world faces a climate emergency. It is good that the consultation document recognises that emissions are cumulative and the sooner emissions are reduced the better. The decline trajectory should be steep for fossil fuel producers which are collectively recognised as by far the biggest emitters in the country. The steep reductions may be handled through substituting renewable technology in the production process or by reducing production. A steep decline path for the fossil fuel industry would incentivise the industry to use its super profits in emission reduction.

## Part Two: specific considerations and recommendations

The 215 major polluting facilities covered by the scheme are responsible for 28% of Australia's carbon pollution.

### **New and expanded gas Liquefied Natural Gas (LNG) projects are among the biggest emitters in the country**

LNG facilities currently make up 10 of Australia's top 20 largest emitting facilities – with these facilities alone accounting for over 34 million tonnes of CO<sub>2</sub>e in 2020-21 (25% of covered emissions).

The Australian Conservation Foundation (ACF) has found that the combined annual emissions of the 215 major polluting facilities covered by the scheme increased 7% – 9m tonnes a year - since the safeguard began, largely due to the expansion of LNG exports. Nearly a third of the pollution released under the safeguard – 218m tonnes across five years – came from just 10 sites. Emissions from coal mining had increased slightly over the five years, but those from gas and oil extraction had ballooned by 20%, primarily due to the opening of new developments due to the expansion of LNG exports.

The biggest contributors were both LNG developments: Chevron's Gorgon gas export facility and Woodside's North West Shelf project. They were followed by BlueScope Steel's Port Kembla steelworks, the early stages of the Ichthys LNG project in the Northern Territory and Qantas Airways. Planned big gas projects, including [Woodside's Scarborough development](#) in northern Western Australia, [Santos's Narrabri gas field](#) in New South Wales and the proposed opening of the [Beetaloo Basin](#) in the Northern Territory, "will blow out the safeguard even further", according to the ACF.

### **The Mechanism must be developed to encompass currently unaccounted-for emissions of methane**

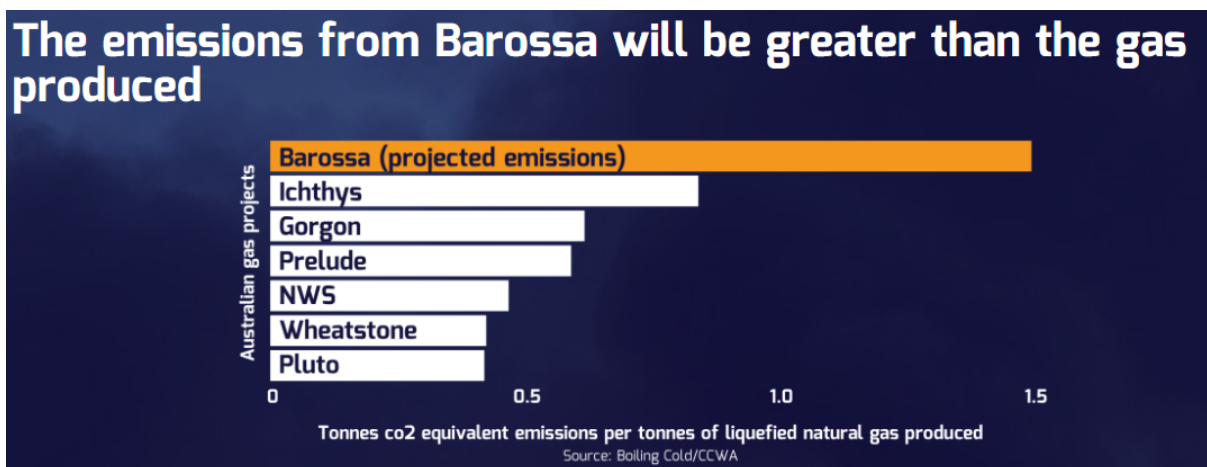
It is notable that measured emissions do not include very considerable unaccounted emissions (often called fugitive emissions) of methane. This is especially an issue for some open-cut coal mines, and for most unconventional gas extraction (generally known as fracking). If the Australian carbon accounting is to be viewed internationally as having integrity and for us to be seen as a responsible global citizen with the attendant trade and foreign relations advantages, methane emissions accounting must rapidly improve and these improvements incorporated into the Mechanism. There is new methane emissions technology from satellite and aeroplane-based measurement methods which should be implemented and the results used in carbon accounting in the Mechanism.

**Recommendation:** [The government urgently analyse how much new methane measurement technology can affect total estimated emissions from Safeguard facilities, and determine the adjustment in ambition required to reach the 2030 Safeguard Mechanism target.](#)

## The Mechanism must be developed to encompass currently unaccounted-for emissions of Carbon Dioxide from venting

The Barossa gas field, in development in the Timor Sea, has at least double the carbon dioxide – at 18% – of any other offshore Australian gas field. This field is being developed as “cleaner” gas reserves become less available and increased prices allow for more expensively-produced gas to be commercially viable.

The project would release 15.6 million tons of carbon dioxide emissions every year as the gas is extracted, developed and burned. Two thirds of the CO<sub>2</sub> from the Barossa offshore gas field will be vented directly into the atmosphere before the gas is piped into Darwin. Right now, this is free of carbon accounting. This must change.



**Recommendation:** direct venting of CO<sub>2</sub> from gas extraction be incorporated into facility baselines, and projects with high levels be required to reduce their resulting emissions at a higher rate than other facilities.

## The Safeguard Mechanism must be about real abatement, with the gas industry held especially accountable

The outline above underlines the necessity of the Mechanism being effective. Australia could miss its 2030 target if carbon credits under the scheme do not reflect “real and additional” abatement. It also underlines the very significant contribution of the gas industry to the current, and projected if unabated, increase in Australia’s Scope 1 emissions - those directly covered by Australia’s international commitments and legislated carbon reduction targets.

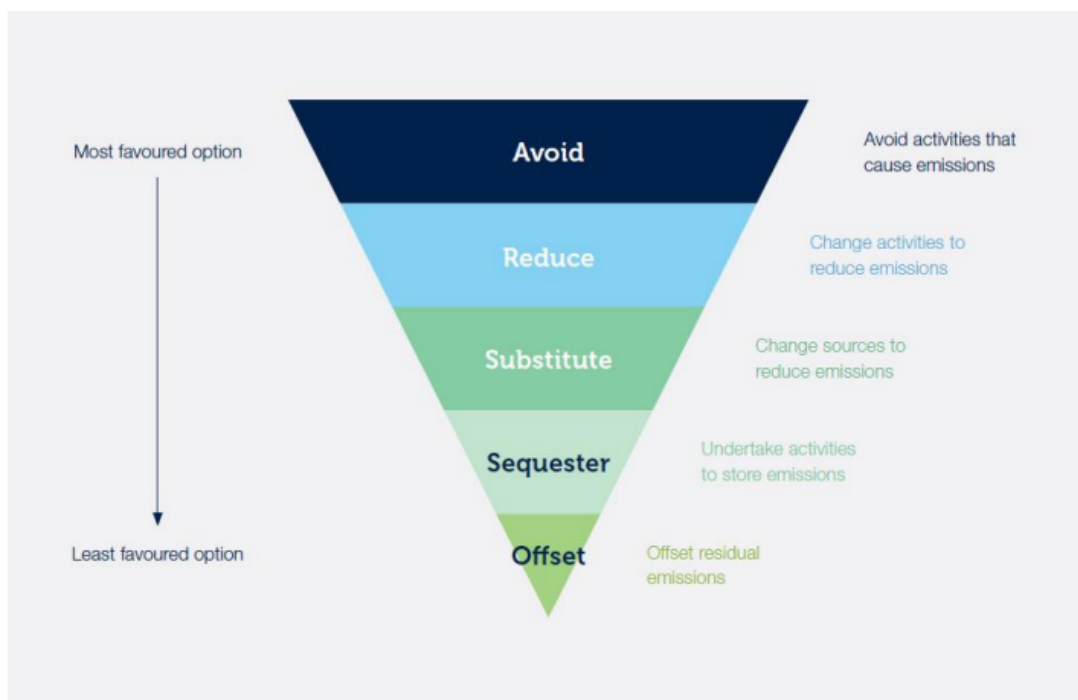
Reductions in emissions must come from genuine efficiencies and lasting change. As the gas industry export is the biggest emitter (see Figure 2 below), with the greatest increase in emissions, it should be held especially responsible for reducing those emissions.

## Offsets must be the least-favoured option

The Mechanism requires “gradually reducing baselines to help Australia reach net zero emissions by 2050”. The Government intends to allow emissions reduction obligations to be achieved principally by emission reductions or by purchasing and then surrendering offsets.

Purchasing and surrendering offsets is very much a least-favoured option, and a very bad one if it is open to gaming or is otherwise ineffective. The Mechanism will be ineffective if it is cheaper for companies to buy then surrender offsets than to reduce emissions.

**Figure 1: Mitigation hierarchy for reducing greenhouse gas emissions**



Source: Paia Consulting, <https://paiaconsulting.com.sg/wp-content/uploads/2020/09/RMIT-Carbon-Management-Hierarchy.png>

So a fundamental question is: to what extent should offsetting be allowed; and if it is not, what incentive will there be to reduce emissions? Government can and does under the current Mechanism require companies to surrender offsets, and assuming that those offsets have integrity (represent carbon drawdown) that would neutralise the emissions. However, the real carbon emissions of the large fossil fuel projects cannot be offset while maintaining commercial viability unless by credits that are cheap and without integrity, thus gaming the Mechanism and risking missing legislated targets.

The size of projected emissions for example for [Woodside's Scarborough development](#), even if limited to scope 1 emissions, are so great that it may neither be possible for a market with integrity to produce such offsets (credits) and/or be so phenomenally expensive in the aggregate required to enable surrender of the credits that it would make the project or facility commercially unsustainable.

**Recommendation:** legislate the mitigation hierarchy and require facilities under the Mechanism to demonstrate their commitment to and use of it in order to be eligible to use offsets for residual emissions.

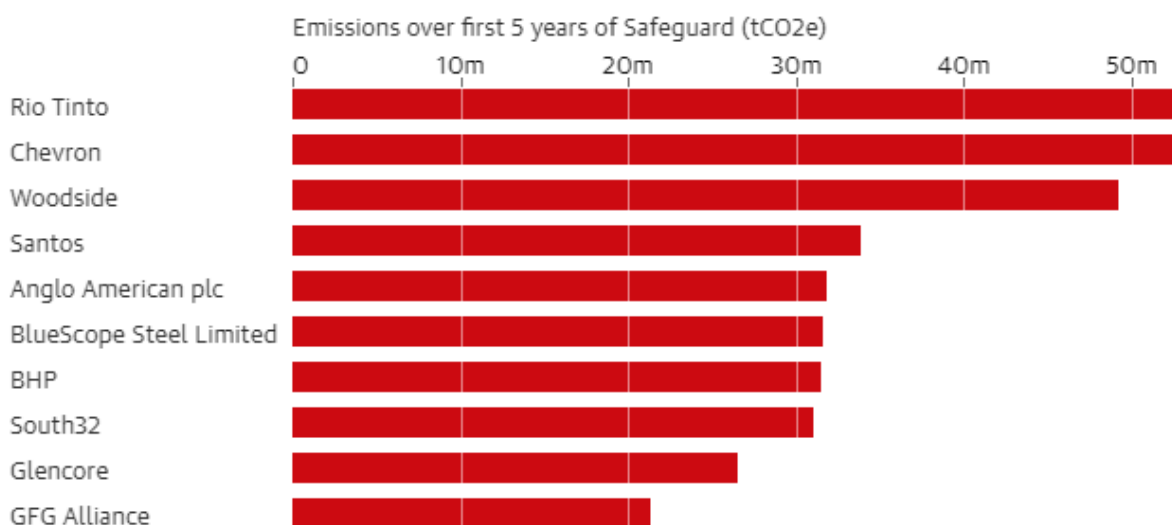
### **Disallow fossil fuel facilities from using offsets**

Fossil fuel production merits different rules, compared with energy-intensive industry. Coal, gas and oil companies - the primary global drivers of climate change - should not be permitted to use any offsets. They should be required simply to reduce their emissions. Given that they are the biggest contributors to the combined annual emissions under the Mechanism (see Figure 2), to do otherwise represents too great a risk to Australia's targets if the offset regime is insufficiently robust, and fails to hold them to account for their responsibility to the Australian and global community - especially in the context of their current profitability.

**Recommendation:** fossil fuel extraction and processing facilities be disallowed from using offsets for abatement purposes under the Mechanism.

**Figure 2**

### **10 biggest polluting companies under the safeguard mechanism**



Guardian graphic | Source: Australian Conservation Foundation

### **Disallow or severely restrict the use of Carbon Capture and Storage (CCS) in approved offsets**

CCS is a failed technology, certainly for use at scale. If its use is to be continued, it should be subject to a high burden of proof before being approved for use. Currently, All CCS projects must involve a new greenhouse gas source.

**Recommendation:** require CCS projects to be proven successful with a high burden of proof before qualifying for use as ACCUs.

### **New entrants must be net zero**

We note that since 1 July 2020, baselines based on ‘best practice’ are applied to new or significantly expanded facilities. These are known as ‘benchmark baselines’, based upon emissions-intensity of production, and use the best practice for that industry as the guide (that is, the best, least emissions intensive standard for production) and an independently audited forecast of production; with the benchmark baseline generally in place for three years. As “best practice” improves, the baseline for new entrants will need to be updated. At minimum, best practice should be calculated as the average emissions intensity of the top 10% of Australian industry performance.

However, we must go further. If the 2030 target is to be reached, new entrants and brownfields expansions must be net zero emissions based on design and technology, with the role of carbon credits severely limited. This could be achieved by placing a limit on how many ACCUs/SMCs can be used by new entrants to offset emissions. The Clean Energy Act 2011 limited the use of ACCUs to offset emissions to 5% of total emissions and this limit could be reinstated, with new entrants as first cabs-off-the-rank.

**Recommendation:** new entrants and brownfields expansions be required to be at net zero emissions, with their use of offsets limited to 5% of total emissions.

### **Safeguard Mechanism Credits (SMCs)**

High-emitting facilities are proposed to automatically be issued these free carbon credits where their emissions are below an “industry average”. This could undermine the integrity of the Mechanism where they are used to “offset” emissions from other facilities. Also, according to Reputex, it could lead to half of Australia’s 215 largest emitting facilities being in line to receive a financial windfall instead of being required to reduce their emissions, risking locking in fossil fuel production by creating a new subsidy.

Instead, SMCs, if they are to be implemented, should reward operational changes, technological updates or other actions that indicate real, lasting emissions reduction; and require facilities to sell or buy in the earning year and remove multi-year monitoring periods. A system of regulating and verifying SMCs will be essential.

However, we do not support this mechanism. It is too open to gaming if done on data alone, and too personnel-intensive if it is to be thorough. A grant system as an incentive to reduce and reward emissions reduction, together with a best practice information and dissemination and award process, would seem better.

**Recommendation:** substitute Safeguard Mechanism Credits with a grant, and best practice information and dissemination and award process.