

30 August 2019

Climate Change Authority  
via email [submissions@climatechangeauthority.gov.au](mailto:submissions@climatechangeauthority.gov.au)

Dear Sir/Madam

## CONSULTATION ON UPDATING THE AUTHORITY'S ADVICE ON MEETING AUSTRALIA'S PARIS AGREEMENT COMMITMENTS

The Chamber of Minerals and Energy of Western Australia (CME) appreciates the opportunity to respond to the Climate Change Authority's (Authority's) "*Updating the Authority's Previous Advice on Meeting the Paris Agreement Consultation Paper*"<sup>1</sup> (Consultation Paper). This consultation seeks to provide recommendations that ensure Australia is well-placed to meet its 2030 emissions target and that recommendations are consistent with meeting subsequent targets with enhanced ambition that put Australia on a path to net zero emissions, consistent with the Paris Agreement framework.

CME is the peak resources sector representative body in WA. CME is funded by our member companies who are responsible for over 90 per cent of the State's mineral and energy production and workforce employment. Our sector employs over 118,000 people in WA and in 2017-18, the value of WA's mineral and petroleum industry was \$115 billion. The sector is a major contributor to both the State and Australian economy.

In response to the key areas of investigation for which the Authority is seeking feedback, CME offers the following comments and recommendations:

### *Previous recommendations: What aspects of the Authority's previous recommendations remain valid and why?*

CME has recently developed a set of policy principles that we use to inform our contribution to discussions on climate change policy. These recommend the use of policies that:

- Uses a national framework that seeks the most economically efficient and effective approach to reducing net emissions;
- Adopts a whole of economy (broad base), market-based mechanism which promotes lowest cost abatement;
- Establishes a mature, liquid and affordable offsets market that includes international trading for certified / credible offsets;
- Uses a single, national emissions account that is transparent and publicly available;
- Maintains the international competitiveness of trade exposed industries;
- Ensures clarity and stability regarding regulatory assessment and compliance processes to enable industry to continue to invest with confidence;
- Is aligned across political parties of both State and Federal jurisdictions; and
- Does not regulate emissions in other jurisdictions.

Previous advice issued by the Authority is generally aligned with these principles.

### *Achieving a net zero emissions economy in the long-term:*

*How can the Government assist the positioning of the Australian economy to best take advantage of opportunities associated with the global transition to net zero emissions, while managing any risks? And what are these opportunities and risks?*

Australia is a significant producer and exporter of key minerals and resources needed for the transition to a lower carbon future. Australia accounted for 60% of the world's lithium production in 2018<sup>2</sup> as well

<sup>1</sup> Available at: <http://www.climatechangeauthority.gov.au/updates/authoritys-advice-meeting-australias-paris-agreement-commitments>

<sup>2</sup> United States Geological Survey, Lithium, 2019 Summary available at: <https://prd-wret.s3-us-west-2.amazonaws.com/assets/palladium/production/atoms/files/mcs-2019-lithi.pdf>

as being the third largest producer of cobalt<sup>3</sup> with significant deposits of nickel, rare earths and other minerals critical for batteries and renewables technology. Australia's mineral wealth, combined with our expertise as a minerals and energy producer, presents a significant opportunity for Australia during the global transition towards net zero emissions. Further, given the transparency and significant regulation of the resources sector in Australia, it is likely Australian minerals will be preferentially sought for certain supply chains and trading nations in order to demonstrate ethical sourcing of input materials.

Natural gas, including Australian LNG exports, is already contributing to global emissions reductions, with the International Energy Agency concluding that coal to gas switching reduced emissions by over 500 million tCO<sub>2</sub>-e since 2011<sup>4</sup>.

Australia's extensive experience in the export of natural gas provides Australia with a competitive advantage in the emerging hydrogen market. Many of the core skills and expertise that have contributed to Australia becoming the leading global exporter of liquefied natural gas are similarly crucial for the emerging hydrogen export sector. This is reflected through the work of the COAG Energy Council Hydrogen Working Group on the Australian Hydrogen Strategy<sup>5</sup> and the development of the Western Australian Renewable Hydrogen Strategy<sup>6</sup>.

### *Should particular regions or communities and emissions-intensive trade-exposed industries be assisted in the transition, and if so how?*

The WA resource sector is export-orientated and subject to global commodity prices and, increasingly, trade tensions ("trade-exposed"). Some of these industries and associated manufacturing activities (such as cement, aluminium and steel) are also recognised as "hard to abate". Additionally, regional centres such as Collie, Western Australia, are centred on coal mining for *domestic* electricity production (rather than coal export). It should also be recognised that emissions-intensive industries supplying the domestic market (such as cement and lime) are also trade-exposed as they compete with imported products.

These trade-exposed or emissions-intensive industrial activities often occur in remote and regional centres with limited economic diversification, where the industry may be the dominant employer and economic driver of the region. This heightens the risks and potential consequences associated with poorly planned transitions. These regions and communities should be identified and options for transition identified, with plans developed and appropriate assistance provided. Such assistance could include:

- Supporting industry to reduce its emissions through co-funding or grants in abatement technologies;
- Financial support for new infrastructure and transformation costs (for example, electrification and battery storage);
- Supporting establishment of multi-user carbon capture and storage facilities (where appropriate geology exists) to support ongoing operation of existing industrial estates; and
- Fostering economic diversification, training and reskilling opportunities, more broadly.

Identification and understanding of long-term transitional needs will improve certainty and stability whilst encouraging appropriate investment to support transitional needs and adaptation.

### *Sectoral and economy-wide policies: What are the barriers (regulatory and non-regulatory) to realising emissions reductions and are there any additional supporting policies, regulations or government actions that could drive emissions reductions in cost effective ways?*

A key barrier still to be resolved in Western Australia is associated with the management of carbon rights for crown land. Although this is not directly an Australian Government matter, the current uncertainty

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<sup>3</sup> United States Geological Survey, Cobalt, 2018 Summary available at: [https://prd-wret.s3-us-west-2.amazonaws.com/assets/palladium/production/s3fs-public/atoms/files/mcs-2019-cobal\\_0.pdf](https://prd-wret.s3-us-west-2.amazonaws.com/assets/palladium/production/s3fs-public/atoms/files/mcs-2019-cobal_0.pdf)

<sup>4</sup> The Role of Gas in Today's Energy Transitions, IEA 2019.

<sup>5</sup> <https://www.industry.gov.au/about-us/what-we-do/coag-energy-council-hydrogen-working-group>

<sup>6</sup> [http://www.drd.wa.gov.au/Publications/Documents/wa\\_renewable\\_hydrogen\\_strategy.pdf](http://www.drd.wa.gov.au/Publications/Documents/wa_renewable_hydrogen_strategy.pdf)

regarding carbon rights on crown land likely discourages investment in certain emissions reduction activities, notably participation in the Emissions Reduction Fund. This is evidenced by the low uptake of WA projects<sup>7</sup>. It should be noted that approximately 92% of WA's land mass is crown land<sup>8</sup>.

It is also noted that industry uptake of the Emissions Reduction Fund is low with industrial fugitives and energy efficiency projects accounting for just 2.9 and 5.2 million tonnes of abatement out of a total 192 million tonnes<sup>9</sup>. Throughout the development of the industrial fugitive and energy efficiency methodologies, industry had raised concerns that these methods would face significant practical difficulties in being applied and were therefore unlikely to incentivise abatement from this sector. At the time it was suggested by the (then) Department of Environment that once these methodologies were in place, work would commence on additional methodologies to address industry's concerns however this subsequent work has not eventuated. CME supports the progression of this work as a practical government action that would incentivise further abatement from within industry.

The operators of major facilities and projects (including port and rail infrastructure) are best placed to manage the physical risks posed by climate change, but may be lacking good quality data on how the environment may change over the operational life of their projects. Given the required climate change projections have many users and requires data and skills to develop that are not normally held within the operators of the infrastructure projects, there is a role for Government to support the required studies. An example of this was the Indian Ocean Climate Initiative<sup>10</sup>, coordinated out of Western Australia, which provided a data set to assist facility operators and State and Local governments to plan for possible changes in sea level and other climatic provisions.

It is also the case that not all sectors of the economy are covered by the Safeguard Mechanism or an alternative scheme. Sectors not covered by the Safeguard Mechanism, should be similarly incentivised and covered by a sectoral scheme that ensures all sectors of the economy are incentivised to contribute towards Australia's current NDC and broader Paris Agreement commitments.

#### *How should sectoral policies be linked to ensure efficient economic outcomes and to minimise the cost of abatement across the economy?*

CME would support review of the existing Safeguard Mechanism to incentivise emissions reduction below the baseline. The scheme currently operates to drive emissions down to the baseline but does not offer any incentive (such as allocation of Australian Carbon Credit Units (ACCU)) for abatement achieved to further reduce emissions below the baseline. It is probable that efficient, low cost abatement options exist within industry that could be incentivised if the Safeguard Mechanism was transitioned more towards a baseline and credit scheme<sup>11</sup>.

Linking the electricity sector to other sectors covered by the Safeguard Mechanism could be achieved by allowing renewable generation to generate ACCUs. This could be constrained to instances where the generation has not already been rewarded with a Renewable Energy Credit (REC), or it could be implemented by allowing a REC to be converted to an ACCU. This could dramatically increase the depth and liquidity of Australia's offset market and result in lower overall costs of achieving any given level of emissions reduction by more easily facilitating pursuit of lowest cost abatement, regardless of sector.

#### *Should changes be made to the Emissions Reduction Fund to explicitly target multiple benefits (such as environmental outcomes) as well as abatement outcomes?*

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<sup>7</sup> Data on ERF projects by State and Territory is available from the Clean Energy Regulator website: <http://www.cleanenergyregulator.gov.au/ERF/project-and-contracts-registers/project-register>

<sup>8</sup> <https://www.austrade.gov.au/land-tenure/Land-tenure/crown-land>

<sup>9</sup> Data from Clean Energy Regulator released 1 August 2019, up to and including the results of Round 9 Auction <http://www.cleanenergyregulator.gov.au>

<sup>10</sup> <http://www.ioici.org.au/>

<sup>11</sup> The Carbon Market Institute has completed a review of design options to transition the Safeguard Mechanism to a baseline and credit scheme which may be a useful resource: <http://carbonmarketinstitute.org/wp-content/uploads/2019/01/Discussion-Paper-Options-for-Transitioning-the-Safeguard-Mechanism-to-a-Baseline-and-Credit.pdf>

While in principle the concept of realising co-benefits in the offset market is supported, it is difficult to see how these may be recognised within the existing offset market. For example, it may result in the Clean Energy Regulator being required to hold auctions for only greenhouse offsets, offsets with one particular form of co-benefit, another auction for offsets with a different co-benefit and so on. Such a situation would quickly become complex and unwieldy and may lead to significant distortions in the greenhouse gas offset market.

Instead CME supports the *recognition* of the co-benefits for certain offsets. For example, human-induced regeneration activities can generate biodiversity as well as carbon sequestration benefits. Resource sector projects in Western Australia are commonly required to provide biodiversity offsets to fulfil State environmental approval requirements as well as potentially requiring ACCUs to fulfil Australian Government Safeguard Mechanism compliance requirements. Where a particular project generates both ACCUs and biodiversity offsets, both should be permitted and recognised for State and Commonwealth requirements – that is, neither offset benefit should fall foul of an “additionality” test due to the other benefit.

Equally, in order to preserve the integrity of ACCUs and the accounting methodology, it will be important to ensure that recognition of co-benefits does not result in a discounting or distortion of ACCU ‘value’. CME’s support for recognition of co-benefits in certain instances does not mean these should be explicitly targeted, as this could have the unintended consequence of increasing abatement costs (for example for the Emission Reduction Fund (ERF)) by foregoing lower cost abatement that does not offer co-benefits.

#### *International context: What role should international units have in Australia’s response to climate change, and how should risks around availability, cost and quality be managed?*

CME supports unrestricted fungibility of credible emissions units into and out of Australia. This assists economies, both Australian and those which will trade those units, to reduce emissions at the lowest possible cost. Arguments that the trade in international units should be capped will simply increase the cost to these economies.

#### *Should the Government facilitate the import of international units or export of Australian Carbon Credit Units?*

To ensure industry has ongoing access to affordable credits to fulfil compliance obligations and to ensure a sufficiently deep offsets market, CME strongly encourages the Australian Government to facilitate the import of *credible* international units. Additionally, CME would support the Australian Government facilitating the export of ACCUs (and if Renewable Energy Certificates can be modified so they are fungible with carbon markets) to develop bi-directional international trading.

Bi-directional trading is important as it may be possible for some producers of ACCUs to achieve a price premium in international markets ACCUs that generate recognised co-benefits (such as biodiversity outcomes and Indigenous economic independence) which will over time strengthen and deepen the offsets offering in Australia. Australia is a trading nation and should support global trade of credible units just as it supports global trade of other commodities.

To ensure this carbon trade market is realised under the Paris Agreement, Australia should continue to engage constructively in the final decisions necessary to operationalise the Paris Agreement, including those that support international carbon markets. The Safeguard Mechanism should also be amended to allow responsible emitters to use credible international units. Depending on the final rules under the Paris Agreement, the government may also need to develop a system so that responsible emitters can legally access certain types of permits (notably Internationally Transferring Mitigation Outcomes (ITMOs)).

International trading of offsets under the Paris Agreement (Article 6) must ensure credibility of offsets in order to maintain confidence in the offsets market including confidence in ACCUs.

Although not specifically raised in the consultation paper, it may also be timely for the Authority to consider what role, if any, it has for providing advice to State and Territory Governments (preferably through a COAG related process) in order to better support communication, co-ordination and operation of Commonwealth schemes where these must interact with State-based frameworks. As an example, noting the relatively low uptake of the ERF in Western Australia and the constraint linked to carbon rights on crown land, CME suggests there is a role for the Authority to provide advice and support (on behalf of the Australian Government) to sub-national governments to assist in fulfilling the intent and outcomes of Commonwealth-led policy.

Should you have any questions regarding this submission, please contact Bronwyn Bell, Manager Policy – Natural Resources on [REDACTED] or [REDACTED].

Yours sincerely

A handwritten signature in black ink that reads "Paul Everingham". The signature is written in a cursive, flowing style.

**Paul Everingham**  
Chief Executive