



Emissions Reduction Fund:
Safeguard Mechanism
Consultation Paper
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Contents

1.0	About us	4
2.0	WALGA's submission	4
3.0	Local Governments are key contributors to climate change mitigation	4
4.0	The safeguard mechanism is not achieving its stated aim	6
4.1	Emissions growth is outpacing ERF abatement	6
5.0	Proposed changes fundamentally undermine an already weak safeguard mechanism.	7
6.0	Concluding comments	8

1.0 About us

The Western Australian Local Government Association (WALGA) is the peak industry body for Local Government in Western Australia. WALGA is an independent, membership-based organisation representing and supporting the work and interests of 138 Local Governments in Western Australia.

WALGA provides an essential voice for 1,222 Elected Members and approximately 22,000 Local Government employees as well as over 2.6 million constituents of Local Governments in Western Australia. WALGA also provides professional advice and offers services that provide financial benefits to the Local Governments and the communities they serve.

2.0 WALGA's submission

WALGA thanks the Department of the Environment and Energy (the Department) for the opportunity to comment on its *Emissions Reduction Fund: Safeguard Mechanism Consultation Paper* (the Consultation Paper).

3.0 Local Governments are key contributors to climate change mitigation

Climate change is a key issue for Local Governments that impacts almost all aspects of their operations and responsibilities. As the level of government closest to the community, Local Governments manage and plan for a range of impacts of climate change, including on community assets, disruption of council services, unbudgeted financial impacts and adverse health impacts on residents.

Local Governments have, for a number of years, been actively engaged in a range of climate change mitigation and adaptation activity, together with education and encouraging awareness and behaviour change amongst residents¹.

Many Local Governments have made voluntary commitments or pledges in relation to climate change, including the following:

Pledge	Description	Number of Local Government Participants
Local Government Climate Change Declaration	Developed by WALGA. A voluntary opportunity for Local Governments to demonstrate their political commitment to locally appropriate climate change adaptation and mitigation action. ²	40 (representing 65% of the WA population)

¹ See for example WALGA's Local Government Climate Change Project Map: <http://walga.asn.au/Policy-Advice-and-Advocacy/Environment/Climate-Change/Local-Government-Project-Map.aspx>.

² For further information see here: <http://walga.asn.au/Policy-Advice-and-Advocacy/Environment/Climate-Change.aspx>.

Divesting from fossil fuels	Commitment to shift money out of banks that fund fossil fuels. ³	12 (representing 30% of the WA population)
Compact of Mayors	A coalition of city leaders around the world committed to addressing climate change. ⁴	4
Cities Power Partnership	Launched July 2017 by the Climate Council, aims to celebrate and accelerate emission reductions and clean energy in Australian towns and cities. ⁵	10

In the past, Western Australian Local Governments have been key delivery agents of Commonwealth Government climate change mitigation programs, such as the Community Energy Efficiency Program (CEEP), the Local Government Energy Efficiency Program (LGEEP) and the Cities for Climate Protection (CCP) Program that was delivered by ICLEI with Commonwealth Government support.

Program	Program dates	WA Local Government participants
Cities for Climate Protection	1999-2006	30
Local Government Energy Efficiency Program (LGEEP)	2011-2014	50 (includes 1 WALGA grant)
Community Energy Efficiency Program (CEEP)	2011-2016	15 (includes 1 WALGA grant)
Emissions Reduction Fund (ERF)	2014-present	2 (both transitioned from the Carbon Farming Initiative)

The LGEEP and CEEP grants assisted Local Governments in undertaking a wide range of building energy efficiency, LED street lighting and geothermal projects.

Local Governments therefore have a keen interest in seeing effective mitigation policy at a Federal level.

³ For a list of Australian Local Governments that have committed to divest see here: <http://gofossilfree.org.au/fossil-free-councils/>. Not listed are City of Bayswater, City of Subiaco and the Shire of Mundaring, which have also recently committed to divest.

⁴ Cities of Joondalup, Perth, Melville and Mandurah. Further information about the Compact of Mayors available here: <https://www.globalcovenantofmayors.org/>.

⁵ The Cities of Armadale, Bunbury, Canning, Fremantle, Gosnells, Kalgoorlie-Boulder, Kwinana, Melville, Swan, and Shire of Serpentine-Jarrahdale. Further information about the Cities Power Partnership is available here: <http://citiespowerpartnership.org.au/>.

4.0 The safeguard mechanism is not achieving its stated aim

The stated purpose of the safeguard mechanism is that it “ensures emissions reductions purchased by the Government are not offset by significant increases in emissions above business-as-usual levels elsewhere in the economy.”⁶

When the Department released the Emissions Reduction Fund Safeguard Mechanism exposure drafts and explanatory statements in 2015, WALGA made a submission on the proposed safeguard mechanism⁷. WALGA gave its broad support for the policy intent of the safeguard mechanism, being to ensure that emission reductions achieved through mitigation action are not undermined by increasing emissions in other areas. However, at that time, WALGA also emphasised its concern that the particular design of the safeguard mechanism would not effectively guard against this:

WALGA is concerned that the baseline exceptions and flexibilities in the proposed safeguard mechanism would effectively allow significant emissions increases by responsible emitters, undermining emissions reductions achieved throughout Australia (including by Local Governments), and undermining Australia’s emissions reduction target. (p5)

The wide range of circumstances for seeking an increased baseline means that, in effect, only very modest constraints would be placed upon the CO₂-e emission levels of Australia’s most emission heavy industries. (p6)

Two and a half years on, WALGA’s concerns appear to have been borne out.

4.1 Emissions growth is outpacing ERF abatement

The Clean Energy Regulator has recently released data for the first year of operation of the safeguard mechanism (2016-17). There were 203 facilities covered under the safeguard mechanism, and these facilities reported a total of 131.3 million tonnes of CO₂-e emissions over that period. The Clean Energy Regulator permitted 57 industrial sites to increase emissions above their previous highest level.⁸ In the first year of operation, 15 facilities went over their baseline, with a little less than half a million (448,097) Australian Carbon Credit Units (ACCUs) purchased and surrendered to offset these emissions over their baselines.⁹

⁶ Australian Government, Emissions Reduction Fund Safeguard Mechanism: <http://www.environment.gov.au/climate-change/government/emissions-reduction-fund/about/safeguard-mechanism>. Accessed 21 March 2018.

⁷ WALGA, *Submission on the Emissions Reduction Fund Safeguard Mechanism* (2015). Available here: <http://walga.asn.au/getattachment/Policy-Advice-and-Advocacy/Environment/Climate-Change/Climate-Change-Policy-and-Advocacy/Submission-on-Safeguard-Mechanism.pdf.aspx?lang=en-AU>.

⁸ A Morton, “Emissions increases approved by regulator may wipe out \$260 million of Direct Action cuts”, *The Guardian*. 19 February 2018. Available at: <https://www.theguardian.com/australia-news/2018/feb/19/emissions-increases-approved-by-regulator-may-wipe-out-260m-of-direct-action-cuts>.

⁹ Clean Energy Regulator, *2016-17 Safeguard facility reported emissions*. Available here: <http://www.cleanenergyregulator.gov.au/NGER/National%20greenhouse%20and%20energy%20reporting%20data/safeguard-facility-reported-emissions/safeguard-facility-emissions-2016-17>.

Put another way, of the total reported emissions under the safeguard mechanism, 0.34% of emissions occurred in excess of facilities' baselines and were required to be offset.

Reputex Carbon calculated that the increased baselines potentially allowed the emission of an additional 22 million tonnes of CO₂-e, stating "*reported baselines therefore act as a limit in name only, with companies largely free to 'choose their own cap', with no penalty or requirement to offset emissions increases.*"¹⁰ Further, Reputex executive director, Hugh Grossman has observed "*There is no doubt emissions growth is outpacing the abatement from the emissions reduction fund, so what has been the point?*"¹¹

WALGA is of the view that the safeguard mechanism is currently not achieving its stated aim, and any changes must include more ambitious baselines for Australia's heaviest emitters.

5.0 Proposed changes fundamentally undermine an already weak safeguard mechanism

Changes proposed in the Consultation Paper would weaken the safeguard mechanism even further, by allowing for increases to the baselines almost as a matter of course.

WALGA is concerned by the emphasis placed on the need to 'keep baselines updated' and a perceived issue with baselines becoming 'out-of-date' in the Consultation Paper. The Explanatory Statement relating to the implementation of the safeguard mechanism states:

*The safeguard mechanism will ensure that emissions reductions purchased through the Emissions Reduction Fund are not displaced by a significant rise in emissions above business-as-usual levels elsewhere in the economy. It will achieve this by requiring large businesses to keep emissions below baseline levels. **Baselines represent the reference point against which future emissions performance will be measured.** [emphasis added]*

(p9-10, NGER (Safeguard Mechanism) Rule 2015 Explanatory Statement 2015)

The Explanatory Statement goes on to outline the wide range of circumstances where baselines can be 'adjusted'. Note, WALGA did not support most of these circumstances in its 2015 submission. Even so, the assumption is that the baseline is a "reference point" acting as a cap on the heaviest emitters' emissions. This is also noted in the current Consultation Paper, where it is stated that "*under current policy settings, calculated baselines are updated once to reflect actual production, then remain fixed*" (p7).

¹⁰ Reputex Carbon, 'Choose your own baseline – Industrial emissions and the Safeguard Mechanism', 16 February 2018. Available at: <http://www.reputex.com/research-insights/update-choose-your-own-baseline-australias-industrial-emissions-problem/>.

¹¹ A Morton, "Emissions increases approved by regulator may wipe out \$260 million of Direct Action cuts", *The Guardian*. 19 February 2018. Available at: <https://www.theguardian.com/australia-news/2018/feb/19/emissions-increases-approved-by-regulator-may-wipe-out-260m-of-direct-action-cuts>.

The Consultation Paper proposes a significant shift in the safeguard mechanism, by suggesting there is a need for regular ‘updating’ of facilities’ baselines. If the proposed changes are implemented, WALGA cannot see how the baselines could effectively operate as a cap on facility emissions. Rather than having certain circumstances where facilities can seek to have their baseline increased (the current case), “all polluters could increase their emissions in this way, giving them a clear path to increase their pollution”¹². There would be such minimal constraints on greenhouse gas emissions for heavy emitting facilities, that emissions savings achieved through the ERF and other mitigation actions would be completely undermined. The proposed changes that are of particular concern to WALGA, are the following:

- The proposed approach to transition all facilities to calculated baselines over 2018-19 and 2019-20.
- Whether baselines annually updated for production should apply to emissions intensive, trade-exposed facilities only, a broader set of facilities, or to all facilities?
- The proposed approach for updating baselines based on actual production

These proposed changes would effectively result in a regulatory regime where the baselines mean very little: the ‘baselines’ would become a moving feast, rather than a reference point against which future emissions can be measured.

6.0 Concluding comments

As key contributors to climate change mitigation, and as the level of government that is already managing and planning for a range of impacts of climate change, WALGA’s members have a keen interest in seeing efficient, effective and equitable climate change policy at the Federal level. Unfortunately, the changes proposed in the Consultation Paper would fundamentally undermine an already compromised mitigation policy.

¹² N Hasham, “Biggest polluters get clear path to hike emissions under plan”, *SMH*. 27 February 2018. Available at: <https://www.smh.com.au/politics/federal/biggest-polluters-get-clear-path-to-hike-emissions-under-plan-20180227-p4z1y1.html>.