CLIMATE ENERGY FINANCE

Safeguard Mechanism enhancements as Government strikes deal – not perfect, but a major step forward for decarbonisation

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27 March 2023

The deal struck between the federal government, the Greens and the Teals today to get the Safeguard Mechanism legislation through parliament, to come into effect from 1 July, is a significant step forward on the nation's decarbonisation pathway. Overall it enhances the ambition, public accountability, integrity and impact of the mechanism legislation initially proposed by the government, and while still far from perfect, it is a major advance on the state of play as recently as last week.

Most significantly, the government has agreed to a hard ceiling on actual gross carbon dioxide equivalent emissions. The overall result is a now to be formally mandated 205 million tonnes (Mt) cumulative emissions reduction by 2030 – 1,233Mt over the decade, and a 100Mt by 2030 annual target. The Greens' position is that this hard cap finally puts a ceiling on coal and gas expansion in Australia.

The deal also provides for expanded assistance for onshore trade-exposed industries – up from the initial $600m in the Powering the Regions Fund to add another $400m for domestic heavy industry manufacturing adjustment in steel, aluminium, alumina and cement. This industry subset also gets a big carrot for value-adding in the form of a massively concessional 1% annual emission reduction target, down from 4.9% pa.

On the positive side, the SGM will now ensure no new subsidies for the fossil fuel sector. Australia will also add its voice to the global movement toward trade decarbonisation with the formal evaluation of an Australian Carbon Border Adjustment Mechanism. Global momentum on pricing in carbon emissions is building, with Japan recently announcing a national ETS to be phased in from 2026.

The Greens were pushing for an outright ban on new fossil fuel project approvals, which the government has declined to accede to. However, the new 'climate trigger' in the SGM bill, means scope 1 and 2 over the project life must now be formally considered in the context of the EPBC Act which governs approvals of major coal and gas projects, is a compromise that meets in the middle, and strengthens the government's climate review of all new proposals. This is a big win, and while not perfection from the start, it moves us along a pathway to start to align with the climate science and the IEA position that there can be no new coal and gas globally if we are to retain hope of delivering on the Paris Agreement.

In another pleasing development, all new gas export fields need to net zero for Scope 1 emissions generated on site by facilities from day 1.

Unlimited offsets are still technically allowed, but any facility using more than 30% offsets now needs to explain its position, and a Climate Change Authority (CCA) review of offsets is mandated for 2026. This is a serious compromise that will come more to the forefront as global ambition to act on the climate science accelerates, and as new extreme weather events get more frequent, more extreme and more economically costly.

Newly released research shows that methane, the climate-wrecking greenhouse gas 85 times more potent than CO2, comprises ~70% of emissions under the SGM when its global warming potential is calculated over 20 years (GWP20). On methane, the emphasis in the newly minted SGM deal on international best practice for new fossil fuel production projects is a step forward, where best practice in new gas fields is defined as zero scope 1 emissions. The industry's stated position that they can apply the failed technological experiment of carbon capture and storage has effectively been called out. Now the industry will have to make this red herring work, or pay an ever higher price for offsets.

For methane and nitrous oxides, separate public reporting is now mandated, distinguishing these greenhouse gases from CO2. This is a big advance in terms of disclosure. Additionally, the CCA has been mandated to review methane measurement, verification and reporting and implement any improvements to be brought in by 1 July 2024, a signal of increasing rigour in responsible accounting which is a cornerstone of meaningful emissions reductions, which must happen this decade and next to avert climate catastrophe, not mid century or next century.

As we have previously written, the SGM is not perfect. However, the deal represents a breakthrough in the context of the damaging climate wars fomented by the LNP government – policy chaos that for a decade relegated Australia to a shameful position at the back of the international pack on decarbonisation, a function of regulatory capture by vested interests of the incumbent fossil fuel export industry, the third largest in the world beyond only Russia and Saudi Arabia.

Collaborative government is back in the house, the ALP, Greens and TEALs are to be congratulated, and we now have a workable, credible framework on which to base further climate and decarbonisation ambition. And, with the passage of the SGM, finance will now have a credible, increasing price on carbon emissions to price into its capital flows and relative business valuations.

This is critical both from an existential point of view, with evidence mounting of the escalating climate crisis, and if Australia is to pivot to grasp its once in a century, multi hundred billion dollar investment opportunity to lead the world as a renewable energy and critical minerals export superpower. Finally, and not a moment too soon, Australia is moving to catch this wave of new investment, employment and export opportunities – a massive and welcome narrative shift from the old, redundant and wrongheaded focus on fear of the putative "costs" of action.

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