The Canberra Times

Tim Buckley | How the Albanese government's climate safeguard mechanism will work

By Tim Buckley
March 28 2023

While still far from perfect, the deal struck between the federal government and the Greens, with the support of the teals to get the safeguard mechanism legislation through Parliament, to come into effect from July 1, is a significant step forward on the nation's decarbonisation pathway.

The scheme is designed to compel Australia's 215 biggest polluters to reduce their emissions.

Most significantly, the government has agreed to a hard ceiling on actual gross emissions.

The overall result is a formally mandated 205 million tonnes cumulative emissions reduction by 2030 - with emissions to not exceed 1,233 million tonnes over the decade, and a 100 million tonnes by 2030 annual target.

The Greens' position is that this hard cap finally puts a ceiling on coal and gas expansion in Australia.

The Greens were pushing for an outright ban on new fossil fuel project approvals, which the government has declined. However, the new climate trigger in the safeguard bill means Scope 1 and 2 emissions over a coal or gas project's life (those directly generated by a facility or by the generation of electricity it uses) must now be formally considered in the context of the Environmental Protection and Biodiversity Conservation Act, which governs approvals of major coal and gas developments.

It is a compromise position from the Greens that still strengthens the government's climate review of all new proposals.

This is a big win, moving us along a pathway toward alignment with the climate science and the International Energy Agency's position that there can be no new coal and gas globally if we are to retain hope of delivering on the Paris Agreement.

Prime Minister Anthony Albanese and Climate Change Minister Chris Bowen. Picture by James Croucher

Unlimited carbon offsets in lieu of actual emissions reductions - a key sticking point among the mechanism's critics - are still technically allowed, but, notably, any facility using more than 30 per cent offsets now needs to explain its position. Further, a Climate Change Authority review of offsets is mandated for 2026.

Newly released research shows that methane, the climate-wrecking greenhouse gas 85 times more potent than CO_2, comprises about 70 per cent of emissions under the mechanism when its global warming potential is calculated over 20 years.

The requirement in the mechanism that facilities meet international best practice for new fossil fuel projects is a step forward, where best practice in new gas fields is defined as zero onsite emissions.

The industry's position that it can apply the failed technological experiment of carbon capture and storage has effectively been called out. Now, it will have to make this red herring work, or pay an ever higher price for offsets.

Additionally, the CCA has been mandated to review methane measurement, verification and reporting, and implement any improvements by 1 July 2024, a signal of increasing rigour in accounting - a cornerstone of meaningful emissions reductions.
For methane and nitrous oxide, separate public reporting is now mandated, importantly distinguishing these greenhouse gases with much higher global warming potential from CO_2. This is a big advance in terms of disclosure.

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

The deal also provides for expanded assistance and for onshore trade-exposed industries to "remain competitive" - in addition to the initial $600m in the Powering the Regions Fund, another $400 million for the domestic heavy industries of steel, aluminium, alumina and cement.

This industry subset also gets a big carrot in the form of a concessional 1 per cent annual emission reduction target, down from 4.9 per cent per annum in the original safeguard mechanism legislation proposal.

As I have previously written, the mechanism has flaws.

However, the deal is a breakthrough in the context of the damaging climate wars fomented by the previous 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 the vested interests of our fossil fuel export industry, the third largest in the world behind 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.

Finance will now have a credible, increasing price on carbon emissions - currently capped at $75/tonne, but increasing by CPI plus 2 per cent every year - to factor 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, Australia is moving away from the redundant and wrongheaded focus on the putative "costs" of action to catch the wave of new investment, employment and export opportunities the energy transition brings.

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