



A corporate guide to the Australian Government's climate policy

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Executive Summary

The Australian Government's climate policy was scrutinised at this year's United Nations Conference of Parties (COP26). Australia's corporate sector needs policy settings that drive investment for decarbonisation and renewable energy. Investors, shareholders, citizens, NGOs and sub-national levels of government are all calling for the development of robust policies. The Morrison Government's net-zero by 2050 plan and its Technology Investment Roadmap do not provide support for decarbonisation of the Australian economy. Instead, analysts suggest current policy detracts from transition opportunities while also leaving a 25% shortfall of the target.

As such, this guide provides an analysis of the National Greenhouse and Energy Reporting Scheme (NGERS), the proposed Corporate Emissions Reduction Transparency (CERT) report, Australia's Carbon Farming Initiative (CFI) and the Safeguard Mechanism to inform a set of policy recommendations for Australia to develop a robust climate policy framework. Carbon Border Adjustment Mechanisms (CBAMs) are explored as a potential driver of emissions reductions in Australia, alongside a ratcheted and lowered Safeguard Mechanism. In all, this guide describes what Australia's fair share is under the Paris Agreement and how corporate Australia can deliver that change with the support of the Australian Government.



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Introduction

The 2021 United Nations Conference of Parties (COP26) has drawn more attention to the Australian Government's inadequate climate policy. The lead up to COP26 saw a massive influx of reports and position papers from organisations about Australian climate policy, which this guide navigates. More Australians than ever are concerned about climate change (Quicke, 2021), and so it is crucial that they can advocate for their best interests by understanding what claims to climate action are ambitious, and which are inadequate. This guide focuses on the corporate sector, including energy, transport and heavy industry, which produces most of Australia's emissions and is undergoing a positive shift towards climate action (Bravo et al., 2021).

This report emerges from a policy brief produced with the Better Futures Australia Corporate and Finance Working Group (Richards, 2021), providing a sought-after guide for navigating the complexities of this policy area. As such, the research question posed here is necessarily broad: **How do the components of the Australian Government's climate policy interact and how can they be improved to generate more ambitious climate action?** To answer this, Section 1 of this guide provides an overview of the components of Australia's national climate policy, and the context surrounding them. Section 2 discusses key organisations that administer these policies. Section 3 then provides strategies to improve on this policy, with Section 4 outlining the main criticisms brought against the current government's approach to climate policy. As this report emerged from a business-



oriented working group, it is written from a neoliberal, market-based perspective. This is fitting, as the Australian Government's climate policy all hinges on economic rationale.

Section 1: Key components of Australia's climate policy framework

The National Greenhouse and Energy Reporting Act (2007) introduced the National Greenhouse and Energy Reporting Scheme (NGERS) under the Rudd Government. NGERS has provided a single framework for Australian public sector organisations and corporations to report their greenhouse gas emissions, energy consumption and energy production (Clean Energy Regulator, 2021a). The Clean Energy Regulator (CER) is an independent statutory (government) authority that administers NGERS, which was established in 2012 by the *Clean Energy Regulator Act (2011)* (CER, 2021b). This Act also established the Carbon Farming Initiative (2011) and the foundation for the Emissions Reduction Fund (ERF) (2015).

NGERS reporting covers public sector organisations and corporations that meet the threshold of producing 100,000 tonnes of carbon dioxide equivalent emissions annually (CER, 2021a). About 140 large organisations are covered by NGERS, mostly from heavy industries, energy and transport (Aydos & Rudolph, 2018). These organisations – henceforth “reporters” – report through the Emissions and Energy Reporting System (EERS). The reporting year begins on 1 July and ends on the 30 June. Reporters are encouraged to undertake independent audits of their reports, or otherwise the CER may audit them instead. It is also the CERs responsibility to publish some reporting data to the public and administer the Safeguard Mechanism (CER, 2021a).

What is the Carbon Farming Initiative (CFI)?

The ERF is an Australian Government initiative, administered by the CER, that is worth \$4.5b and is used to purchase emissions reductions projects that are issued Australian Carbon Credit Units (ACCUs), which are then purchased by companies seeking to reduce their scope 1 emissions (Merzian et al., 2021). One unit is equal to one tonne of carbon dioxide equivalent avoided or stored (CER, 2020). Companies may have the obligation to do this under the Safeguard Mechanism, which places a constraint on the amount of emissions a facility can produce. Any excess over that constraint must be paid for by surrendering carbon credit units. Other companies may voluntarily purchase ACCUs to become carbon neutral. While the CFI is considered to function well, it should be treated as a transitional policy in conjunction with other supports to decarbonise the economy. It should be noted that ERF has been criticised for its 'avoided deforestation method' of issuing ACCUs. In essence, a project must provide genuine additional abatement to be awarded ACCU issuance, and this method has been proven to dramatically overestimate the level of land clearing that would have occurred, had it not been awarded status (Merzian et al., 2021). Though the CER disputes this criticism, further analysis by The Australia Institute (2021) has reconfirmed its false logic.

NGERS was developed with the intention to be paired with a Carbon Pricing Mechanism (CPM), which was established later in 2011 under the *Clean Energy Act* (Cth). *The Climate*



Change Authority Act 2011 (Cth) established the Climate Change Authority, which is a statutory body that monitored this package of legislation and reported on its functionality to government (Afriat et al., 2015). The CPM was operational as of 2012, and covered organisations that emitted more than 25Mt of CO₂ per year. These emitters were required to surrender one emissions unit for every tonne of carbon dioxide equivalent that they produced. These units were purchasable from the CER for AUD23 between 2012-2013 and AUD24.15 between 2013-2014. Emitters that did not surrender enough units were charged a higher shortfall price than if they surrendered the correct amount upfront. This mechanism was intended to be linked to international pricing mechanisms and to become part of a fully established Emissions Trading Scheme (ETS) in 2015 (Afriat et al., 2015).

The Liberal/National coalition government repealed the CPM in 2014 (Ike, 2020). Modelling estimates showed that the CPM would have driven Australia's abatement of greenhouse gas emissions to 80% below its 2000 levels by 2050 (Ike, 2020). Now, Australia has a baseline-and-credit system and there is no legislated cap on emissions or a price on carbon (Aydos & Rudolph, 2018). However, the Government does have the Safeguard Mechanism which sets a restraint on NGERs reporters for how much emissions they can produce, based on the rate of their historical emissions or some other factor. This restraint was designed to be gradually lowered to drive abatement, but this has not occurred. Reporters are quite easily able to avoid triggering the Safeguard Mechanism or can purchase Carbon Credit Units to offset any exceeded emissions (Aydos & Rudolph, 2018; Richards, 2021). Reporters can also apply to have their constraint waved on economic development grounds (Morton, 2018). There is significant potential for a ratcheted Safeguard Mechanism to drive abatement (Richards, 2021), which will be explored later in this guide.

What is an ETS?

An ETS is essentially a market for carbon credit units, where emitters can buy units from the government (through auction) to cover the emissions they produce (called “surrendering”) and sell units that they do not need to other liable emitters, who can then surrender or trade them again (Nielson, 2018). Emissions units can be given out by the government to emitters who are from hard-to-abate industries, so that they are not made uncompetitive and lose business to international competitors. This “free allocation” of units can be considered a form of shielding. A government could shield industry 100%, or require a certain portion of its emissions to be paid with emissions units. Entities can generate emissions units as well, through activities that remove carbon (and other greenhouse gasses) from the atmosphere, or by reducing the emissions intensity of their production methods (Nielson, 2018).

There are different types of ETSs, being the ‘cap-and-trade’ method or the ‘baseline-and-credit’ approach. The cap-and-trade method places a limit on how many emissions an emitter can produce, and if it produces more than this cap, the emitter must trade emissions units (or permits) to cover this excess (Nielson, 2008). The cap is gradually reduced to generate a signal to decarbonise, as relying on emissions units long-term is not a viable strategy because of how expensive they will become as demand increases. This is the most popular version of an ETS, and is used by the European Union – which has the largest ETS in the world. Australia’s ETS would have linked with this market in 2015 (Nielson, 2008). Recent analysis has found that the simplest way for countries to achieve their emissions reductions targets would be to link cap-and-trade systems, which would also reduce global mitigation costs (Siriwardana & Nong, 2021). The baseline-and-credit approach places no cap on emitters, but requires them to offset their emissions with credits that absorb carbon from the atmosphere, or prevent it from entering the atmosphere (Nielson, 2008). Australia’s CPM was in the form of a cap-and-trade approach, which was very effective in the short time that it operated. This mechanism reduced Australia’s carbon emissions by 1.4% in its second year, the largest reduction in a decade. However, household and business expenses increased simultaneously, which contributed to the debate around the price (Centre for Public Impact, 2017), and, among numerous other factors, contributed to its repeal.



The repeal of the carbon price has no effect on the data collected or reporting obligations by reporters under NGERS (CER, 2021c). However, it can be argued that full utility is not gained from NGERS data without an abatement mechanism to monitor progress against. Organisations that meet the NGERS reporting threshold are not obligated to reduce their emissions, they must simply report on them. In saying that, NGERS is now very well established, and is fit for its purpose of measuring scope 1 emissions, which are “direct emissions”. Direct emissions are those that are produced by direct activities, such as mining coal or producing steel. After a decade of reporting experience, Australian reports are comfortable with NGERS reporting and most of the early issues of the framework have been resolved (Richards, 2021).

The Business Council of Australia (2021) has called for more organisations to fall under the Safeguard Mechanism, and consequently be required to report under NGERS, by reducing the reporting threshold from 100,000 tonnes of carbon dioxide equivalent to 25,000 tonnes. This would enable the Australian Government to capture more scope 1 emissions and provide a clearer picture of Australia’s emissions profile, reducing uncertainty about scope 3 emissions (Richards, 2021). Scope 3 emissions are those produced upstream through supply chains and downstream through value chains. Typically, an entity’s scope 3 emissions are much larger than its scope 1, and so it is important that smaller emitters are captured under NGERS. There have recently been efforts by the Clean Energy Regulator (CER) to create an addition to NGERS, called the Corporate Emissions Reduction Transparency framework (CERT).

According to the CERs (2021) draft guidelines, the CERT will provide a platform for NGERS reporters to voluntarily report on progress towards their emissions reductions and offsetting. In doing so, the CERT will provide a source for reporters to reference that



supports their claims of voluntary commitments. The draft guidelines propose 11 new categories to report against, five of which relate to emission reductions and energy targets, and the other six detail the corporation's offset surrenders, further information about scope 1 emissions and electricity use (CER, 2021).

The CER has conducted four stages to date for developing the CERT, which included two rounds of public consultation and a co-design phase, and is now due to commence a pilot test through late 2021-2022 (CER, 2021e). While an updated draft guideline report has not yet been released, the CER has addressed feedback on the scope of the CERT, the framing of voluntary commitments, the proposed accounting frameworks and the way data is presented. The CER also aims to balance flexibility with clarity and comparability within an updated CERT framework (CER, 2021). Despite these positive assertions, there are other issues with the CERT that have not been addressed.

Most significantly, there is very little that voluntary reporting can do to motivate ambitious emissions abatement in the absence of a CPM – especially without a transparent and independent auditor that verifies the scientific rigour of voluntary commitments (Richards, 2021). While the CERT can be used to convey voluntary commitments to the market, it is unlikely that by itself it can generate a market signal to decarbonise. The latest Intergovernmental Panel on Climate Change (IPCC) report clearly articulates that global warming poses a grave risk to all life on Earth, and that urgent action is required to avoid catastrophic consequences (IPCC, 2021). Considering the Australian Government's glaring lack of ambition for addressing climate change, and the IPCC's urgent warnings, the CERT seems out of pace with the level of action required to generate rapid decarbonisation of the Australian economy.



Another issue with the CERT is emphasises reliance on offsetting, which should be a last resort for companies to reduce their emissions profiles (Bravo et al., 2021). The CERT should include categories to measure energy efficiency, zero-emissions fuel usage and reducing non-energy emissions, as described by Bravo et al. (2021), for a best practice approach to corporate sustainability.

The CERT should also be used as an opportunity to increase data sharing and transparency between NGERS reporters so that they can coordinate emissions abatement strategies and other sustainability goals within supply chains, value chains and industries. This is achievable with two additions to the latest guideline draft report; that the reporting threshold for NGERS – and subsequently the CERT – should be reduced to 25,000 tonnes of carbon dioxide equivalent, to better capture supply chains, and, that scope 3 emissions should be explicitly captured under a new category (Richards, 2021). While capturing scope 3 emissions can be problematic, the act of improving communication between suppliers and producers is where real value can be derived. Some large Australian companies are already coordinating such action, and it is projected that smaller companies will be contractually obliged to take more serious action on climate change. This would provide support and capacity to small and medium sized enterprises to report at the same level as NGERS reporters, being a crucial step in addressing scope 3 emissions (Richards, 2021).

Best-practice reporting through the CDP and the Global Reporting Initiative (GRI) pushes reporters to make progressive commitments and analyse all aspects of their business to identify climate risks and opportunities. The CERT seems only to provide a platform for companies to report on business-as-usual efforts at no real depth. There is very little utility in asking reporters to do this; transformational change throughout corporate structures is



what will deliver sustainable business practice and the emissions reductions the Australian economy needs. The categories available for reporters to report against should be carefully constructed to provide enough depth for comparison while being standardisable. Categories that are ‘tick-box’ could end up inflating the efforts of some reporters – which could amount to greenwashing — while being restricting to others (Richards, 2021). Instead, the CERT should reduce the reporting burden of corporations and unlock real utility for them by aligning with industry best-practice reporting.

The Task Force on Climate-Related Financial Disclosures (TCFD) framework has become a popular method of measuring climate risks and opportunities (Peel et al., 2020), and the CERT would benefit from integrating metrics on its principles of ‘governance’, ‘strategy’, ‘risk management’ and ‘metrics & targets’. The CERT should also integrate new features under development from other policies in Australia. New categories for CCS projects that are awarded ACCUs and Safeguard Mechanism Credits should be included. Another category for mining companies to report on should be the rehabilitation status of old mine sites, which are notorious for leaking methane (Richards, 2021). Integrating these features will produce a more well-rounded reporting framework that strengthens the credibility and utility of NGERs.

The CER would unlock the best utility for reporting if it could assist reporters to attribute value to emissions reductions. The Business Council for Sustainable Development recommends integrated reporting, which blends financial and non-financial reporting, to attribute value to sustainable business practice. The CER could partner with Australian financial regulatory bodies to administer the CERT, as they already have sustainable reporting experience. Candidates for this partnership include the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission, the Reserve



Bank of Australia, and the Treasury (Richards, 2021). A partnership with these groups would ensure a high level of transparency in reporting and therefore afford more legitimacy to the scheme, which could increase the uptake of CERT reporting.

If the Australian Government was going to seriously commit to sustainability reporting and coordination of strategy on climate change, then it should establish nationally budgeted accounts to institutionalise long-term planning (Richards, 2021). Nationally budgeted accounts could provide a central location for data compilation and analysis by compiling subnational inventories, allowing diverse stakeholders to identify common problems and opportunities. The national waste accounts are already doing this and have demonstrated success in long-term planning (DAWE, 2019; Personal communication, anonymous source, 2021). Expanding this to climate factors would coordinate disparate policy action between the states and territories¹ and create opportunities between public and private actors to remedy risks and grasp new opportunities for sustainable development. The Paris Agreement was designed for countries to link their NDCs with SDGs (Mani et al., 2018), and nationally budgeted accounts could be the opportunity to deliver on this. While the CERT does not have the scope to cover all sectors of the Australian economy at the same depth that budgeted accounts would, it could provide good experience for integrated reporting at the national level.

¹ See Ivanovski & Churchill (2020) for discussion on energy policy.

The Paris Agreement and Australia's fair share

The Paris Agreement was developed by the United Nations in 2015 and entered into force on 4 November 2016. Australia ratified the Agreement on 9 November 2016 (Bennett, 2018). The Agreement has two broad aims; to limit global warming to “well under” 2 degrees Celsius compared to pre-industrial levels, and to ensure that each country can adapt to climate change based on its specific needs. This latter aim, in practicality, has meant that developed countries should help developing countries adapt by financing sustainable development. Finance for adaptation projects is secured through the United Nation’s Green Climate Fund (Bennett, 2018). Developed countries should set more ambitious emissions reductions targets as they have the means to deliver on them, which allows developing countries to emit higher amounts as they catch up to the standard of living experienced in developed countries. Countries that are Party to the Agreement must set Nationally-Determined Contributions (NDCs), which are emissions abatement goals based on a specified historical level of emissions intensity (Bennett, 2018). For example, Australia’s first NDC was a 26 to 28% reduction of emissions on 2005 levels of intensity. The goals of all Parties are assessed by the UN and compared against a global stocktake of emissions that occurs every five years. NDCs are expected, but not mandated, to increase in ambition every five years according to updated stock-takes. This is because as the world continues producing emissions, the amount of emissions left that can be “safely” emitted before reaching 1.5 degrees Celsius of warming decreases (Bennett, 2018).

The Agreement has been criticised for allowing freeloading, because every Party has the incentive to simply continue emitting at a high intensity while riding on the ambition of others meeting more ambitious NDCs, or to continue emitting intensely now and reducing the carbon budget for future generations (Bennett, 2018). The Parties are not obligated to set ambitious NDCs or commit any particular amount to the Green Climate Fund, which leaves ample room for disagreement among Parties. There are also no penalties for non-compliance with the Agreement. As such, the Agreement is only as successful as the Parties make it. To reinforce the Agreement, domestic legislation could be implemented that requires a ratcheting of ambition for NDCs – this has already occurred in several national and subnational governments Party to the Agreement. The Australian Government could pass this legislation as the Agreement has bipartisan support, though debate around how ambitious NDCs should be would likely be the crux of the debate (Bennett, 2018).

Australia could feasibly reduce its emissions by about 75% from 2005 levels by 2030 and achieve net zero emissions by 2035; if delivered, these targets would fulfil Australia's fair share of reductions globally (Bravo et al., 2021; Durrant et al., 2021; Hewson et al., 2021). The Morrison Government recently pledged net zero by 2050 and contended that by 2030 there is "projected" to be a 35% reduction of emissions on 2005 levels, though the 26-28% reduction commitment still officially stands (Australian Government, 2020; Grattan, 2021). Modelling for this projection has been released recently, which predicts that the government will not reach its own 2050 net zero commitment. The modelling assumed that there would be an active CPM that prices carbon at \$24 AUD per tonne, yet the Government refuses to consider this as a policy option. The Government's modelling was heavily criticised for its internal incoherence and perpetuation of business-as-usual (Readfearn, 2021).

State and territory policies already amount to a 37-42% reduction on 2005 levels by 2030 (Cleary et al., 2021), meaning that the Morrison Government is quite literally taking a business-as-usual approach to the climate crisis. Further, if government and industry projections for fossil fuel exports become a reality, Australia alone could be responsible for 13% of global emissions under the Paris Agreement by 2030 (Parra et al., 2019).

The Australian Government could gradually and predictably lower the Safeguard Mechanism restraints on carbon to place a soft 'cap' on emissions. The Safeguard Mechanism was designed to do this, but has not yet been ratcheted. In doing so, reporters will need to implement a range of strategies to avoid exceeding lowered constraints and subsequently incur financial penalty from the Clean Energy Regulator (Richards, 2021). Some of these strategies would include investing in CCS to reduce emissions production of harder to abate processes, transitioning production away from using carbon-intensive materials and processes, and purchasing ACCUs from the Clean Energy Regulator (Richards, 2021).

CCS is a process by which carbon dioxide is captured from an industrial process, is compressed, transported to an injection point, and then deposited deep underground. This process is supposed to be safe and prevent carbon from escaping into the atmosphere (see Rackley, 2017 for a full discussion).

Should the Safeguard Mechanism be ratcheted in the way it was intended to, then investment in these strategies will likely increase from reporters. However, ratcheting the Safeguard Mechanism is not enough to drive decarbonisation of the economy, as CCS – which is currently receiving public finance (Global CCS Institute, 2021) – can be used to extend the lives of fossil fuel projects, as can offsetting with CCUs. As such, there have been calls to implement a market mechanism or another price on carbon in conjunction with a ratcheted Safeguard. The Australian Labor Party has recently confirmed that it will maintain the Safeguard Mechanism if elected next year, and will begin ratcheting constraints down (Murphy, 2021).

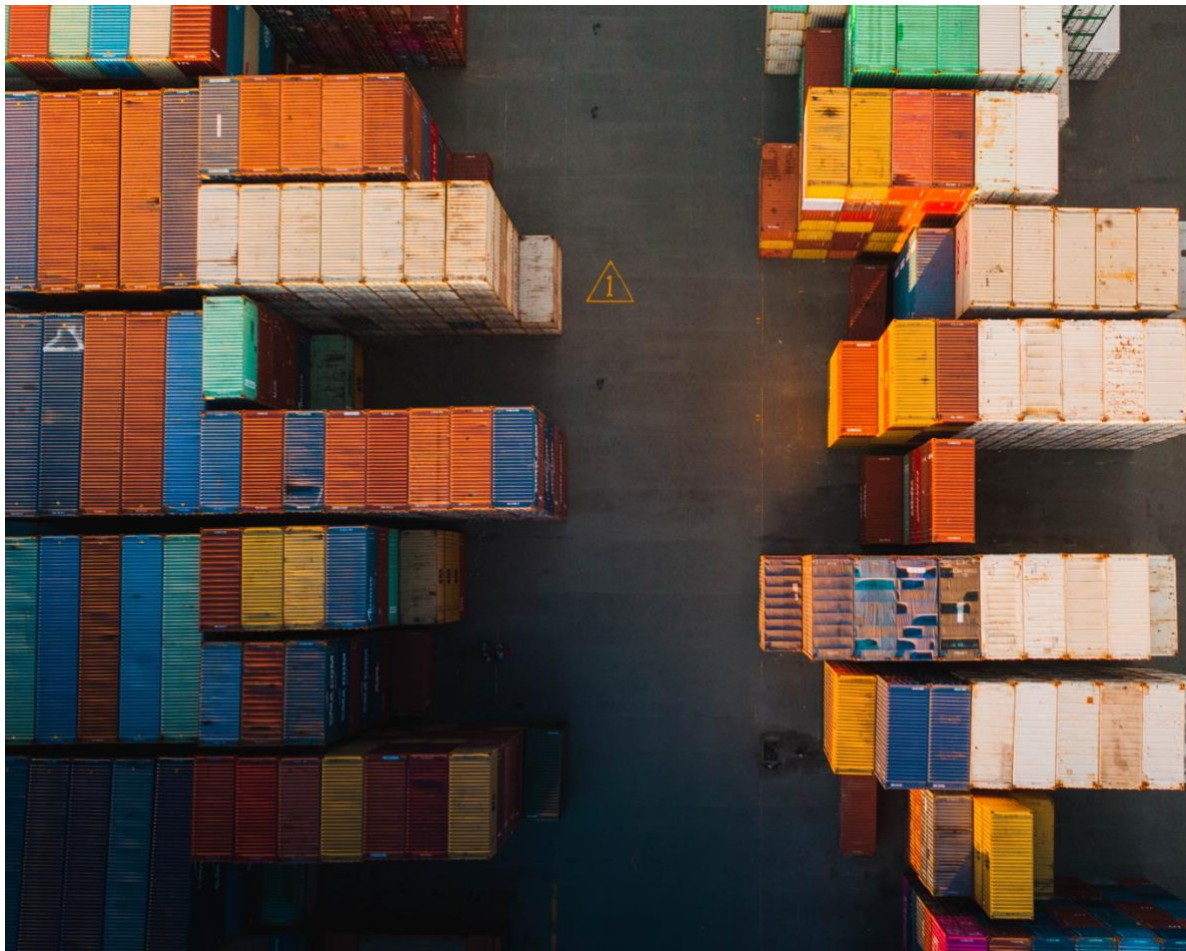
Ratcheting of the Safeguard Mechanism could be paired with an explicit price on carbon, which would resolve its individual inadequacies by attributing a monetary value to decarbonisation (or a cost-saving on carbon) (Richards, 2021). However, the likelihood of another carbon price in Australia being introduced successfully is questionable, considering the intense debate that surrounded the CPMs repeal. However, something more must be done to accelerate decarbonisation. Australia's economic security hinges upon being able to replace exports from Emissions Intensive and Trade Exposed (EITE) industries, which currently dominate our trade portfolio.

Australia's export portfolio

Minerals and fossil fuels dominate Australia's export portfolio, with coal being the primary fuel export followed by natural liquified gas (LNG) (Geddes et al., 2020). Between 2020-2021, energy and resource exports were worth \$310 billion AUD, with almost half of this value coming from iron ore (Department of Industry, Science, Energy and Resources, 2021a). China is Australia's largest export destination; 45% of all resource and energy commodities were bought by China in 2020. As a result of the informal import tariffs that China has placed on numerous Australian exports, some lower caloric thermal coal has suffered losses. Sales from higher caloric thermal coal and metallurgical coal has made up for these losses, however, from other purchasers such as Japan and India. It is predicted that the coal sector will only make a moderate contribution to GDP growth over the next two years. Between 2020-2021, total coal exports were valued at \$17b for 194 million tonnes of coal and is expected to rise next year to \$21b. For the 2022-2023 period, it is projected that Australia will export 212 million tonnes of coal. Australia is the world's second largest exporter of thermal coal and will likely have secure markets in South and South-East Asian countries as they continue to rapidly develop in the short term – but competition from renewables and decarbonisation policies will reduce demand (Department of Industry, Science, Energy and Resources, 2021a).

LNG is expected to make positive growth, though there is less investment for new LNG projects than the previous decade. In 2020 Australia exported 78 million tonnes of LNG for \$36b, which was 10 million tonnes under-capacity. It is expected that between 2021-2022 exports will increase to 83 million tonnes as technical difficulties from two large LNG plants are resolved. Export earnings are projected to be flat as the market is saturated with LNG, though Australia's earnings are expected to return to above pre-Covid demand. However, investment for the next wave of LNG is uncertain, with many new projects being deferred and only one or two projects expected to proceed over the next few years (Department of Industry, Science, Energy and Resources, 2021a). Although many still hold the view that LNG plays a transitional role in decarbonising energy systems, further expansion of capacity is not required and any large developments after late 2020 will likely become stranded assets (Parra et al., 2019). Australia exports no renewable energy, though the Australia-ASEAN Power Link, to be commercially operational by 2027, will be a major solar power project that will generate billions of dollars in economic activity (Department of Industry, Science, Energy and Resources, 2021b).

As the international market steers away from carbon-intensive goods it will seek out lower- and zero-emissions goods. Many investors and bond markets are already prioritising lower carbon projects; contracts are being won and lost over emissions intensity, and consumers want cleaner products (Richards, 2021). There is certainly a business case for decarbonising our export portfolio, but without policy support in place Australia will not be able to realise its potential to become a renewable energy powerhouse. Transitioning from EITE industries to renewable industries will require careful planning and government support; and the right market mechanisms to attribute value to decarbonisation. However, the Morrison Government has done the complete opposite – it continues to shift finance from renewable to fossil fuel projects, which will be explored below.



The case for Australia becoming a major renewable energy exporter

Accenture (2021) recently explored six key opportunities to generate new economic value and job security based on renewables. For energy and minerals, Australia could pursue renewable hydrogen or ammonia, processing high-value minerals with renewable energy and exporting critical minerals for renewable technology manufacturing. For technology and services, Australia could export batteries, deliver education and training for renewable technology, and provide clean energy services. Together, it was calculated that jobs from these avenues would total 395,000 (Accenture, 2021). This massively outpaces jobs in fossil fuel industries, which only employ about 40,000 people in coal (Briggs et al., 2020) and 17,056 people in gas and oil collectively (Statista, 2021). In fact, renewables already employ at least 25,000 people (University of Technology Sydney, 2020), which is substantial considering it is not yet an export industry.

The Australian Government must act quickly to develop renewable export industries, as there is harsh competition from other countries seeking the same opportunity. Accenture (2021) outlines pathways for development and key actions that must be undertaken, reading the full report is highly recommended. Innovation and social learning, rather than short-sighted economic rationale, must replace government thinking to develop thriving renewables industries (see Coenen et al., 2018 for discussion). Ensuring that Australia has the innovation potential to develop these industries will require coordinated funding for renewables



Section 2: Key organisations and frameworks supporting decarbonisation investment

The Clean Energy Finance Corporation (CEFC), established in 2012 under the Gillard Government, is a statutory body that funds projects for renewable energy, sustainable built environment, and sustainable economy (CEFC, 2021). The CEFC was installed as part of the government's Clean Energy Future Package, which included several other climate policies including the CPM (Geddes et al., 2020). With Australia's four major banks reluctant to invest in renewables, the government owned and operated CEFC is a crucial investment pipeline for budding projects. Since 2012, \$10b has been committed through the CEFC and its projects are now worth around \$29.b. This year the Morrison Government has announced an amendment bill to the CEFCs operating legislation. The government is pushing this bill through parliament under the guise of it being necessary to deliver the \$1b Grid Reliability Fund (Clean Energy Council, 2021), but has added in a mandate change that would allow the federal Energy and Emissions Reduction Minister to direct the CEFC to fund fossil-fuelled gas projects. This new line of investment would remove accountability to parliament (by allowing the Minister ultimate authority for granting funds), enable loss-making ventures and divert funding from renewables projects. This bill will likely be brought before parliament by the end of 2021 (Mazengarb, 2020). The Australian Government (2020) is also banking on the support of the Australian Renewable Energy Agency (ARENA) to invest in fossil-fuel projects to support its Technology Investment Roadmap.

In 2012, ARENA - another statutory body - was also installed by the Gillard Government to fund low- or no-emissions technology. Since inception, ARENA has delivered \$1.81b in funding to 612 projects (ARENA, 2021a) with at least 566 of these being specifically renewable energy projects. ARENA has been very successful in developing commercial



viability for its projects, which were worth \$6.69b in 2020 (Australian Government, 2020). This year the Morrison Government also expanded ARENAs mandate to support the fossil fuel industry (ARENA, 2021b; Australian Government, 2021). The Technology Investment Roadmap focuses on CCS for LNG as an alternative to coal; both as an energy source and an export commodity (Department of Industry, Science, Energy and Resources, 2021c). The government claims that renewables projects will still be the primary focus of ARENAs funding, but its Roadmap heavily relies on non-existent technological advances to “clean” fossil fuels and prolong their commercialisation. As such, the long-term security of renewables projects in Australia is being further undermined – a decision that sends confusing market signals and feeds uncertainty from investors.

This year, changes have also been made to the ERF that have enabled it to issue ACCUs for CCS projects (Taylor, 2021), which will support the commercial viability of fossil fuel projects and provide an (il)legitimate argument for their ongoing commercialisation on environmental grounds. In some cases, however, CCS may be deployed for existing projects which may reduce emissions over their expected lifetime – but not extend it — and this could be an acceptable instance of ACCU issuance (Richards, 2021). While there is no cap on how many ACCUs can be issued, the inclusion of CCS may detract from clean energy or other sustainable projects that are typically accredited and allow companies to invest in projects that reduce their emissions on paper while expanding their coal and gas activities.

Large-scale CCS technology is fraught with issues. Australia’s LNG Gorgon CCS project has failed to meet any of its capture targets and is now seeking assistance from WA regulators to remedy its failure to store millions of tonnes of carbon (Mazengarb, 2021b). The Australian Government has already committed \$60 million to Chevron’s Gorgon CCS project, and because of its failure to meet agreed quotas, Chevron may have to pay over



\$200 million in offsets should the government hold it accountable. However, given the federal government's reliance on CCS and other undiscovered technologies in its net zero plan and Technology Investment Roadmap (Slezak, 2021), it is unlikely that this failure will deter ongoing funding and policy support for CCS.

Another confusing move emerges from the Energy Security Board (ESB), established in 2017 to coordinate the implementation of the reform blueprint produced by Australia's Chief Scientist (ESB, n.d.). The ESB has recently recommended that capacity payments be given to fossil-fuel power plants to sure up energy security for the National Electricity Market (NEM) – the grid that powers most of Australia (Bowyer, 2021). The Chair of the ESB predicted that coal fired generators would drop out of the market four to five years earlier because of cheap renewable energy. These proposed capacity risk propping up unviable coal generators indefinitely into the future, at a high financial cost to households and businesses connected to the NEM (Bowyer, 2021). It is crucial that the energy sector decarbonises as it will ease the way for others to follow suit (Bravo et al., 2021), yet the NEM has a very high proportion of coal fired generators compared to similar countries (Nelson, 2020). As coal power plants leave the market, efforts should be made to support renewables entry into the grid for long-term security – not to extend the commercial (un)viability of coal plants².

It is crucial that Australia's clean energy finance remains exactly that; the fossil fuel industry must not be able to access financing to develop technologies that will enable it to continue operating in place of renewable energy (Richards, 2021). As the market devalues non-renewable sources of energy, Australia's fossil fuel exports will lose competitiveness

² See Nelson 2020 for more on the NEMs grid capacity issues for renewables and potential solutions.



in place of renewables. The shift from non-renewable energy to renewable energy is inevitable. Rather than rapidly but steadily decarbonising from now until 2050, government projections under the Technology Investment Roadmap show a 1% decrease in emissions annually until 2030 before a large plummet leading up to 2050. This decarbonisation pathway emits significantly more carbon and discourages investment for renewables in favour of perpetuating fossil-fuel exploration. The planet cannot afford a business-as-usual approach, and neither can Australia's economy. Instead, the government must focus on the range of options available to begin rapidly decarbonising Australian industry and increase investment for renewable energy.

Section 3: Strategies to improve the Australian government's climate policy

Arguments against a carbon price and ratcheting the Safeguard Mechanism come from the perspective of trade competitiveness, but there are ways to implement these policies without compromising Australian exports (Richards, 2021). The government must be careful that it does not introduce policy that would render these goods uncompetitive, as even a small fluctuation in price could cause Australian goods to be passed over by those which are cheaper. This could create a shock to Australian exports, harming the economy, while likely leading to carbon leakage as other fossil-fuel products replace Australian exports on the international market. As such, co-investment and other support should be enacted to decarbonise Australia's EITE industries concurrently with ratcheting the Safeguard Mechanism (Richards, 2021). The Business Council of Australia (2021) recommends that the Safeguard Mechanism should be lowered gradually and predictably in alignment with the Climate Change Authority's emissions budgets. Clear signposting for emissions reductions will enable business to invest in decarbonising with certainty. They



also recommend that the Climate Solutions Fund (CSF), which has been used to support ACCU project development (CER, n.d), introduce a new funding stream for assisting EITE industries to pay for offsets or to pay for decarbonisation technologies. A concern with this recommendation is that business could continue to produce the same amount of emissions and have any excess emissions above a lowered constraint paid for by the government, which could result in a business-as-usual situation. As such, a better approach to co-opting the CSF would be to enable Safeguard Mechanism Credits (SMCs), discussed in further detail below, to be generated by businesses that produce less emissions than their Safeguard constraint – which is also recommended by the Business Council of Australia (2021). The Australian Government will pilot SMCs next year and has already committed \$279.9m in the 2021-22 budget to support government purchase of SMCs. As the Australian Government has already proposed multiple mandate changes that would allow for green funds to support the fossil fuel industry, the CSF should retain its original purpose.

The concept of attributing credits to emitters that produce less emissions than their Safeguard constraint is not new; the Government’s King Review in 2019 found this to be a viable method of encouraging abatement (DISER, 2021d). It should be noted that even with an evolved Safeguard Mechanism and SMCs, additional policy to price carbon will be necessary to drive rapid abatement (Richards, 2021). The King Review suggested that SMCs be issued to large facilities that demonstrate a real reduction in emissions based on their NGERs reports. Facilities must show that a particular emissions reduction project or change in process caused abatement, so that business is not rewarded for simply reducing their production capacity. It was found that the ERF was not well utilised by transport, industrial and energy sectors because much of their emissions reductions would come from replacing or upgrading old and inefficient equipment. As such, SMCs would enable facilities to meet the upfront cost of obtaining better equipment and be rewarded for doing so (DISER,



2021d). SMCs could be traded by large facilities to help meet their Safeguard constraints and establish a secondary market alongside ACCUs. The private sector or the Australian Government may also be interested in purchasing SMCs, in a similar reverse-auctioning process to that used for ACCUs. SMCs will currently cover a quarter of Australia's emissions (DISER, 2021d) but this could be expanded with a lowered Safeguard threshold as previously discussed.

There are two main concerns that arise from accrediting SMCs. Firstly, the SMCs must be accredited for additional projects that would not have occurred in a business-as-usual situation, as to not reward business for doing something that it would have done anyway (DISER, 2021d). Shorter crediting periods and only accrediting projects for the most optimal new technologies would help prevent accrediting normal equipment purchases. Requiring facilities to attach 'transformation statements' about their project's aims and how it facilitates emissions reductions would help to determine whether a project will deliver genuine abatement or not (Department of Industry, Science, Energy and Research, 2021d). It is desirable to encourage non-financial reporting such as this as it could help ingrain sustainable practice throughout corporate structures, in the same vein as TCFD reporting.

Secondly, setting an appropriate facility baseline for emitters to beat becomes even more important if SMCs are to be attributed based on reductions against this baseline. Certainly, the reference baseline for SMC accreditation should not be higher than that of the Safeguard Mechanism (DISER, 2021d). There are multiple options for generating a reference baseline, each of which has their own benefits and drawbacks. DISER (2021) has not yet determined how they will be calculated, but it seems to favour finding an average of emissions produced by a facility over a multi-year period to avoid setting a baseline on an atypical peak period – which would be easier to set reductions against.



If SMCs are established under a ratcheted Safeguard Mechanism, it is plausible that greater value will be attributed by them as facilities develop larger projects to meet progressively lower constraints, and as new facilities are covered under the Mechanism. It may be the case that SMCs rival ACCUs in the market, which could detract value from ACCUs, particularly as the Australian Government intends to issue ACCUs for CCS. As such, careful consideration and vetting of which projects should become accredited for SMCs must occur, and the ACCU market should be monitored for impact of SMC entry. However, there is strong growing interest from the voluntary (private) market for ACCUs and large-scale generation certificates (for renewable energy), and so SMCs could gain traction without necessarily detracting from the value of these established credits (DISER, 2021d).

The ACCU market has changed in recent years as all the lowest-cost abatement projects have been developed, which created a stall in the generation of new projects. This was a significant concern to the Australian Government, which relies on the ERF to deliver the reductions needed to meet our 2030 target (Mazengarb, 2021c). As such, the CER has now allowed “optional” delivery contracts through the ERF, which gives abatement projects the option to sell ACCUs to government, but they are no longer obliged to do so. This change enables the ERF to act as an underwriter to new projects, protecting them if emissions reductions were less than anticipated, but also enabling the project to seek a higher price for its ACCUs on the voluntary market (Mazengarb, 2021c). As SMCs are not based on offsetting but on technological upgrades (Department of Industry, Science, Energy and Resources, 2021), business may invest in both for different purposes. For example, an emitter may be able to reduce emissions through new technologies and get these accredited for SMC issuance, but this still may not meet a lowered constraint under the Safeguard Mechanism, which would require the emitter to surrender ACCUs as well. While an



evolved Safeguard Mechanism would likely drive some abatement, it is unlikely to rapidly decarbonise the economy without an explicit price on carbon (Richards, 2021).

Other countries are now considering Carbon Border Adjustment Mechanisms (CBAMs) that would price imports based on their carbon intensity at the border. Australia's emissions intensive exports, such as coal, gas, and oil, will not be impacted by CBAMs in the short term because our major trading partners are not the ones considering introducing them (Reed, 2021). India and China are immediately concerned with providing energy security to their populations, and a CBAM would increase the price of coal to already poverty-stricken consumers. However, that does not mean that CBAMs will not impact Australian exports in the medium to long term, as a domino effect could emerge after the EU implements its CBAM; Japan, the US and the UK are all already investigating the impact of introducing their own CBAMs (Reed, 2021).

There are benefits for Australia in implementing its own CBAM. Japan, China, Korea, and Taiwan (and other smaller markets) will seek to decarbonise in the long term, particularly their energy sectors which are reliant on coal for power (Parra et al., 2019). China is already the world's largest consumer, investor and producer of renewable energy and is acting to secure all stages of renewables development for the future (Durrant et al., 2021; Flannery et al., 2021). Early adoption of a CBAM would sure up renewable energy exports if Australia committed to becoming a renewables powerhouse, enabling them to enter foreign markets at a level playing field with carbon-intensive products. Traded goods that are not carbon priced domestically or internationally would be more competitive than those which are, assuming there is no CBAM in the consumer country. Similarly, companies that decarbonise must pay to develop new technologies and innovations to meet new baselines, an imposition that other companies would not have if their country does not have an



emissions constraint (Reed, 2021). As such, levelling the playing field would incentivise decarbonisation investments as well. While the Australian Government is already considering methods of reducing decarbonisation costs, as previously discussed, a CBAM would reinforce the need to decarbonise by explicitly pricing carbon. This impost could be collected by the Australian Government, to be redistributed to vulnerable households impacted by increased costs passed down to consumers (also termed a fee and dividend model).

An Australian CBAM could price imports according to their emissions intensity to the same extent that domestic products are ratcheted under the Safeguard Mechanism. Therefore, imports do not receive an unfair market advantage compared to domestically produced goods in Australia (Richards, 2021). Other countries with CBAMs would price Australian exports the same way – as if they were subject to a domestic carbon price. If Australian exports are priced domestically under a CBAM (it could simultaneously work for both directions of trade), that would mean they would be rebated for that price once exported to another country that also has a carbon price. This mechanism would prevent double-pricing (Feaver & Sheehy, 2012).

Australia's carbon intensive exports are not threatened by CBAMs but rather by decarbonisation efforts in export destinations. Demand for these exports will drop as countries replace coal and gas with renewable energy (Reed, 2021). Rather than perceiving CBAMs as a threat to these commodities, the Australian Government should be considering how they could assist a future renewables industry to enter the domestic and international market. An Australian CBAM would also help coordinate pricing between other countries with CBAMs, which could use NGERs data. This would prevent Australian producers from being slugged with a blanket price that does not reflect their decarbonisation efforts, but



only those of their general industry (Reed, 2021; Richards, 2021). An Australian CBAM would pair well with ratcheting the Safeguard Mechanism and the new SMCs scheme, as it would further reward decarbonisation in the market.

The Australian Government must ensure that NGERS data is recognised by international CBAMs, and that Australian business becomes fluent with emissions data sharing between producers, intermediaries, and suppliers. Lowering the Safeguard Mechanism baseline from 100,000 tonnes of carbon dioxide equivalent to 25,000 tonnes is a crucial step in achieving this (Richards, 2021). A partnership between the CER and Australian financial regulatory bodies could assist business in developing this capacity. NGERS is one of the most robust emissions reporting systems in the world, so it should become recognised by the EU – especially as it was willing to use this data to establish an ETS with Australia (Evans & Wu, 2021). The CER must ensure that business can easily access NGERS data to report to EU CBAM authorities, which will require ongoing participation in the development of this Mechanism (Reed, 2021).

The Australian Government will have to engage with the World Trade Organisation to ensure that CBAMs can be implemented legally and fairly (Reed, 2021). The concept of a CBAM is not new, but one has not yet been implemented. As such, there will be much finessing to ensure that the mechanism is compliant with established trading rules. Not only this, but the Australian Government should be acting to ensure that any foreign CBAM could be aligned seamlessly with an Australian counterpart, which could be done by establishing a common database, calculating methodologies and sister institutions between countries (Reed, 2021). The introduction of an Australian CBAM must be considerate of pre-existing policy; a thorough analysis of how a CBAM would function alongside an evolved Safeguard Mechanism and our carbon credit markets will be



necessary. An analysis by Reed (2021) demonstrates how an Australian CBAM would be an all-round better option than a past policy that sought to protect EITE industries in Australia, called the Jobs and Competitiveness Program. For the purposes of this guide, this Program will not be discussed at length, but in sum a CBAM would be more cost-effective, comprehensive, and sustainable over the long-term. EITE industries could be shielded as they adapt to a CBAM at a lower cost (Reed, 2021).

Shielding is when government pays for additional costs that a business would otherwise incur, which would reduce their competitiveness in the market, such as a tax or other impost. Shielding can be for 100% of the additional cost, or it could reduce gradually to prevent a shock to business but to still send a market signal over time. International trade rules can prevent shielding as it can unfairly subsidise certain industries and be trade protectionism, so governments must be careful when doing this (Reed, 2021).

For a more in-depth analysis of how Australia could implement a CBAM, Reed (2021) has developed a valuable resource entitled *Swings and Roundabouts: the unexpected effects of Carbon Border Adjustments on Australia*. With the Morrison Government's clear aversion to implementing any new climate policy to curb domestically or internationally produced emissions, it is unlikely that it will consider developing a CBAM.

Section 4: Criticisms of the Australian Government's climate policy

According to the Climate Change Performance Index 2022, Australia ranks in the lowest category for action on climate change (Burck et al., 2021). Out of the 64 countries assessed—including developing countries—Australia ranked 58th. The categories assessed



included GHG emissions, renewable energy, energy use and climate policy. When disaggregated by these categories, Australia ranks dead last at 64th for climate policy. It received these ratings because of its continued reliance on fossil fuels, not committing any new climate policies, for its weak Technology Investment Roadmap, for neglecting to provide strategies to phase out fossil fuels, for missing opportunities to invest in renewable energy and related infrastructure, for subsidising fossil fuels and promoting a ‘gas-led’ economic recovery out of COVID-19 (Burck et al., 2021). This report mirrors earlier assessment by the Climate Council, which found that Australia’s climate policies and abatement targets are the least ambitious out of all developed countries, and that the country is creating climate and economic insecurity by neglecting to develop a renewables industry to replace fossil fuel industries (Flannery et al., 2021).

The Morrison Government has been highly criticised at the United Nations Conference of Parties (COP26) this year, which is the world’s largest international climate policy forum, for not introducing any new climate policy in the net zero plan or the Technology Investment Roadmap (Morton, 2021a). Each country attending COP26 gets its own pavilion to showcase its efforts to address climate change. Australia’s pavilion was dedicated to business, including Andrew Forrest’s green-hydrogen, the ASEAN Sun Cable and the LNG and oil giant Santos (Morton, 2021b). In fact, Santos was touted as being a prime example of how CCS will “clean” LNG and facilitate ongoing exploration and use of gas at taxpayer expense through the ERF. Treating COP26 like a trade show for fossil fuels is certainly in line with the Australian Government’s stance on climate action. Prime Minister Morrison also refused to sign Australia up to the global pledge on cutting methane leakage by 30% by 2030, as it would require emissions reductions from the agriculture and fossil fuel sectors (Morton, 2021b). Based on its actions to date, including Environment Minister Ley’s approval of three new coal mines in the month leading up to COP26 (Cox,



2021), it is unlikely that this government will produce any policy to facilitate rapid decarbonisation of the economy – or to address the needs and perspectives of Indigenous Australians on which all of this activity occurs³.

To support a fair and accountable decarbonisation journey, the Australian Government should establish an Independent Commission Against Corruption (ICAC). To generate sustainable change, all levels of Australian Governments must be able to conduct long-term planning (Jotzo et al., 2021), and an ICAC would increase confidence and commitment to climate action across the country (Richards, 2021). All the issues discussed here may have been prevented by a federal ICAC, and solutions to climate problems may never be delivered if the Australian Government can continue to act against in ways that derail decarbonisation. Building trust and generating synergy between public and private spheres will be crucial to developing long-term policy and regulatory strategies (Fragkos et al., 2021). Investors (Jotzo et al., 2021), financial regulatory bodies, bond markets and shareholders (Peel et al., 2020), citizens (Quicke, 2021) and NGOs (Better Futures Australia, 2021) are all demanding stronger climate policy for corporate Australia, the time to act is now.

If the Australian Government does not commit to ambitious climate action, litigation through the courts could become a popular avenue to accelerate action. While it is usually citizens taking business or government to court over climate and environmental issues (Butterfield, 2018; Peel & Markey-Towler, 2021), companies that are vulnerable to climate change could take the Australian Government to court over inaction. Climate change poses several risks to businesses, including physical risks to assets and transition risks while

³ See the Indigenous Peoples' Organisation Heal Country, Heal Climate report by Eatock et al. (2021) for recommendations.



decarbonising (Peel et al., 2020). A lack of clear and predictable policy worsens these risks. In the post-COP26 period, it is uncertain what new commitments the Morrison Government will make, and what an upcoming election holds for Australian climate policy. If the recommendations outlined in this guide come to fruition, Australia would have a strong chance at delivering its fair share of the Paris Agreement, securing a safe climate and sustainable economy for future generations.

Conclusion

Climate policy at the national level in Australia has undergone many twists and turns. Previous Labor Governments installed strong climate policy and supporting institutions, while more recent Coalition Governments have repealed these policies and replaced them with ones that continue to support fossil fuel exploration and consumption in Australia. In the absence of a rigorous national framework, subnational governments and corporates have stepped up to begin filling these policy gaps. However, coordinated action emanating from the national government cannot be necessary to organise disparate efforts. The market-based mechanisms within Australia's climate policy framework work well for their proposed purposes, but they are not ambitious enough to drive rapid decarbonisation of the economy. The proposed CERT will likely not have a significant impact on voluntary emissions reductions, though SMCs may drive some reductions – it is not yet clear. This guide illustrates the range of good options a new government has at its disposal to drive decarbonisation in Australia. Ratcheting of the Safeguard Mechanism and lowering of its threshold would get more companies reporting and more emissions covered by the scheme. Installing a CBAM alongside this evolved Safeguard Mechanism would drive strong change by eliciting a market signal to decarbonise, as it would attribute a price to carbon. More



attention than ever is on Australia for its lacklustre climate policy in the post-COP26 era, and Better Futures Australia hopes that they heed the recommendations in this guide.

Key terms list

ACCU: Australian Carbon Credit Unit

BCA: Business Council of Australia

BCSD: Business Council for Sustainable Development

CBAM: Carbon Border Adjustment Mechanism

CDP: formerly the Carbon Disclosure Project

CEFC: Clean Energy Finance Corporation

CER: Clean Energy Regulator

CERT: Corporate Emissions Reduction Transparency framework

CFI: Carbon Farming Initiative

COP: United Nations Council of Parties

CPM: Carbon Pricing Mechanism

CSF: Climate Solutions Fund

EITE: Emissions Intensive Trade Exposed

ERF: Emissions Reduction Fund

JCP: Jobs and Competitiveness Program

NGERS: National Greenhouse and Energy Reporting Scheme

SMC: Safeguard Mechanism Credit

TCFD: Task Force on Climate-Related Financial Disclosures

UN: United Nations

WTO: World Trade Organisation

Table: Key components of the Australian Government’s climate policy framework

Table: Key components of the Australian Government’s climate policy framework		
Legislation	Scheme	Coordinating body
The National Greenhouse and Energy Reporting Act (2007)	NGERS	CER
“	CERT	CER
Carbon Credits (Carbon Farming Initiative) Act 2011	CFI	CER (ERF)
Carbon Credits (Carbon Farming Initiative) Act (2011) AND Carbon Credits (Carbon Farming Initiative) Regulations (2011) AND Carbon Credits (Carbon Farming Initiative) Rule (2015)	ERF	CER
“	Safeguard Mechanism	CER (ERF)
“	CSF	Department of Industry, Science, Energy and Resources
Australian Renewable Energy Agency Act (2011)	ARENA	Independent statutory body



Clean Energy Finance Corporation Act (2012)	CEFC	Independent statutory body
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