

Tuesday 28 February 2023

The Department of Climate Change,  
Energy, the Environment and Water (DCCEEW)  
John Gorton Building  
Parkes ACT 2600

Via email: [safeguard.mechanism@industry.gov.au](mailto:safeguard.mechanism@industry.gov.au)

Dear DCCEEW,

### **Safeguard Mechanism Reform: Consultation on proposed design**

Thank you for the opportunity to comment on the government's proposed design for the reformed Safeguard Mechanism.

The AICD's mission is to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. The AICD's membership of 50,000 reflects the diversity of Australia's director community, comprised of directors and leaders of not-for-profits, large and small businesses and the government sector.

With emissions from Safeguard Mechanism facilities contributing to approximately 28% of Australia's emissions, the AICD considers that the Safeguard Mechanism is a critical component of Australia's climate policy architecture. The AICD strongly supported the introduction of the Climate Change Act, and produced a [joint statement](#) in support of the Act together with seven other business, investor and conservation groups.

Directors are deeply engaged on the topic of climate change and are actively positioning their organisations to meaningfully respond to climate change risks and opportunities. However, lack of policy certainty on climate has proven a significant barrier. For example, the latest AICD Director Sentiment Index results (for the second half of 2022) found that 45% of directors surveyed considered that the greatest barrier for corporate climate governance was uncertainty around consistency of government commitment to climate action, with 41% citing a lack of clarity on how Australia would move forward with 2030 targets.<sup>1</sup>

In light of this, it is imperative that the Safeguard Mechanism reforms provide clarity on industrial decarbonisation whilst simultaneously ensuring that the competitiveness of Australia's exports are not disproportionately affected.

Given the technical nature of the consultation, we have limited our submission to a number of high-level comments, namely:

1. We support the concept of annual baseline reductions as a mechanism for facilitating industrial decarbonisation. We also agree that the rate of decline should proportionately reflect the contribution of the industrial sector to Australia's emissions.

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<sup>1</sup> <https://www.aicd.com.au/content/dam/aicd/pdf/news-media/research/2022/roy-morgan-aicd-dsi-insights-report-2022-2-web.pdf>

2. We note that there are a number of policy details that remain to be clarified and look forward to the provision of further details. These include the method of calculation of the “buffer”/reserve built into the baseline figures to cover new facilities, reduced baseline rates for Trade Exposed Baseline Adjusted Facilities, how “international best practice” for new facilities will be determined, and the nature of the grants and funding proposed under the Safeguard Transformation Stream of the Powering the Regions Fund.
3. We consider that the government should carefully consider the rules for the use of offsets and trading. While carbon credits (namely Australian Carbon Credit Units) have a significant role to play in genuinely hard-to-abate sectors, there are concerns that their uncapped use within the Safeguard Mechanism may discourage effective emissions mitigation. We note that the Climate Change Authority called for the issue of a National Carbon Market Strategy to set out the government’s strategy for the role of carbon markets in achieving Australia’s emission reduction targets, including the setting of rules for domestic and international carbon trading. We would support such a step as part of establishing the overall climate policy architecture.
4. We consider that carbon leakage is a significant issue that needs to be addressed. However, as stated in (2) above, further detail needs to be provided as to the type of activities that funding under the Safeguard Transformation Stream will support. Specifically, consideration needs to be given as to how the funding will facilitate industrial decarbonisation, and how funding will bolster the competitiveness of trade-exposed facilities and their exports. In respect of industrial decarbonisation pathways, we note the work of the Australian Industry Energy Transitions Initiative (**AIETI**) including the recent release of its 1.5-degree consistent decarbonisation pathways for heavy industry supply chains.<sup>2</sup>
5. Further, in light of approximately 80% of Safeguard facilities falling within the proposed definition of ‘Emissions Intensive, Trade Exposed’ facilities, there are concerns that (1) the definition may be too broad (noting the limited size of the funding available); and/or (2) the remaining 20% of facilities without access to this funding may be competitively disadvantaged in domestic markets, particularly given the rationale for the 10% trade share definition has not been fully explained.
6. Our members have expressed particular interest in understanding the government’s position on any proposed Carbon Border Adjustment Mechanism and welcome the government’s commitment to hold a separate consultation on this topic.
7. The government should consider whether and how disclosure requirements under the reformed Safeguard Mechanism may interact with disclosure requirements under the proposed mandatory climate reporting regime, as well as any other intersecting regimes. A key consideration should be harmonising reporting across the multiple regimes and ensuring that the costs of compliance are proportionate to the expected benefit.

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<sup>2</sup> See the media release [here](#) and the full report [here](#).

## Next steps

We hope our submission will be of assistance to DCCEW. If you would like to discuss this further, please contact Christian Gergis, Head of Policy at [cgergis@aicd.com.au](mailto:cgergis@aicd.com.au) or Anna Gudkov, Senior Policy Adviser at [agudkov@aicd.com.au](mailto:agudkov@aicd.com.au).

Yours sincerely,

A handwritten signature in black ink, appearing to be 'C. Gergis', written in a cursive style.

Christian Gergis  
Head of Policy