Attch #2

Carbon investment signals

Under our proposed policy architecture, the Safeguard Mechanism — supported by the Climate Solutions Fund, a robust domestic offsets market and a fit-for-purpose innovation and technology strategy — is the principal vehicle for creating a carbon investment signal to achieve national emission targets and budgets out to 2050.

The purpose of the carbon investment signal is to help incentivise the deployment of zero and low emission technologies and closing critical technology gaps inhibiting the transition to a net zero emission economy in an economically efficient manner.

We note that a carbon investment signal can take many forms — it can be implicit or explicit, it can be broad or narrow, and it can be created using a range of different policy mechanisms. While an explicit, economy-wide carbon pricing mechanism is the Business Council's preferred option, it is by no means the only workable option. To that end the recommendations below leverage existing policy mechanisms over a carbon price.

Recommendations

5. The eligibility threshold for entities covered by the Safeguard Mechanism be reduced from 100,000 tCO_2 per year, down to 25,000 tCO_2 per year — to increase the scheme's coverage of emission point sources across the economy.

6. The Safeguard Mechanism emission baselines be reduced predictably and gradually over time to achieve the proposed emission budgets out to 2050 – and that this is done in a way that supports international competitiveness and economic growth.

7. The policy architecture will need to explicitly support Australian businesses in internationally exposed, hard to abate sectors where and while key technology gaps remain. This can be achieved in several ways, including:

- maintaining the carbon constraint but using the Climate Solutions Fund to support a proportion of businesses' offset costs to cover their use of high emission technologies in the interim (recommended approach)
- maintaining the carbon constraint but using the Climate Solutions Fund to support a proportion of businesses' cost of investing in decarbonised technologies
- deferring or loosening any carbon constraint under the Safeguard Mechanism for vulnerable entities or sectors.

Measures to support internationally exposed, hard to abate sectors should not come at the expense of other sectors in the economy.

Any support should be underpinned by periodic assessments from the Climate Change Authority on the carbon leakage threat posed to Australia.

8. The Safeguard Mechanism rules be amended to enable the creation of Safeguard Credits where an entity 'beats' its emission baseline, and to allow these Safeguard Credits to be used as offsets effectively — consistent with the approach currently being developed by the Department of Industry, Science, Energy and Resources.

9. The Safeguard Mechanism rules be amended to enable Safeguard Credits to be traded among liable businesses, and banked for use in future periods, and on secondary markets

10. The existing sectoral safeguard arrangement covering the electricity sector be maintained, and with a view to ensuring that the electricity sector continues to play its part in achieving the net zero emission policy goal.

We note that many smaller point sources of emissions across the economy are not appropriately addressed by the Safeguard Mechanism, and as such require different policy tools (discussed in 'sector specific policies' as follows).