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25 January 2023

Chair

Senate Standing Committees on Environment and Communications

PO Box 6100

Parliament House

Canberra ACT 2600

Dear Senator Grogan,

### **Safeguard Mechanism (Crediting) Amendment Bill 2022 – Chemistry Australia Submission**

1. Chemistry Australia welcomes the opportunity to make this submission on the *Safeguard Mechanism (Crediting) Amendment Bill 2022* (the Bill).
2. The \$38B chemistry industry plays a vital role in the Australian economy, underpinning more than 212,000 jobs and supplying products, technologies, and innovations to 108 of Australia's 114 industry sectors. It is essential to healthcare, mining, agriculture, construction, infrastructure, transport, and manufacturing. In addition, the products of the chemistry industry support urban and regional communities and the daily lives of all Australians, including providing clean and safe drinking water and keeping food fresh from the farm to the plate.
3. Chemistry will play a critical role in supplying the technologies, products and solutions that enable Australia to transition to carbon neutrality and leverage the benefits of a circular economy. However, our capacity to drive and support these ambitious outcomes relies on our continuing viability and global competitiveness.
4. In terms of the safeguard mechanism, four Chemistry Australia members operate facilities that fall above the 100,000 CO<sub>2</sub>e threshold. These facilities undertake a range of emissions-intensive activities which supply critical inputs to mining, agriculture, infrastructure, and food production. All are trade-exposed, producing commodity chemicals that are widely traded. As a result, they have minimal, if any, pricing power. Yet, replacing domestic manufacturing with imported supply is neither feasible nor sensible, as these products are crucial to Australia's sovereign capability and economic security.
5. Navigating the path to net-zero emissions by 2050 for these facilities will be extremely challenging. While certainty about emissions reduction policies and mechanisms is vital to enable these businesses to develop and implement the investment plans required to reduce emissions, several other pieces of the puzzle need to be addressed to support their path to net zero. These pieces include an ample supply of globally competitively priced energy (gas and electricity), competitively priced feedstock and regulatory frameworks (state and Commonwealth) that do not hinder but support investment.
6. Chemistry Australia would make the following comments regarding the provisions of the Bill.

#### **Loss of access to the Emissions Reduction Fund (ERF)**

7. All Chemistry Australia members falling within the safeguard mechanism have projects approved

under the ERF.

8. Chemistry Australia notes that amendments contained in Schedule 4 of the Bill operate to prevent the Regulator from entering into new carbon abatement contracts with safeguard mechanism facilities after the commencement of the relevant provisions of the Bill. While Chemistry Australia welcomes the decision to grandfather ERF projects with an existing carbon abatement contract under the safeguard mechanism reforms, Chemistry Australia believes that all registered ERF should be grandfathered. In Chemistry Australia's view, the provision should operate to prevent the Regulator from entering into carbon abatement contracts for projects that were not registered before the commencement of the current safeguard mechanism consultations.
9. Significant investments have been made toward delivering registered ERF projects, including those not yet contracted. On this basis, all registered ERF projects should proceed based on the conditions underpinning their registration under the ERF, including access to the existing deemed surrender arrangements.
10. Furthermore, Chemistry Australia opposes the recently announced proposal to limit the grandfathering of the deemed surrender arrangements to a period of two years commencing 1 July 2023. This represents a significant change to projects that are currently underway and has the potential to deny access to previously committed ERF funding.
11. The Safeguard Mechanism Reforms Consultation Paper released on 18 August 2022 proposed two alternatives for the future treatment of deemed surrender arrangements, including:
  - a. The retrospective removal of all deemed surrender arrangements; or
  - b. The grandfathering deemed surrender for the duration of their existing contract.
12. The duration of existing carbon abatement contracts is seven years. Hence, the proposal to limit the deemed surrender arrangement to two years retrospectively changes the conditions under which carbon abatement contracts were entered into in good faith with the government. Retrospective changes like this send a worrying signal to investors, particularly international investors.
13. While Chemistry Australia's preferred position is the grandfathering of all registered ERF projects to support the delivery of emissions reduction at safeguard facilities, at the very least, the government must honour the commitments under existing carbon abatement contracts for the entire duration of those contracts.
14. We would be happy to discuss this submission in more detail. If you have any questions, please contact me by email at [REDACTED] or on [REDACTED].

Yours sincerely,

[REDACTED]

**Bernard Lee**  
**Director - Policy and Regulation**