



Safeguard Mechanism

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About the ACTU

Since its formation in 1927, the ACTU has been the peak trade union body in Australia. The ACTU consists of 43 affiliated unions and State and regional trades and labour councils. They have almost 1.8 million members who are engaged across a broad spectrum of industries and occupations in the public and private sector.

Introduction

The ACTU and Australian unions have been engaged in Australia's climate and energy policy development for nearly three decades. Our consistent position has been that Australia needs ambitious and coherent climate and energy policy to limit the impacts of global warming, and that we also need industry planning, support, and resources to ensure that no workers or communities are left behind as we make the shift to net zero emissions.

We welcome the opportunity to provide feedback on the Safeguard Mechanism, as one of the critical tools contributing to the Government's commitment to reduce national emissions to 43 per cent below 2005 levels by 2030 and reaffirming Australia's commitment to achieve net zero emissions by 2050. We acknowledge that the 2030 target is a floor and not a ceiling and hope that our national efforts can meet and beat this target in a way that supports and drives the creation of secure and well-paid jobs, particularly for those workers and their communities that have powered this country for so long.

The vast majority of safeguard facilities have union members in their employment. Their industries – predominantly mining and manufacturing – have secured Australia's prosperity and provided, on the whole, good skilled jobs with good conditions over many years. Many of these industries are trade-exposed, but there is significant variation in the policy efforts being applied by Australia's competitors to limiting their emissions. Many workers in these industries have highly specialised skills. The circumstances of these industries and facilities differ dramatically, so any efforts at reducing emissions need to take these into account.

Many of these industries are compatible, and indeed vital, to Australia thriving in a world moving towards a greater reliance on renewable energy.

The proposed timeline of instituting changes to the Safeguard Rule by 1 July 2023 is ambitious – but achievable. Our members' jobs depend on Australia taking action on climate change, and employers making the critical investments to sustain their industries through the energy transition.

The consultation paper anticipates a significant update of the Safeguard Mechanism to reduce aggregate emissions from covered facilities. Australian Unions are putting forward a range of principles this update should adhere to, to achieve fair and meaningful outcomes for workers.

Operational changes should not undermine secure work and must require worker consultation

First and foremost, it is critical that government recognises the impacts the design of the Safeguard Mechanism may have on facilities' operations, and consequently, workers' conditions.

It is widely recognised that the industrial transformation associated with decarbonising will be immense, and this holds equally true for Australia's high-emitting facilities. Given that the Safeguard Mechanism only covers direct emissions from facilities, there will be a significant incentive for safeguard facilities to reduce their direct emissions, for example, by electrifying as much of their energy usage as possible. However, the market dynamics of electricity significantly differ to those of gas, coal and other energy sources directly combusted for industrial processes, particularly as renewable energy and storage are taken up at greater scale. This is likely to shift the operational requirements of safeguard facilities – for example, they may increase production during daytime hours, when solar power contributes to lower electricity prices – and consequently require workforce changes. These changes may not have been anticipated in enterprise agreements but may have a significant impact on workers' pay, conditions and wellbeing – for example, it may affect levels of employment in facilities, create disruptions to work schedules and reduce entitlements to allowances or overtime.

If safeguard facilities' operations change as a result of the strengthening of the mechanism, it is critical that workers and their representatives are consulted about these changes and their impacts. Otherwise, it will merely serve as a tool of economic regulation without a line of sight to its impacts on communities.

Safeguard Mechanism must complement industry policy

Global supply chains have been shaken to their core by the events of recent years. The pandemic limited manufacturing and exports from a number of countries traditionally relied upon by Australian consumers and businesses. At the same time, geopolitical risks in our region and Europe have exposed the fragility of global trading relationships. Manufacturing accounts for a smaller share of national employment in Australia (around 6%) than in any other OECD country. We also have the lowest level of manufacturing self-sufficiency of any of these countries.

Recognising the need for Australia to rebuild its manufacturing industry and the supply chains it supports and relies on, the new Government has committed to implement a range of industry policy measures, to rebuild Australia's sovereign capability. These include the National Reconstruction Fund, which will provide a \$15 billion facility to value-adding manufacturing businesses across a range of priority areas;¹ changes to increase government procurement from Australian businesses, particularly small-to-medium enterprises;² building trains, trams, ferries and buses here in Australia;³ and new manufacturing strategies for the defence and energy industries.

Many safeguard facilities are manufacturers or metalliferous mines that stand ready to support Australia's strategic goals by bolstering our manufacturing capacity – adding additional value here in Australia. Indeed, increased domestic manufacturing may offset imports – and if Australia has the right policy settings to encourage emissions reduction, we are well-placed to become an environmentally-friendly manufacturing power.

Accordingly, the design of the Safeguard Mechanism should complement the expansion of Australian industry and sovereign capability – recognising the environmental and renewable energy opportunity of an Australian manufacturing revival. Australian emissions-intensive trade-exposed industries should be supported to ensure that where there may be constraints, there is sufficient support to not result in a disadvantage against our international competitors.

Additionally, a well-designed Safeguard Mechanism is important to assure overseas regulators that emission reduction efforts in Australian industries are serious and effective. Currently, there is a substantial risk that Australian exports will be excluded or reduced from markets like the European Union by border adjustment mechanisms designed to prevent unfair competition from companies operating in jurisdictions (such as Australia) with lower emission reduction standards than cover European companies. The EU border adjustment mechanism is expected to operate in the following way:

Importers will need to purchase emissions certificates from a newly established Carbon Border Adjustment Mechanism Authority to cover the carbon emissions embedded in the goods imported in the previous year. Each CBAM certificate will correspond to one metric

¹ <https://www.minister.industry.gov.au/ministers/ayres/media-releases/helping-our-businesses-grow-backing-aussie-made>

² <https://www.financeminister.gov.au/media-release/2022/07/01/better-deal-australian-businesses-under-commonwealth-contracts>

³ <https://anthonyalbanese.com.au/media-centre/dulwich-hill-light-rail-doorstop-interview-haylen-minns>

ton of emissions embedded in the imported goods. Targeted emissions would include both direct emissions from the production processes of the eligible imported goods and indirect emissions associated with generating the electricity used in the manufacturing processes. Foreign firms will have to prove the CO₂ content of their goods, the revenues will be cashed in by the EU while foreign countries will not benefit.⁴

It is clear that it is in the interests of Australian exporters and their workers that real, measurable declines in emissions are achieved through the Safeguard Mechanism.

A fair share of emissions reduction recognising differences between facilities

Facilities covered by the safeguard mechanism should make a fair share of emissions reductions to help Australia reach its legislated targets. These facilities cover a huge range of different industries – from manufacturing of metals, fertilisers, explosives, plastics and others, to extraction and processing of resources including coal, gas, and minerals, landfill, and others. Each industry sector will have its own emissions reduction pathway, informed by the technology pathway for emissions reduction and marginal costs of abatement. The task of the Safeguard Mechanism is to encourage facilities to abate emissions at a faster rate than they otherwise would without regulation.

Beyond industry differences, there are differences for operations of facilities in the same industry or sector – often operating under different geographical and local economic conditions; following different local regulatory requirements; beginning operations at different points in time with different access to resources; and sometimes making different types of products with different emissions consequences.

Facilities will be at different points in their decarbonisation journey even if they are in the same sector. As much as possible, the design of the Safeguard Mechanism should:

- recognise different starting points between facilities, by setting facility-specific baselines and decline rates that support overall reductions in emissions across safeguard facilities

⁴ [The EU's carbon border adjustment mechanism \(CBAM\) - what is at stake? | etui](#)

- try to avoid windfall gains or penalties for firms based on their starting point, instead prioritising the lowest-cost abatements available across the range of safeguard facilities with an effective and trusted credit trading system
- ensure that ambition, technology and policy are matched in the pathways set for different facilities and sectors.

Integrity will be paramount to an effective crediting and trading system

The Consultation Paper notes the existing arrangements that permit the use of Australian Carbon Credit Units (ACCUs) issued under the Emissions Reduction Fund to offset emissions, and proposes to extend this by creating Safeguard Mechanism Credits (SMCs) that can be traded between Safeguard Mechanism facilities to meet new emissions limits. The ACTU supports the flexibility offered by trading mechanisms to aid low-cost abatements across safeguard facilities.

However, it is critical that all credits and offsets in the scheme represent genuine emissions reductions in the economy – be it within the limits of the Safeguard Mechanism, or outside of it. Abatement, rather than offsetting, should be the primary goal of the mechanism.

For this reason, it is critical to adopt a range of probity measures in establishing any crediting or offset schemes:

- Emissions reductions efforts below baselines should not be double-counted – reductions should either count as an ACCU or an SMC, not both.
- The recommendations of the ongoing Chubb Review of ACCUs should be considered in designing SMCs and in determining how ACCUs or other offsets can be applied to safeguard facilities.
- Any offsets permitted in the scheme (domestic or international) must be of high integrity and within a properly-regulated framework domestically and globally.
- Regulations should be established to prevent gaming of offsets or credits, for example by transferring between facilities within the same corporate group if a facility closes.
- Offsetting should not create new avenues for tax avoidance in Australia.

Safeguard Mechanism needs to be overseen by a dynamic regulator with a worker voice in its governance.

The regulation of the Safeguard Mechanism needs to have regard to the complexity of the task of reducing emissions, including in a way that supports the workforce and their communities. This requires a well-resourced and dynamic regulator that has the voice of affected workers represented within its governance structures.

Safeguard Mechanism only forms part of the climate policy framework

It is also important to recognise that the Safeguard Mechanism comes as just one part of the necessary response from government to the challenge of climate change. The Government has a range of other commitments to reduce carbon emissions from industry, in particular, by expanding renewable electricity generation and transmission, expanding the use of electric vehicles, and expanding Australia's renewable manufacturing capacity.

In addition to these measures, the ACTU supports the establishment of an independent and properly resourced national Energy Transition Authority to manage an orderly and fair transition process for affected workers. This must include supports for redeployment, skills and training, and secure job opportunities.

Beyond this, the ACTU also calls for the Government to:

- Develop a national renewables strategy, ensuring Australia becomes a renewable energy superpower with local industries, supply chains and good unionised jobs
- Build a national disaster response capability that seeks to mitigate, prepare for, respond, and recover from extreme weather events
- Take a leading role in developing climate mitigation and adaption policies and programs
- Ensure that industries and households have access to reliable and affordable energy
- Reach a net-zero emissions public service by 2030, with full engagement of workers.

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