

Australian Government Department of Climate Change,  
Energy, the Environment  
and Water

Submission via the Department's Consultation Hub

20 September 2022

### **Re: Safeguard Mechanism Reform Consultation, August 2022**

Rio Tinto welcomes the opportunity to make a submission to the Department of Climate Change, Energy, the Environment and Water ("the Department") on the Safeguard Mechanism Reform consultation paper (the "Consultation Paper").

The Consultation Paper outlines how the reform of the existing Safeguard Mechanism will play an important role in reducing Australia's greenhouse gas emissions by 43% below 2005 levels by 2030 and meeting Australia's commitment to reach net zero by 2050. Rio Tinto supports the use of a reformed Safeguard Mechanism as part of a suite of policy measures to incentivise genuine industrial abatement.

Rio Tinto has financial interests in 20 facilities covered by the Safeguard Mechanism including aluminium smelters, alumina refineries, bauxite mines and iron ore mines and rail, marine shipping and ERA uranium mine closure activities. These facilities in total represent ~8%<sup>1</sup> of the covered Scope 1 emissions in the Safeguard Mechanism.

Rio Tinto acknowledges that we have an important role to play in this emissions reduction transition and thanks the Department for the opportunity to be involved in contributing to policy discussions. We align with the objectives of delivering reform that is effective, equitable, efficient and, where possible, simple.

### **Our Climate Action Plan**

Rio Tinto is committed to decarbonising our assets and has committed to the following reduction targets:

- Reduction in Scope 1 & 2 emissions by 15% by 2025
- Reduction in Scope 1 & 2 emissions by 50% levels by 2030
- Net zero by 2050

These targets cover our global business on an equity (financial ownership) basis, and are measured against a 2018 base year.

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<sup>1</sup> 2020-21 Safeguard facilities public reported data.

Rio Tinto is a signatory to the Paris Pledge for Action in 2015, and supported the outcome agreed by 195 governments at the international climate negotiations at COP21. Rio Tinto also signed the International Mining & Minerals Council (ICMM) Climate Change Position statement in 2021 which includes commitments to accelerate action and reduce to net-zero by 2050 or sooner.

Our most recent Climate Change Report, published in February 2022, provides detailed information on our Climate Change Plan, our progress so far on abatement, and how we are preparing our business for a low-carbon future.

Included in the public commitments<sup>2</sup> we have made are:

- To phase out purchase of diesel haul trucks and locomotives by 2030
- To spend US\$7.5bn capital in carbon abatement projects
- Deploy solar and wind at scale targeting 1GW in the Pilbara
- Investigating green repowering solutions for our Boyne Island and Tomago smelters
- Progress abatement projects for emissions from process heat, mobile diesel, anodes and reductants
- Scale up the ELYSIS™ inert anode smelting technology for installation
- Reduction in shipping emission intensity by 40%<sup>3</sup> by 2025
- Approve introduction of LNG dual-fuel vessels to our shipping portfolio

Greenhouse gas emissions reduction through operational and capital abatement projects, investment in renewables and new technologies are all fundamental decarbonisation strategies to achieve our global climate change goals. Some of these initiatives will directly impact Scope 1 emissions in Australian operations in the short term, but delivery of a number of new technology solutions in hard-to-abate activities will be closer to 2030 or later. The large scale of our investments in renewable energy and, potentially, green powering solutions will have significant impacts on Rio Tinto and Australia's overall emissions but currently have no recognition or credit within the Safeguard Mechanism.

### **Safeguard Mechanism Reform Key Positions**

Rio Tinto is supportive of reforming the Safeguard Mechanism and welcomes the opportunity to work with the Department to ensure that the policy design prevents carbon leakage by maintaining business competitiveness and Australian jobs, including ensuring the continued financial viability of emissions-intensive trade-exposed industries (EITEs) such as aluminium smelters and alumina refineries.

To facilitate meeting Australia's emissions reduction targets, Rio Tinto is supportive of resetting baselines to remove the aggregate headroom referred to in the *Consultation Paper* which is the difference between the Safeguard facilities' actual emissions and baselines. Our view is that while the headroom reduction in the aggregated number is important, unless the policy design also deals with the individual facility and industry sector headroom it would lead to large disparity in starting positions under the reformed Safeguard mechanism for facilities that are competing internationally.

**Getting the emissions baselines re-set at the start of the scheme with every covered facility having a facility-specific production adjusted baseline is fundamental to providing a fair and**

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<sup>2</sup> [Rio Tinto Climate Change Report 2021](#)

<sup>3</sup> 2008 baseline in line with International Maritime Organisation targets

**equitable outcome that maintains competitiveness for Australian covered facilities.** This will enable the reduction of the aggregate headroom on a facility by facility basis and ensure that all future abatement activities are recognised appropriately allowing equitable crediting and trading of the Safeguard Mechanism Credits (SMCs) that will be generated in the reformed scheme.

Rio Tinto supports a production adjusted framework to allow for growth rather than a fixed baseline. Fixed baselines will not be supportive of the early reduction of the headroom, will require higher decline rates in the commencement of the reform to meet the Government's target and create the potential for SMCs to be generated for reducing outputs rather than genuine abatement. Between Option 1, "which would see all baselines set using industry-average benchmark values" and Option 2, "which would see all baselines set using facility-specific emissions-intensity values," in our view only Option 2 achieves the Government's stated policy objectives.

The sector-wide definition, boundary and acceptance of activities including alumina refining and aluminium smelting as EITE activities by the Department was done as part of the Renewable Energy Target (RET) and subsequently applied in Clean Energy Future Scheme (CEF). Rio Tinto believes that these activities have already been tested and should be viewed with the same Scope 1 & 2 boundary as per the original activity definitions.

Rio Tinto does not support the application of 'costs per unit of revenue' test as a new on-going qualifier for EITEs. Creation of new testing rules and definitions would lead to inconsistency between the RET and the Safeguard, which should be avoided, as well as an additional reporting burden. The dynamic nature of the London Metal Exchange (LME) and energy markets could create fluctuations in this proposed metric and create uncertainty and planning challenges for EITEs.

Decarbonisation pathways are not linear in our operations where significant abatement typically is achieved with large capital investment for transformational low emissions technologies that will result to lumpy steps in emissions reduction, especially for EITEs. Accordingly, consideration of direct SMC allocation and differential baseline decline rates for alumina refining and aluminium smelting EITE facilities will be important to remain competitive in Australia and internationally. For example, the step change to inert anodes in aluminium smelting will reduce Scope 1 emissions by ~ 95%; however this technology is still in the earliest stage of development and practical deployment of this technology in Australian smelters at scale will not be prior to 2030.

Rio Tinto supports the proposed inter-temporal flexibility and extended Multi-Year Monitoring Periods (MYMP) and view these as very important to help mitigate transitional impacts in hard-to-abate industries.

Our specific responses to the questions in the Consultation paper are set out in the Appendix of this Submission. Rio Tinto looks forward to engaging further with the Department on the content of the Consultation Paper. We would welcome the opportunity to discuss this submission with you further. In the interim, if you have any questions, please contact Zoe Godijn (Zoe.Godijn@riotinto.com).

Yours sincerely



Kellie Parker  
Chief Executive, Australia

## **Appendix: Further detail on specific matters from the Consultation Paper**

### *What should the Safeguard Mechanism's share of Australia's climate targets be?*

Safeguard facilities should contribute to Australia's emission targets and support the reduction of emissions by 43% by 2030 against a 2005 base year for Australia to meet its international Nationally Determined Contribution (NDC) obligation under the Paris Agreement. When considering what contribution the Safeguard changes should deliver it is important to recognise this is a national target which covers both Scope 1 & 2 emissions, and the Safeguard facilities Scope 1 emissions are only 28% of the overall national greenhouse gas emissions inventory. Each sector of the economy will need to contribute to deliver the required national abatement outcomes.

The changes to the Safeguard Mechanism should provide a framework for industries that incentivises decarbonisation while maintaining jobs and industry competitiveness to support the substantial technological transformation needed by 2030 and then beyond to 2050.

### *Should we retain, and build on, the existing production-adjusted (intensity) baseline setting framework or return to a fixed (absolute) approach?*

Rio Tinto supports retaining and building on a production-adjusted (intensity) framework.

### *Views are sought on the proposal to reset baselines in a way that removes aggregate headroom so crediting and trading can commence when baselines start to decline.*

Rio Tinto strongly supports setting baselines for existing facilities following Option 2, which would set baselines using facility-specific emissions-intensity values.

Default industry emission factors are historical and to continue to use them leads to a disparity where some facilities have excessive emissions headroom and the possibility of gaining SMCs for business-as-usual operations. There are a variety of reasons why a facility could be above industry average emissions including technology, capital infrastructure, plant age, location and access to affordable fuel alternatives. Use of industry defaults would lead to potentially high financial impacts to those above the default industry average immediately with less incentive for those below the baseline to abate. This is contrary to the policy principle of an equitable distribution of costs and benefits as stated in the Consultation Paper.

### *What are the advantages of best practice, industry average benchmarks, or alternative approaches for baselines for new entrants, noting that a final decision will be informed by baseline setting arrangements for existing facilities?*

There are a range of challenges in setting best practice and industry benchmarks for those defined as meeting the new facility criteria. As an example, mining operations can have inherently different haul distances and material quality. Differentiation should also be considered as to how to manage the baseline across different construction, commissioning, ramp up and operating stages of the operation if the facility qualifies during these stages to be a Safeguard facility.

New facilities could be given the opportunity to calculate a site-specific emissions intensity (like the calculated emission baseline method to determine emissions as intensity values from current emissions and production plans) and then have a decline rate applied to this like the other safeguard covered facilities. Since new facilities are likely to have been designed with optimal efficiency conditions, the policy should encourage expansions and new facilities with realistic abatement expectations.

Are there any other issues to consider with the proposal to allow the Clean Energy Regulator to automatically issue tradable credits to Safeguard facilities whose emissions are below their baseline, with crediting and trading commencing on 1 July 2023 subject to baseline setting arrangements that remove aggregate headroom?

The main issue to consider is whether facilities will have the baselines adjusted and headroom reduced in time for the conclusion of the first reporting year.

It is preferred if an existing register such as the Australian National Register of Emission Units (ANREU) can be modified to transact SMCs instead of creating a new alternative as this would reduce the administration burden for businesses.

Should banking and borrowing arrangements be implemented for Safeguard Mechanism Credits?

Rio Tinto supports banking and borrowing of SMCs as part of the proposed inter-temporal flexibility. The phased options that will allow a facility to borrow against its future below baseline credits would help to smoothen the transition due to lumpy decarbonisation pathways to actual emissions reductions.

Careful consideration of vintage and use rules around use of SMCs should be made to allow for MYMP mechanisms to work effectively.

Should Safeguard facilities no longer be able to generate ACCUs for reducing direct (Scope 1) emissions unless they have an existing registered ERF project?

Further, should no new ERF projects be able to be registered at Safeguard facilities? Additional feedback is sought on:

- allowing existing ERF projects at Safeguard facilities to continue to generate credits and retaining double counting provisions to prevent a facility from generating ACCUs and SMCs;
- options for the treatment of deemed surrender;
- continuing to allow Safeguard facilities to participate in ERF projects that reduce emissions from electricity use (Scope 2) emissions; and
- mechanisms to promote the transparency of the ACCU market, such as publishing unit holdings, to assist with market decision making, supply and cost effectiveness

Safeguard facilities should be able to generate ACCUs for projects that do not overlap with the Scope 1 emissions covered under the Safeguard Mechanism (e.g. land related abatement and Scope 2 electricity / energy efficiency excluding electrification which reduces Scope 1 covered emissions). These generated ACCUs should not be added to the actual Scope 1 emissions as is currently done to calculate the net emissions position or liability in relation to the facilities baseline since they do not include Safeguard covered emissions nor are these included in the baselines.

Facilities with existing ERF projects, especially those with delivery contracts with the Government, should have the option to continue to generate ACCUs under transitional arrangements and retain the double counting rule until the project's abatement crediting period has ended or the project is withdrawn.

Rio Tinto supports the transparency of reporting for ACCUs generated and ACCUs surrendered against a facility as per current public reporting for Safeguard facilities. However, ACCUs and SMCs holdings in the ANREU accounts should be considered commercially sensitive and not be made available publicly and must continue to be controlled by the Clean Energy Regulator (CER) as per current regulations.

If the eligibility for Safeguard facilities to apply for projects changes to exclude covered emissions, it will effectively take away a project support and enabling mechanism by which to achieve industrial process improvements such as what is covered by the Industrial and Commercial Emissions Reduction (ICER) ERF method and the Facilities Method. Consideration should be given to whether alternate funding or support initiatives (that do not generate ACCUs) could be deployed. This would be to assist with industry Scope 1 emissions abatement and energy efficiency projects that would not likely occur in the reformed scheme without assistance, which do not currently fit within the brief of renewables and new technology funding schemes.

*Should international units be able to be used for compliance under the Safeguard Mechanism at a future time, noting that any decision would depend on the rules for international trading?*

Rio Tinto would welcome the option and flexibility of being able to use international offsets provided they are high-quality verified credits from reputable sources. We would support changes to the legislative frameworks to allow for this as a future possibility within the Safeguard Mechanism.

*Should a facility-specific comparative impact assessment that builds on existing EITEs definitions be used rather than a sector wide designation?*

As discussed earlier in this submission, Rio Tinto supports using the current qualification, boundary definitions and sector-wide recognition of EITE activities that has already been tested and established under RET. Rio Tinto does not support the use of an additional 'costs per revenue test' to determine if a facility is EITE as this brings uncertainty and continuously evolving competitiveness criteria in addition to the additional reporting complexity. Using current definitions should not create over allocations under production-adjusted facility-specific emissions intensity baselines but could be problematic if all baselines are set using an industry average benchmark.

*Would additional funding opportunities effectively assist EITE facilities to adapt to declining Safeguard baselines? What kinds of funding, finance or other arrangements and measures would best support EITE Safeguard facilities to reduce their emissions? In particular, what potential design features of the Powering the Regions Fund would support covered facilities with their decarbonisation priorities*

Alumina refining and aluminium smelting require large step changes in new technology and first industrialisation and commissioning of these solutions which, even with low-emission technologies funding, will require high capital investment, and significant time and business risk. Accordingly, Rio Tinto supports the proposed low emissions technology funding as a complementary policy to the reformed Safeguard Mechanism, alongside levers within the reformed Safeguard mechanism to support the high levels of investment required in abatement and to manage the timetable for technology development and deployment.

Rio Tinto suggests a review of existing funding programs to expand the eligibility criteria for funding schemes to be more inclusive of a larger range of projects. Any efforts to improve and simplify application processes would also be welcome.

Several of the larger funding programs have a focus on electrification with renewables (Scope 2) and new technologies. Funding programs that help to reduce the financial hurdles for businesses to part fund Scope 1 emissions reduction such as electrification of equipment, studies on complexity of retrofitting existing equipment, and funding to replace capital equipment with more efficient or different designs ahead of their expected end of life would also be of interest for all facilities, not just EITEs.

*Is the direct provision of SMCs an appropriate way to mitigate cost impacts for EITE facilities?*

For alumina refining and aluminium smelting to remain competitive in a global economy, a combination of direct provision of SMCs, differential decline rates and multi-year monitoring would need to form part of the short to medium term support for these EITE facilities.

To the extent that the preferred pathway of the Government to deliver this support is via direct provision of SMCs, Rio Tinto is supportive of a more targeted approach tailoring the allocation of SMCs by EITE activity due to the specific hard-to-abate limitations each EITE industry has rather than a blanket allocation for all EITE activities.

*Are differential decline rates an appropriate way to reduce the impact on EITE facilities? How could differential decline rates be structured so that emissions reduction and fairness outcomes are maintained?*

Differential decline rates implemented in phases characterised by a Phase 1 'soft start' are appropriate for EITE facilities with hard-to-abate processes to maintain competitiveness. This will help reduce compliance costs impact especially since the magnitude of potential liability relating to even a small reduction in baseline could be significant year-on-year. A potential way of tailoring an approach to declining baselines could be to understand the EITE activity site-specific intensity values in terms of sub-metrics and selectively apply different decline rates between process emissions and fuel use (as an example) to form a view on a more appropriate decline rate for the overall activity.

*Should multi-year monitoring periods be extended to allow facilities with limited near-term abatement opportunities to manage their own abatement path?*

Rio Tinto welcomes the extended MYMP arrangements such as that illustrated in Figure 6.1 of the Consultation Paper, where a facility-by-facility basis could be established on application based on "an assessment of available and emerging technologies in a sector or at a facility." Allowing facilities the flexibility to determine their own baseline trajectory and manage their own abatement paths within the multi-year compliance period that matches available and emerging technologies will be fundamental to EITEs in particular to manage competitiveness. The vintage rules around SMCs would need to be flexible enough to support a longer MYMP option.

*What are the appropriate characteristics for the decline trajectory to 2030 that can deliver the Safeguard Mechanism's share of Australia's climate targets, and the process for setting baselines post-2030?*

The policy design of declining site-specific intensity factors rather than fixed baselines is preferred. Due to the time that decarbonisation projects take to approve and implement, a 'soft start' with phase 1 at a slower decline and phase 2 at a faster decline is supported. This will give businesses time to mobilise resources to accelerate abatement actions to mitigate compliance costs.

*What transitional or other arrangements should be in place for site-specific production variables, including:*

- *whether the use of Government-defined production variables (prescribed in Schedule 2 of the Safeguard Mechanism Rule) should be mandatory from the start of Phase 1;*
- *whether transitional arrangements for facilities using bespoke, site-specific production variables should be considered for phase 1; and*
- *the proposal that only Schedule 2 production variables could generate Safeguard Mechanism Credits (SMCs)*

Rio Tinto does not support the use of Government-defined default production variables in Phase 1. The fairer approach to start the reform phase would be for facilities to use site specific factors.

The Schedule 2 production variable definitions are suitable for use on the basis from which to calculate site specific emissions intensities from. Facilities using Schedule 2 defined production

variables with facility-specific emission factors should be able to generate SMCs for being below their baseline.

*Are existing Government-defined production variables suitable for the Safeguard Mechanism to drive least cost emissions reductions?*

For phase 1 the Government-defined production variables are suitable for the Safeguard Mechanism. Further consultation should be conducted in the future relating to the appropriateness of lower level sub-metrics that may be more appropriate to track and report against.

*Should the inherent emissions variability calculated baseline approach be removed?*

No, the inherent variability baseline is important in supporting facilities when there are unexpected changes to material properties.

The existing MYMP is also an effective feature that allows all facilities to manage the impacts of step changes to abatement, process variability and unplanned disruption and should be retained and/or built upon.