



# **AHC Submission in response to the Safeguard Mechanism Reforms Consultation Paper.**

Australian Hydrogen Council  
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Submission to the Australian Government

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## About the Australian Hydrogen Council

The Australian Hydrogen Council (AHC) is the peak body for the hydrogen industry, with 103 members from across the hydrogen value chain.

Our members are at the forefront of Australia's hydrogen industry, developing the technology, skills and partnerships necessary to build Australia's hydrogen economy.



AHC regards the Safeguard Mechanism as one of the key drivers of Australian decarbonisation. The Safeguard Mechanism provides the legislative basis for incentivising emissions reductions and allowing fossil fuels to be displaced by low or zero emissions alternatives.

We note that the Safeguard Mechanism in its current incarnation has not been effective in driving emissions reductions from the industrial facilities covered and welcome the opportunity to engage in the consultation process to improve its effectiveness as Australia seeks to achieve net zero emissions.

## Hydrogen's role in emissions reduction.

Hydrogen's versatility as an energy carrier stems from the fact that it can be stored as a molecule and either combusted or converted to electricity via a fuel cell. This property lends hydrogen to applications across transport, stationary energy and as a manufacturing feedstock. Analysis from both Australia and overseas<sup>1</sup> suggests that hydrogen is particularly likely to play a role in decarbonising heavy industry such those covered by the Safeguard Mechanism.

Hydrogen is, currently less economic across a range of applications than the carbon emitting status quo. Consequently, policy reform is required to stimulate investment, not only in the production of clean hydrogen, but also in transitioning the technologies needed to facilitate its use, namely refuelling infrastructure, fuel cell electric vehicles and type B gas appliances.

AHC recognise that the primary role of the Safeguard Mechanism is to reduce emissions from industry and does not have a specific remit to encourage investment in hydrogen. We note however that a significant number of facilities covered by the Safeguard Mechanism operate in sectors which have the potential to lower emissions through the use of hydrogen. These include steel and aluminium production where plant and processes can be altered to operate using green hydrogen, the production of commodities including fertiliser which already use grey hydrogen as a feedstock and process heating across a range of industries.

For this reason, we consider that the Safeguard Mechanism has a role to play in driving the development of a clean hydrogen industry to assist in the decarbonisation of covered entities as well as helping the industry achieve the scale required for use in other uncovered sectors to be economic.

## Safeguard Mechanism settings

While making policy to incentivise emissions reductions, care must be taken to ensure that Australian industry remains competitive. Onerous imposts on industry will not only damage the Australian economy, but also undermine the emissions reductions objective as businesses may choose to relocate to jurisdictions which do not value carbon abatement.

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<sup>1</sup> Advisian, 2021. *Australian hydrogen market study Sector analysis summary*. Clean Energy Finance Corporation.

AHC has a number of specific comments on the settings required to ensure that the Safeguard Mechanism provides industry with a clear imperative to reduce emissions within a certain and achievable timeframe.

Noting the pre-commercial nature of the hydrogen industry, it is likely green hydrogen will make a relatively modest contribution to the 2030 target. As the hydrogen industry develops, the need for deeper emissions reductions will see green hydrogen play a potentially significant role. It is important that targets are set with a view to net zero by 2050 and that emissions budgets for set periods beyond 2030 (potentially five to ten years at a time) are established. This will help to provide a clear signal for investment in future abatement technologies. With this in mind, AHC support the continuation of the Safeguard Mechanism's 28% contribution to the emissions reduction task and the establishment of gateways and interim targets to establish a credible pathway.

AHC supports limited trading of Safeguard Mechanism Credits (SMCs) to ensure that both long-term and short-term abatement activities are incentivised. As noted above, the use of green hydrogen in steel or aluminium manufacturing requires considerable change to both process and plant and is subject to long term planning and investment. Trading SMCs will provide flexibility for facilities to make long term investment decisions based on the lifecycle of their existing plant in the knowledge that they have the ability to trade where other covered entities have overachieved in the short term. In line with this need to provide facilities with the flexibility in how they progress along their emissions reductions trajectories, AHC support the banking and borrowing of SMCs against future periods as this may be preferable to trading in some instances.

In order to compete in highly competitive international markets, Australian industry requires regulatory certainty and stability. For this reason, AHC supports the Australian Government's use of existing regulatory architecture, namely the Safeguard Mechanism to drive emissions reductions. In following with this approach, AHC support the proposal to allow existing registered ERF projects to generate ACCUs provided that measures which preclude double counting are retained. We consider however that the use of international offsets should be limited to ensure that an incentive for long term investment is retained. As noted in the Consultation Paper the integrity of international offsets is highly variable from one scheme to the next. Given the environmental imperative of decarbonisation, it is crucial that the Safeguard Mechanism delivers real, verifiable emissions reductions.

Furthermore, inclusion of international offsets provides a potential lower cost compliance option which will lower the overall value placed on emissions reduction. While it is crucial that industry is not overburdened by the cost associated with achieving reductions, it is similarly critical that low-priced offsets do not reduce the incentive for investment in abatement. The balance between these competing considerations should be struck through the robust modelling and setting of baselines and decline rates for emissions reductions which cannot subsequently be watered down through access to international offsets.

With further regard to the setting of baselines, AHC considers it important that baselines for new facilities provide neither advantages nor disadvantages relative to existing facilities. This principle would seem obvious however, it is easy to envisage a circumstance where covered facilities have overachieved in terms of abatement and consequently new entrant facilities are allocated generous baselines which reflect that incumbent industry has done significant heavy lifting. While banking

and trading of SMCs will likely ensure that abatement closely aligns with baselines and significant over or under achievement is unlikely to occur it is nevertheless important to state that the Safeguard Mechanism should be effectively neutral across all entities within an industry.

## Summary

AHC welcomes moves to recalibrate and refine the Safeguard Mechanism as a key policy to reduce Australia's carbon emissions. We consider that the Safeguard Mechanism can provide strong incentive for investment in abatement and drive the development of a clean hydrogen industry in Australia while providing industry with the certainty required to chart an achievable pathway towards significant emissions reductions.

We look forward to continuing to engage on this matter.

If you wish to discuss any element of this submission in further detail, please contact Joe Kremzer, General Manager, Policy on 0413 266 081 or email [jkremzer@h2council.com.au](mailto:jkremzer@h2council.com.au)