

## The unsafe Safeguard Mechanism

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And so, the Greens have joined the ALP in imposing additional carbon taxes on the top 215 greenhouse gas emitting firms. In passing the so-called Safeguard Mechanism, the voluntary program that the Coalition originally introduced is converted into a requirement on the nation's top mining and industrial firms to reduce their emissions by 30 per cent by 2030. Those emissions are said to be **137 million tonnes** a year. Their curtailment builds up to constitute 40 million tonnes a year. This is in addition to abatement measures already in place, which confer a subsidy on wind and solar, that has enabled those

energy sources to displace a quarter of the supply formerly provided by coal.

One way to meet the new reductions is by internal measures (for some firms, like AGL, this simply means closing down generation facilities). Alternatively, the targeted firms can supply or buy emission reduction certificates under one of the schemes managed by the Clean Energy Regulator and state governments.

The Commonwealth schemes create large-scale generation certificates (LGCs) and small-scale generation certificates (STCs) by requiring electricity retailers to include increasing shares of wind/solar energy in their supply mix. The certificates only have a value because governments have placed (hidden) regulatory obligations on consumers to buy them. Unlike goods offered in normal markets, the certificates have no intrinsic worth but confer a value of \$40-90 per MWh on the renewable supplies. That is more than the total average market price of electricity that prevailed before the subsidies themselves undermined the economics of supply from coal generation.

Anthony Albanese and Energy Minister Chris Bowen, drawing off faulty CSIRO analysis and the pressures of the renewables lobby, maintain that renewables are already the cheapest form of energy. That belief is largely behind their concoction of a \$275 per annum reduction in household energy prices that they claimed their ambitious renewable replacement policy would bring.

The irony of all this – and one the ALP and their media supporters missed – is that if renewables really were cheaper the subsidy these schemes confer on them and the penalties they impose on coal and gas would be an unnecessary cost.

The previous government introduced a further scheme, which was funded from the budget, that created Australian Carbon Credit Units (ACCUs) that confer a value on selected activities. The ACCUs, like generation certificates, subsidise high-cost measures thereby increasing the cost of living. Eligible activities include carbon capture and storage, converting farmland to bush, and capture of waste gas. The ACCUs have provided a cheaper means of meeting obligations but Greens in Australia and elsewhere have (correctly) come to view them as con jobs that are easily manipulated and provide no real emission reduction. Hence, as part of the deal to pass the Safeguard Mechanism, their use is to be sharply curtailed. Naturally, farmers and carbon capture subsidy seekers are spitting chips at their loss of taxpayer largesse.

The creation of new LGCs is the most likely alternative to shutting down facilities and moving production offshore (which, of course, brings no consequent reduction in emissions!). These will come at a likely price of around \$80 per tonne (roughly \$80 per MWh). The cost of the 40 million additional tonnes the 215 targeted facilities are to abate annually by 2030 would therefore be some \$320 million a year. As this would largely be imposed on the internationally tradable sector it will, of itself, severely dent the nation's competitiveness and income levels.

But the Greens boast that, through the concessions they have won in acceding to the government's measures, they will create additional damage. Some of this is due to the restriction on the use of the cheaper ACCU means of firms buying out their new liabilities under the Safeguard Mechanism. In addition, they claim that the government will be obliged to restrain all new or expanded coal and gas proposals.

The measures certainly introduce new machinery that intensifies the government's oversight and approval of new proposals. That is a real bonus for a government seeking to ensure support from major producers and to constrain their criticism. It also promises considerable new outlets for lobbyists in their roles of not-so-hidden persuaders and in confecting plans that get promising new proposals over the regulatory hurdles.

These outcomes constitute an Antipodean form of fascism. As a vehicle for greater economic control, the present government finds this irresistible but it will bog down the economy in the tentacles of political corruption and new layers of costs.