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Safeguard Mechanism Taskforce
Department of Industry, Science and Resources
GPO Box 2013
Canberra, ACT, 2601

Dear Safeguard Mechanism Taskforce

RE: Property Council submission to Safeguard Mechanism Reform consultation paper

The Property Council of Australia welcomes the opportunity to make a submission to the Safeguard Mechanism Reform process and we note the connection between this consultation and the ongoing Independent Review of Australian Carbon Credit Units by Professor Ian Chubb. An effective and equitable Safeguard Mechanism together with a robust offsetting scheme will both be crucial in meeting our national emissions reduction targets.

The Property Council of Australia is the leading advocate for Australia's largest industry – property. Our industry represents 13% of Australia's GDP, employs 1.4 million Australians and generates $72 billion in tax revenues. Property Council members invest in, design, build and manage places that matter to Australians across all major building asset classes.

Australia's property industry leaders are world leaders in sustainability. They have consistently led global ESG indices like the Dow Jones Sustainability Index and the Global Real Estate Sustainability Benchmark, which they have topped since its inception eleven years ago. Many of our leading members have ambitious sustainability strategies with commitments to net zero emissions by 2030 or sooner, with several portfolios having reached this milestone already.

The property sector collectively produces 23% of Australia's emissions[1] and while property companies are not directly captured by the safeguard mechanism, they are inevitably linked to captured entities through their supply chains. As the built environment electrifies and increasingly draws its electricity from renewable sources, reducing scope 3 emissions is becoming a key focus for our members. Embodied carbon made up 16% of the built environment's emissions in 2019, but without intervention this share will increase to 85% by 2050[2] at a time when reaching net zero will be essential. The

[1] Low Carbon Living CRC, Best Practice Policy and Regulation for Low Carbon Outcomes in the Built Environment, 2017.
[2] Green Building Council of Australia and Thinkstep ANZ, Embodied Carbon & Embodied Energy in Australia's Buildings, 2021.

safeguard mechanism will play a key role in ensuring that supply chains decarbonise in alignment with our net zero commitment.

The Property Council's immediate priorities in relation to the ongoing review are the following.

A sectoral net zero plan for the economy

With Australia committed to reaching net zero by 2050 and reducing our emissions by at least 43% by 2030 based on 2005 levels, there is a need to map out sectoral contributions to this achieve this objective in a coordinated way.

The Science Based Targets Initiative outlined a Sectoral Decarbonisation Approach (SDA) that allocates a carbon budget to different sectors.[3] This approach accounts for inherent differences between sectors' abilities to decarbonise in a given timeframe depending on availability of technology and mitigation potential. While this method applies at a company level, the principles can be expanded economy-wide. With the right policy framework in place, the built environment can use technologies that exist today to decarbonise rapidly.

The Federal Government should establish a comprehensive national plan, in conjunction with state and territory governments towards a net zero economy with sector specific requirements. The plan should encompass a range of measures that accelerate decarbonisation across all sectors and include interim science-based targets aligned with Australia's obligations under the Paris Agreement.

In the absence of a sectoral plan, maintain the 28% contribution of facilities covered by the Safeguard Mechanism

The 212 facilities covered by the Safeguard Mechanism produced a combined 137 megatons of CO_2-e in 2020-21, accounting for approximately 28% of Australia's national emissions.[4]

In the absence of a sectoral approach to emissions reductions, the percentage of emissions from captured entities should remain constant or decrease as we move to decarbonise our economy. We support the discussion paper's proposal that captured entities should have an emissions cap that is put on a trajectory to 99 megatons of CO_2-e by 2030 with a further trajectory to net zero by 2050.

However, this approach may overlook the opportunity to distinguish between the decarbonisation potential of captured entities based on the industry they belong to. It would also allow for avoidance approaches whereby an entity that emits over 100k tons of carbon could split into separate legal entities to avoid being captured by the Safeguard Mechanism.

A sectoral approach avoids setting arbitrary decarbonisation targets that neglect to account for industry specific opportunities and obstacles to reducing emissions.

The need for a robust framework to ensure the environmental integrity of carbon offsets

Most of the Property Council's larger members have net zero targets by 2030 or before. Their strategies involve reducing their demand for energy, removing fossil fuel from their buildings, and increasing their use of renewable electricity. Offsets can also form part of shorter-term strategies to decarbonise building operations where they still make use of fossil fuels and upfront carbon generated by construction activities.

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[3] Sectoral Decarbonization Approach (SDA): a method for setting corporate emission reduction targets in line with climate science. Methodologies -Book.indb (sciencebasedtargets.org)
[4] Clean Energy Regulator, 2022 Safeguard facility reported emissions 2020-21 (cleanenergyregulator.gov.au)

To ensure that our members' decarbonisation efforts are delivering real environmental outcomes, the offsets they rely on must be effective at reducing carbon emissions or removing them from the atmosphere. Australian Carbon Credit Units (ACCUs), as the Australian government-backed offset credit require high levels of integrity to ensure the effectiveness of our members strategies.

While there is a need to balance integrity and efficiency, to the extent possible, ACCUs should represent one tonne of carbon dioxide equivalent (CO2-e) avoided or sequestered that would not otherwise occur.

Recently, serious integrity issues have been raised by credible sources for the Emission Reduction Fund's three most popular methods: avoided deforestation, human-induced regeneration, and landfill gas. These three methods account for approximately 75% of the ACCUs issued to date, and the majority of the ACCUs purchased and contracted by the Clean Energy Regulator through the purchasing scheme.

The ERF's carbon offset generation scheme is essential to Australia's international commitments and our members' ability to reduce their carbon footprint.

We urge the government to conduct a thorough, independent investigation into the integrity of offsets and conduct necessary governance reforms to ensure the ERF generates real and additional abatement.

Key actions could include:

- **Amending or revoking low integrity methods**. Activity under low integrity methods should be suspended immediately to avoid further projects being registered. In particular, a strong focus should be on the three methods with the greatest uptake including, avoided deforestation, human-induced regeneration, and landfill gas.
- **Reviewing existing projects to ensure their integrity**. Revoking or varying the methods would stop the registration of any further low integrity projects. However, method changes do not apply retrospectively to existing projects. Existing projects with low confidence in their delivery of genuine carbon abatement must be reviewed and revoked if they are found lacking.
- **Investigating new, high-integrity methods within the built environment**. The built environment accounts for 23% of Australia's emissions and 50% of our electricity use. After over 1000 projects delivered under the ERF, not one is from the commercial buildings' method. The built environment displays significant opportunities for emissions reductions and should not be overlooked by Australia's principal carbon reduction framework.

The Property Council acknowledges the ongoing Independent Review of ACCUs by former Chief Scientist Professor Ian Chubb and will be lodging a more detailed submission to that process.

A cap on offsetting for captured entities

The Property Council recommends establishing a cap on the proportion of emissions that can be offset by a captured entity.

Captured entities should put an initial focus on abating their emissions through technology, using renewable energy and other, industry-specific approaches to mitigation. Offsetting should be a final recourse when other options have been exhausted. Further, offsetting should not be used to offset an overly significant proportion of the emissions of a captured entity thereby extending a business model that may not have a place in a decarbonised economy. We encourage the department to investigate establishing an absolute, or industry specific, threshold for the proportion of offsets that can be used by captured safeguard entities.

Aligning international offsetting provisions with Article 6 of the Paris Agreement when it is finalised

Article 6 of the Paris Agreement will allow countries to voluntarily cooperate with each other to achieve emission reduction targets set out in their Nationally Determined Contributions (NDC). Under Article 6, emission reductions that have been authorised for transfer by the selling country's government may be sold to another country, but only one country may count the emission reduction toward its NDC to avoid double counting.

International offsets should be permissible under the Safeguard Mechanism if the units are certified with high levels of integrity and can be formally transferred to Australia's NDC under Article 6 requirements. The government should also consider establishing limits on the proportion of offsetting undertaken using international credits as it could become a mechanism to avoid transforming our local economy and leave our economy exposed in a decarbonised world.

The rules for cross-border transfers under Article 6 are still in the process of being finalised. The Property Council recommends that this issue be revisited once the process is complete, and that the government take a precautionary approach to international offsetting in the meantime.

The Property Council would welcome further engagement on the issues raised above. Please reach out to Tim Wheeler, National Policy Manager on TWheeler@propertycouncil.com.au or +614 9173 1496 should you wish to discuss this submission in more detail.

Yours sincerely

Ken Morrison
Chief Executive