

3 February 2023

Powering the Regions Fund Consultation
Department of Climate Change, Energy, the Environment and Water
King Edward Terrace
Parkes
ACT 2600

RE: CONSULTATION PAPER: *POWERING THE REGIONS FUND CONSULTATION UPDATE – JANUARY 2023*

The Australian Petroleum Production and Exploration Association (APPEA) welcomes the opportunity to provide comment and recommendations on the Powering the Regions Fund Consultation Paper – *Consultation Update – January 2023*.

As the scope and design of the Powering the Regions Fund (PRF) advances, APPEA recommends strengthening and/or complementing the Safeguard Transformation Stream (STS) component with additional dedicated resources and design tailored to the emissions reduction needs of emissions-intensive, trade-exposed (EITE) facilities to ensure Australian industry remains competitive.

Supporting EITEs under the Safeguard Mechanism is critical to both maintaining the competitiveness of Australian industry as well as preventing emissions “leakage” from emissions intensive industry moving to jurisdictions with less onerous climate policies and targets. The STS component of the PRF aims to provide this support. In the form currently proposed in the Consultation Paper, the proposed budget, policy objectives and design for the STS may be insufficient to address the specific challenges faced by EITE facilities.

As noted in the Consultation Paper, many EITE facilities “*are part of strategic national industries [...] that provide key inputs to the clean energy supply chain and will be critical to enabling Australia to capture the benefits from a global net zero economy*”. If these facilities, including natural gas production and export facilities, cannot remain competitive it risks impacting Australia’s energy security, net zero transition, and the country’s economic development more broadly. It may also impact global climate mitigation efforts if carbon leakage occurs to other jurisdictions.

APPEA recommendations include:

- **The STS should be strengthened and/or complemented with additional dedicated resources to ensure Australian industry can remain internationally competitive**
- **The STS scope should take into account the nature and scale of international incentives for large-scale industrial emissions reductions**
- **The STS design should be aligned directly with its core policy objectives**
- **The technology neutral approach proposed for the STS is welcomed and should be applied across the whole PRF program**
- **Consideration should be given to non-financial barriers to project development, including regulatory streamlining, common user infrastructure and a stable investment environment**

APPEA and its members look forward to additional detail on the proposed PRF and STS and would welcome the opportunity to engage further on the scope and design of the fund as it advances.

Further detail on the recommendations of APPEA and its members are provided below.

APPEA POWERING THE REGIONS FUND CONSULTATION COMMENTS AND RECOMMENDATIONS

The STS budget for EITE support may need strengthening to support trade-exposed industries to remain competitive internationally and to prevent carbon leakage. The PRF includes \$600 million through the dedicated STS to support EITE facilities under the Safeguard Mechanism. The *Safeguard Mechanism Reforms Position Paper*, published in January 2023, suggests that around 80 per cent of the 215 large industrial facilities covered by the Safeguard Mechanism are considered EITEs using an activities-based assessment¹, equating to around 172 facilities in total. If all EITEs were to apply for support under the STS and if funding were distributed evenly between facilities, it would amount to \$3.5 million per EITE facility. In practice, not all applications for support would be successful and the funding is unlikely to be distributed evenly, meaning many EITE facilities may ultimately receive no support.

The twenty largest facilities covered by the Safeguard Mechanism emissions reduction costs out to 2030 may be significant, with actual emissions costs varying depending on the nature and technical availability of mitigation options at each facility. Estimated compliance costs for the largest facilities could be in the order of \$38 million to 2030 – based on an emissions abatement cost of \$35/tCO₂ – up to over \$80 million – if abatement costs were \$75/tCO₂ or if the Government cost containment measure was accessed. This figure could be as high as \$170 million in emissions reductions costs out to 2030 for the largest emitters under the Safeguard Mechanism. Even considering not all EITEs will be awarded funding and higher-emitting facilities might be allocated additional funds, \$600 million appears insufficient to fully support EITEs in a way that allows them to remain competitive internationally and prevents carbon leakage.

International incentives for large-scale emissions reductions are significant and risk impacting the competitiveness of Australian industry and diverting investment away from Australia. The recent Inflation Reduction Act (IRA) in the United States allocates US\$ 369 billion across a range of energy and climate change related programs.² Specific incentives under the IRA include tax-credits of between US\$ 50 - 85/tCO₂ for carbon capture, utilisation and storage (CCUS) on industrial facilities and power generation and up to \$180/tCO₂ for direct air capture and storage (DAC). Support for low-carbon hydrogen production under the IRA ranges from US\$ 0.60 - 3/kgH₂ depending on the CO₂ intensity of the hydrogen produced. Similarly, China has announced over US\$ 280 billion in investments in clean technology with the European Commission recently announcing the Green Deal Industrial Plan to provide comparable incentives.³ In addition to competing with jurisdictions with limited or no climate policies, the STS needs to take into account competition with countries and regions with significant incentives in place for industry to reduce emissions which risk diverting industrial activity and investment away from Australia.

The criteria for awarding funds under the STS should align with the overarching policy objectives of the component – for EITEs to remain internationally competitive. The core objective of the STS component of the PRF is to allow EITEs to remain internationally competitive and to prevent carbon leakage while meeting the Safeguard Mechanism emissions reductions requirements. The criteria used to award funds under the STS should therefore align with this objective, with a focus on level of trade exposure, emissions reductions requirements, and costs of emissions reductions. The Consultation Paper provides a number of proposed criteria that do not appear to be directly related to these outcomes, e.g., demonstration potential, workforce development, and broader regional economic and social benefit. If the policy aim of supporting EITEs is supplemented with a range of other, broader policy aims, the program risks sub-optimal outcomes that reduce the efficiency and

¹ Safeguard Mechanism facilities that meet at least the *Category 1: Trade Exposed* facilities requirements

² Inflation Reduction Act Summary – Energy and Climate Provisions

³ A Green Deal Industrial Plan for the Net-Zero Age

effectiveness of the program. Similarly, the requirement for matched funding under the STS may impact the policy objective of ensuring EITEs remain competitive.

The design of the STS component should accommodate the full range of abatement activities to be undertaken by EITEs as well as the complexities of their implementation. EITEs represent a wide range of activities with a wide range of emissions abatement options, that are not limited to capital projects. The STS design should accommodate the full range of abatement options EITE facilities have and how those costs flow through. These may include process improvements as well as opportunities such as fuel switching (e.g. diesel to HVO) with no capital or process change required – rather the additional expense derives from the cost difference of the fuels. The STS design should also acknowledge the complexity of commercial arrangements underpinning the large-scale projects that may be developed with the support of the program, such as CCUS projects which often have different equity structures than the underlying EITE facility. Ensuring these projects are accommodated in the available funding streams will be important to achieve the step-change in emissions reduction required.

The STS aim of supporting EITEs, and the broader aims of the PRF program, would not be adequately achieved by directing funding into other existing programs that have different policy objectives. In many cases existing programs are technology-specific e.g., Australian Renewable Energy Agency, or aimed at supporting research-scale projects e.g. the *Carbon capture technologies for net zero and negative emissions* program. The specific aims of the PRF as well as the STS, with a focus on regional development, technology deployment and actual emissions reductions, and supporting EITEs, are best addressed through a dedicated program.

The proposed competitive, ranking-based STS design may not be the optimal approach for a program that needs to support all trade-exposed facilities. A competitive, ranking-based program is an efficient way of selecting a sub-set of projects from a larger pool of applicants. The policy aims of the STS of supporting EITEs that risk losing competitiveness due to the Safeguard Mechanism compliance costs suggest that all eligible EITE applicants should receive some level of support. Accordingly, consideration should be given to structuring the STS in a way that provides support to all EITE applicants that meet a minimum threshold, rather than only a select, highest ranked few.

The technology neutral approach proposed for the STS is welcome and should be applied across the whole PRF program. The exposed facilities themselves are best placed to understand the most appropriate and effective mitigation options available. As noted in the Consultation Paper, these are expected to include activities such as fugitive emissions reductions, energy efficiency, renewable energy deployment, as well as step-change technologies such as CCUS and low-carbon hydrogen. Similarly, the STS should take a facility neutral approach, focused specifically on the aims of supporting EITEs under the Safeguard Mechanism, rather than prioritizing any one sector or emissions type.

The larger PRF program, including the Industrial Decarbonization Stream (IDS) as well as support for developing new clean energy industries should also take a technology neutral approach that accommodates technologies such as CCUS and low-carbon hydrogen that will be critical to emissions reductions across the economy, including from hard-to-abate industries where few alternative decarbonisation technologies are available. CCUS is also a critical component of the CO₂ removal (CDR) – negative emissions – technologies that can help to balance emissions across the economy that are prohibitively expensive or technically challenging to abate, including from agriculture and transport.

In parallel with the implementation of the PRF and STS component, consideration should be given to addressing non-financial barriers to project development, including regulatory streamlining, common user infrastructure and a secure, stable investment environment. The projects that will result in significant emissions reductions by EITEs, such as CCUS and low-carbon hydrogen production, are long-lead time, capital-intensive activities which will require a range of regulatory approvals to

proceed as well as potentially complex multi-party negotiations and contractual arrangements. In addition to awarding PRF and STS funding, the Government should also consider how regulatory approvals for these projects can be streamlined – with their outcomes reliable and robust – and how to ensure a stable and secure investment environment to give confidence to investors. This may include awarding some/all STS recipient projects with major project status to recognize the significance and importance of these projects to Australia’s energy security and low emissions future, and the broader economy.

The oil and gas sector would welcome additional detail on the scope, design and implementation arrangements of the PRF and STS, and on their interaction with Safeguard Mechanism reforms, as further information is available. Given the importance of the PRF and STS to the operations of the oil and gas sector and the ongoing competitiveness of the industry, APPEA would welcome the opportunity to engage further as the programs take shape. This would include understanding more about the interactions between the Safeguard Mechanism baselines, issuance of SMCs, STS component support, ACCU purchasing, cost containment measures, competition/complementarity with other emissions reductions programs, etc.

APPEA and its members look forward to additional detail on the proposed PRF and STS as it develops and would welcome the opportunity to engage further on the scope and design of the fund, and on how best EITEs can be supported.

Yours sincerely



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