December 3rd, 2024

To the Carbon Leakage Review expert panel,

Response to the second Carbon Leakage Review consultation paper

The Investor Group on Climate Change (IGCC) welcomes the opportunity to provide a submission on the findings of the Carbon Leakage Review, which assesses Australia's carbon and investment leakage risks and presents different policy options to address them – including a Border Carbon Adjustment (BoCA).

About IGCC

IGCC is a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments. IGCC represents investors with total funds under management of over $3 trillion in Australia and New Zealand and $30 trillion around the world. IGCC's members are the custodians of the retirement savings of around 15 million Australians.

Response

Overview

IGCC members appreciate that investment leakage is a key consideration of the Review. IGCC strongly supports the aims of the Review, and encourages the continued assessment of how a BoCA can support investment in the decarbonisation of Australian industry.

While the Safeguard Mechanism continues to drive deeper emissions reductions, there will be a 'green' premium for some transformational technologies for some time. Ensuring that Australian industry has strong incentives to decarbonise on a level playing field with other jurisdictions is in the national interest.

Establishing internationally comparative frameworks for addressing carbon leakage could not be happening in a more turbulent time, which makes it all the more important for the Australian Government to stay the course and continue collaborating with key trading partners on emission reduction policies.

As the Review rightly emphasises, a BoCA has a fairly limited sphere of effect in a single jurisdiction, but can be amplified as more trade partners establish consistent frameworks.

IGCC emphasises the need for the Australian Government to engage the region on the development of a BoCA trade bloc, working to decarbonise all emissions-intensive supply chains. The Review poses several lines of inquiry for the government to explore further with investors, industry and communities – in Australia and within the region.

In particular, the Australian Government should be a proactive stakeholder the development of BoCA's in China, South Korea and Japan. Adjustments in these markets will send strong price signals for the decarbonisation of iron and steel supply chains, where Australia is well positioned to capitalise on emerging markets for these green commodities.

There are additional complexities for commodities that are only partially covered by the Safeguard Mechanism, as noted in the Review. IGCC has advocated that the materiality test for being covered by the Safeguard Mechanism should be decreased over time[1]. The introduction of a BoCA is a good opportunity to reduce the threshold to cover more of the Australian economy, and should otherwise be considered in the 2026-2027 Safeguard reform period.

Phasing in

IGCC agrees that in the first instance, the most exposed commodities to both carbon and investment leakage be the focus of the BoCA[2]. IGCC also agrees that careful integration of the other commodities which are at-risk but are less pressing to address should be integrated in time. This should happen in a structured way, in conjunction with key trading partners, to harmonise policy regimes.

[1] IGCC's submission on the Safeguard reforms (2022), p. 9 [link].

[2] Which the Review has identified as cement, clinker and lime.

IGCC would like further clarification on:

- A realistic timeline for the implementation of a BoCA and when it will be ready for more detailed design engagement with business and investors,
- when ammonia and derivatives, steel and glass will be considered for a BoCA,
- how the Safeguard Review (in 2026-2027) will consider aluminium, refined petroleum and pulp and paper as commodities under a BoCA, and;
- clear timeframes for when a BoCA may be phased in for each commodity, including how this phasing will interact with the potential removal of Trade Exposed Baseline-Adjusted (TEBA) facilities.

IGCC agrees in principle that TEBA should be phased out for commodities that are no longer experiencing trade exposure risk, and would like clarity around the phasing approach to monitor how competitiveness is impacted by a BoCA. The approach will need to be tailored to the commodity, with consideration to how readily they respond to market signals, so that adjustments to shielding can be made as required.

As the Review has noted, the use of TEBA does reduce market signals for decarbonisation to the industries which it applies; the phaseout of which would be a positive step under a BoCA.

Australian carbon market

Some IGCC members have raised questions around the use of Australian Carbon Credit Units to pay liabilities under a future BoCA, and it is suggested that an impact analysis be undertaken on this design feature.

Understanding how increased demand for ACCUs may affect company behaviour in the market is important.

IGCC would like clarification on how increased complexity and administrative burdens may be handled if the Australian carbon market is opened to foreign entities.

Future Made in Australia

IGCC emphasises the importance of direct support through policies such as a Future Made in Australia or the Powering the Regions Fund in supporting export-facing industries to decarbonise – a

BoCA is but one element of the policy suite to improve markets of supply and demand for green products domestically and internationally.

For more information on this response, please contact Bethany Richards, Policy Manager (bethany.richards@igcc.org.au).

Kind regards,

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