

14 December 2023

Carbon Leakage Review Team  
Department of Climate Change, Energy, the Environment and Water (DCCEEW)  
By email: carbonleakagereview@dcceew.gov.au

Dear Sir/Madam,

## Public consultation on the proposed approach to assess and address carbon leakage risk, as part of the Carbon Leakage Review

### About ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members are Australian and international asset owners and institutional investors with over AU\$1 trillion in funds under management.

Through research, engagement, advocacy and voting recommendations, ACSI supports members in managing ESG investment risk and exercising active ownership to strengthen investment outcomes. Active ownership, including the management of climate-related risks, allows institutional investors to enhance the long-term value of retirement savings entrusted to them to manage.

This submission draws on ACSI's detailed engagement with listed companies in relation to their management of climate-related risks and opportunities, as well as detailed research into market practices. Our expertise is primarily in respect of Australian listed equities, with a focus on the ASX300, and our comments reflect that experience.

### Summary of ACSI's position

ACSI welcomes the release of the Carbon Leakage Review Consultation Paper ("Consultation Paper"). An effective transition in Australia will depend on the implementation of complementary and ambitious decarbonisation policies to incentivise emissions reduction. A carbon border adjustment mechanism (CBAM) will be an integral part of this shift. As Australia increases its decarbonisation ambitions, there is a risk of carbon leakage to jurisdictions without climate legislation, thereby frustrating the overall global and systemic aim of reducing emissions. Many Australian asset owners have substantial offshore investments. For Australian asset owners that have portfolio-level decarbonisation ambitions, it could be counterproductive to shift emissions from one part to another of their portfolios. ACSI is strongly supportive of measures to support real world decarbonisation in line with the Paris Agreement goal of limiting warming to 1.5°C. As part of this policy response, ACSI supports effective measures to minimise carbon leakage so that the commercial competitiveness of entities is not negatively impacted.

The policy options outlined in the Consultation Paper should be viewed as complementary actions to address the risk of carbon leakage. While a carbon border adjustment mechanism (CBAM) represents the central long-term response, product standards, multilateral agreements, and targeted funding will all play a role in encouraging decarbonisation and addressing carbon leakage. The design of the CBAM should be carefully considered so that it both encourages decarbonisation and provides strong support for a level playing field for Australian industries. ACSI considers that prioritising the inclusion of industries at high risk of carbon leakage is appropriate. It will also be important to consider other issues, such as the source and availability of emissions data, Australia's climate policies, and the design and effectiveness of CBAMs introduced in other jurisdictions.

Our responses to key issues raised in the Consultation Paper are outlined below.

### Australian industries at risk of carbon leakage

It is important that carbon leakage policies, particularly a CBAM, prioritise industries at greatest risk of carbon leakage in the first instance. We consider that an appropriately staged introduction of a CBAM will initially focus on the industries that are at highest risk of carbon leakage. Consequently, ACSI considers the inclusion of a focus on cement and steel in the Carbon Leakage Review's Terms of Reference is appropriate. ACSI considers that another area of focus for carbon leakage responses should be chemicals produced by Emissions Intensive Trade Exposed (EITE) facilities.

### Capacity of Safeguard Mechanism to mitigate carbon leakage risk

ACSI acknowledges that the Safeguard Mechanism includes some provisions to reduce the risk of carbon leakage, including:

- Time limited reduction in EITE baseline requirements, and
- Targeted funding to assist in decarbonisation efforts of EITE facilities in hard-to-abate sectors.

However, these provisions provide only a partial response to carbon leakage. They do not, for example, address the emissions embedded in imports that may compete with the products produced by Safeguard Mechanism facilities. These facilities may face competition from cheaper imports with higher levels of embedded emissions, or equally may relocate their facilities to jurisdictions without emissions reduction targets. In both cases, emissions are simply moving location rather than working to achieve the goal of decarbonisation and therefore not addressing the systemic risks posed by climate change. Consequently, ACSI considers that the Safeguard Mechanism on its own is insufficient to respond to the risks of carbon leakage. A suite of policy levers, which operate in support of Australian climate policy goals, is required to fully address the risk of carbon leakage in the long-term.

### Introduction of a properly designed CBAM is desirable

ACSI strongly supports the introduction of an appropriately designed CBAM. A well-designed CBAM will:

- **Level the playing field.** A CBAM, by incorporating a price for the emissions embedded in products, equalises the competition between Australian industries covered by emissions reduction requirements and imports that are of higher emission intensity.
- **Encourage emissions reduction.** The inclusion of an effective carbon price for the emissions embedded in products encourages decarbonisation and investment in technological developments that support that goal.

As noted in the Consultation Paper, the EU has introduced a CBAM, while other jurisdictions, including the UK and Canada, are contemplating the introduction of a CBAM. As decarbonisation efforts increase globally, Australian industries may lose their competitiveness if they do not have access to low emissions production capabilities. A CBAM should aim to provide long-term certainty and incentives to invest in the technology to enable low emissions production.

Key design features of an Australian CBAM, other than promoting equal (rather than preferential) treatment, should include:

- **Staged approach.** Industries most at risk of carbon leakage should be prioritised.
- **Utilise existing data.** A practical approach should be taken to the data required. It may be preferable to focus on industries in the first instance where well-understood data and systems are already in place.
- **Careful consideration of interaction with Australian climate goals and policies.** The design of the CBAM should consider its interaction with Australian emissions targets and climate policies, so that Australia's climate goals are supported at an holistic level. In particular, the interaction of the CBAM with the Safeguard Mechanism should be carefully considered to ensure that both mechanisms work together to support decarbonisation.
- **Utilise lessons from established CBAMs.** The EU provides a valuable case study on practical design requirements for CBAMs. Other jurisdictions that are more advanced in their planning, such as the UK, will also be valuable case studies.

## Other policies

A properly designed CBAM, while representing a sustainable, long-term response to carbon leakage, will take time to develop and then implement. Other complementary policy responses to carbon leakage will also be needed. ACSI supports the implementation of the policy levers (product standards, multilateral agreements, and targeted funding) identified in the Consultation Paper and expect all to be used in conjunction with a CBAM to respond to carbon leakage. There will need to be careful consideration of how these policies interact to support Australia's emission reduction goals, including the identification of any unintended effects. For example, while some targeted funding of decarbonisation efforts for hard-to-abate sectors will be useful, the funding should be carefully designed to avoid prolonging business cases that are no longer viable in a decarbonising world. ACSI would also expect funding to be a short-term policy, designed to de-risk investment in decarbonisation for hard to abate sectors.

I trust our comments are of assistance. Please contact me or Kate Griffiths, Executive Manager – Policy and Research ([kgriffiths@acsi.gov.au](mailto:kgriffiths@acsi.gov.au)) should you require any further information.

Kind regards,



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Chief Executive Officer  
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