

3 December 2024

Carbon Leakage Review Team
Department of Climate Change, Energy, the Environment and Water (DCCEEW)
Submitted online

Dear Sir/Madam,

Carbon Leakage Review: Consultation Paper 2

About ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members include Australian and international asset owners and institutional investors with more than \$1.9 trillion in funds under management.

Through our research, engagement, advocacy and voting recommendations, ACSI supports members in exercising active ownership, which enhances the long-term value of the retirement savings entrusted to them to manage. ACSI members can achieve value for their beneficiaries through genuine and permanent improvements to the ESG practices of the companies in which they invest.

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.

Overview

ACSI welcomes the second round of consultation by the Carbon Leakage Review. ACSI is strongly supportive of measures to encourage decarbonisation in line with the Paris Agreement goal of limiting warming to well below 2°C and pursuing efforts to limit the increase to 1.5°C. However, as identified in the Consultation Paper, there is a material risk that requirements to reduce emissions in Australia will encourage the shift of industrial production offshore to jurisdictions with less stringent climate policy settings.

Carbon leakage is an undesirable outcome from the perspective of asset owners who are exposed to global, systemic climate-related risks. To address carbon leakage, there is a need to develop a suite of policy initiatives that will both facilitate the decarbonisation of the Australian economy and ensure that key industries remain competitive.

Measures to address carbon leakage form part of a planned, orderly transition to a low carbon economy.

Possible role of a border carbon adjustment mechanism

ACSI supports the timely implementation of a border carbon adjustment (BCA) mechanism to promote the ongoing competitiveness of Australian producers transitioning to lower emissions production. A BCA should be designed to ensure that imports are subject to carbon costs which

are at least equivalent to the price faced by domestic producers under the Safeguard Mechanism, or other Australian carbon policies. An appropriately designed BCA would provide investors with greater confidence to support certain domestic decarbonisation initiatives.

ACSI agrees that a BCA should not apply to exports. As noted in the Consultation Paper, supporting exporters via a BCA would limit the effectiveness of the Safeguard Mechanism and could ultimately serve as a barrier to reaching net zero. However, other policy responses are justified to support export industries exposed to carbon leakage risks (see further below).

ACSI agrees that it is important that responses to carbon leakage risks are targeted. We are supportive of the detailed analysis set out in the Consultation Paper to assess which commodities are exposed to the most material risks and circumstances where a BCA may be effective. ACSI supports ongoing consultation by Government to understand evolving carbon leakage risks across the economy.

From the perspective of asset owners with diversified exposures across the Australian economy, ACSI is encouraged by the analysis presented in the Consultation Paper that the macroeconomic impact of a targeted BCA is not expected to be significant.

The Consultation Paper provides a robust evidence base to support the development of a BCA which is targeted and progressively phased in. ACSI notes that further in-depth work is required to design an effective BCA, including to consider:

- Administrative arrangements, including emissions reporting and verification processes, which balance accurate accounting with administrative complexity.
- Alignment with broader domestic decarbonisation policies, prioritising a coordinated and stable policy environment.
- Opportunities to facilitate interoperability with carbon border adjustment mechanisms (CBAMs) in other jurisdictions.
- An approach to recognising carbon costs incurred overseas.
- Implementation phasing across priority sectors.
- The compatibility of proposed approaches with Australia's obligations under bilateral trade agreements and World Trade Organisation rules.
- The potential impact on the broader economy as well as specific industries or regions.

ACSI encourages the Australian Government to prioritise implementation of a BCA. As part of this process, the Government should continue to consult stakeholders and should learn from the implementation of CBAMs in other jurisdictions, particularly practical challenges observed in the European Union.

We also encourage ongoing work to negotiate international cooperative approaches to addressing carbon leakage, including via OECD and the Climate Club initiatives.

Interaction with the Safeguard Mechanism

The Safeguard Mechanism is an important pillar of emissions reduction policy in Australia, providing incentives for reductions in the emissions intensity of industrial production over time. Trade-exposed baseline-adjusted (TEBA) arrangements provide certain producers exposed to carbon leakage risks with reduced baseline decline rates.

While appropriate in the near-term, TEBA arrangements limit the capacity of the Safeguard Mechanism to drive down emissions. If a BCA is introduced in Australia, it is therefore appropriate to phase out TEBA provisions for sectors covered by the BCA. As business decisions have already been made which incorporate TEBA baseline decline rates, phase out of TEBA provisions should be staged appropriately and clearly communicated.

Other measures to address carbon leakage

As noted in the Consultation Paper, broader policy responses will be necessary to manage carbon leakage risks. For example, exporters could face diminished international competitiveness if emissions reduction policies are less stringent in other jurisdictions.

ACSI acknowledges the conclusion put forward in the Consultation Paper that mandatory product emissions standards are unlikely to effectively address carbon leakage risks. Product emissions standards may however have a role to play in to achieve Australia's decarbonisation objectives.

ACSI is supportive of the principle that targeted public investment can address carbon leakage risks, including those faced by exporters. Public investment can address barriers to private investment, including by closing price gaps between existing products and those produced via lower emission processes (the 'green premium').

The Future Made in Australia initiative is an important step towards a coordinated approach to climate-related public investment. When making policy and investment decisions under this initiative, ACSI encourages the Government to be guided by its published National Interest Framework and well as significant public consultation. The Framework includes that the Government should focus on industries where Australia is expected to have a comparative advantage in a net zero global economy and where decarbonisation initiatives are currently prohibitively expensive on a commercial basis.

ACSI also notes that carbon leakage risks can be partly mitigated by coordinated and stable climate and energy policies. In particular, we support regulatory approaches which price emissions and encourage investment in least cost decarbonisation. It is also important that state and federal governments prioritise the orderly decarbonisation of the Australian energy system, while seeking to maintain affordability and reliability. These high-level policy principles are aimed at supporting long-term investment in Australian industry.

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

Kind regards,



Louise Davidson AM
Chief Executive Officer
Australian Council of Superannuation Investors