12 December 2023

Carbon Leakage Review team
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To whom it concerns,

CARBON LEAKAGE REVIEW – CONSULTATION PAPER

The Chamber of Minerals and Energy of Western Australia (CME) is the peak representative body for the resources sector in Western Australia. CME is funded by member companies responsible for 86 per cent of the state's mineral workforce employment.[1] In 2022-23 the WA resources sector accounted for 65 per cent of Australia's resources exports[2], half of Australia's resources investment[3] and 53 per cent of Australian resources employment.[4] The sector also accounted for 41 per cent of Australia's corporate income tax receipts by value in 2021-22.

CME recognises that climate change is a global challenge requiring coordinated action at international, national and sub-national levels. CME supports the Paris Agreement and its goal of limiting global warming to well below 2, preferably to 1.5 degrees Celsius, by reducing emissions to net zero as soon as possible and no later than 2050. Australia, as a signatory to the Paris Agreement, must actively contribute to this goal and fulfilment of its Nationally Determined Contributions (NDCs).[5]

Overview

CME members comprise 67 of the 72 Safeguard liable entities based in WA for the 2021-2022 reporting year and accounted for 97 per cent of WA's Safeguard Mechanism (SGM) facility emissions.[6] WA is responsible for 35 per cent of total covered emissions under the SGM, despite only having 10 per cent of the Australian population. This largely reflects the energy needs of the WA resources industry, which makes an outsized contribution to Australia's trade, state and national economies, and government revenues.

Under the reformed SGM, many CME members are classified as trade-exposed facilities so the Department of Climate Change, Energy, Environment and Water's (DCCEEW's) review into carbon leakage and the release of the Carbon Leakage Consultation Paper (Consultation Paper) is welcomed. Since CME members participate in many of the industries called out in the Consultation Paper including cement, ammonium nitrate, intermediate nickel, and alumina,[7] we are supportive of the review into policy options focused on reducing carbon leakage and ensuring Australia's climate policies do not reduce the competitiveness of our import-competing domestic industries, while enabling the transition to net zero.

CME welcomes the opportunity to provide a written submission to DCCEEW in response to the consultation paper. In preparing this submission, CME has sought feedback from member companies and consulted with the Minerals Council of Australia (MCA) noting their contribution to this review. This submission highlights the following issues raised by our member companies.

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[1] Government of Western Australia, *2022-23 Economic indicators resources data*, full-time equivalents onsite under State legislation, Department of Mines, Industry Regulation and Safety, 10 November 2023.
[2] Department of Energy, Mines, Industry Regulation and Safety (DEMIRS), *2022-23 Major Commodities Resource Data*, 10 November 2023. Australian Bureau of Statistics, *5368 International Trade in Goods*, Table 32a.
[3] Investment refers to capital expenditure as measured by gross fixed capital formation, current prices. Australian Bureau of Statistics, *5220 Australian National Accounts: State Accounts*, Table 25. Australian Bureau of Statistics, *5206 Australian National Accounts: National Income, Expenditure and Product*, Table 34.
[4] Australian Bureau of Statistics, *6291 Labour Force, Australia, Detailed*, Table 5.
[5] CME, Climate Policy.
[6] Inclusive of 65 industry member owned assets and two transport members operating in support of industry, data accessed from the *Clean Energy Regulator* on 24 November 2023.
[7] DCCEEW 2023, Carbon Leakage Review Consultation Paper, Department of Climate Change, Energy, the Environment and Water, Canberra, November. CC BY 4.0

Industry engagement will improve the outcomes of DCCEEW's carbon leakage review

CME understands that the release of the Consultation Paper is the first of two public consultations that will be undertaken as part of the carbon leakage review, with a second consultation focused on analysis, modelling, and assessment of policy options expected in mid-2024. The risk of this consultation schedule is that industry stakeholders may not have a specific opportunity to provide input into the scope, design, methods and assumptions underlying the analysis and assessment of policy options. CME has concerns that review outcomes and subsequent policy recommendations developed without sufficient industry consultation may unintentionally result in negative impacts for the resources sector.

CME recommends that all stages of the carbon leakage review are conducted in collaboration with industry to ensure policy recommendations do not result in unintended consequences and perverse outcomes. This collaboration could take the form of industry representation on DCCEEW's carbon review team and targeted consultation at key review milestones.

Carbon leakage policies should be aligned to national and international reforms

In October 2023 the world's first Carbon Border Adjustment Mechanism (CBAM) took effect in a transitional phase in the European Union (EU). In this transitional phase, EU importers of emissions intensive products (such as steel, cement, aluminium, and fertilisers) will be required to report the product's embodied emissions. The introduction of carbon tariffs on the emissions embodied within these imports is anticipated in 2026.

According to the consultation paper, DCCEEW proposes to present policy recommendations to government by Quarter 3 2024. By the time DCCEEW presents the findings of the carbon leakage review to government, the EU CBAM will have operated for one year. Within the same period, the Climate Change Authority's (CCA's) advice to government on Australia's next Nationally Determined Contribution (NDC) will be due, setting an emissions reduction trajectory to 2035 and foreshadowing the direction of future climate policies. Additionally, the publication date of the first year of data from the reformed Safeguard Mechanism will be approaching, and the first reporting year under Treasury's proposed Mandatory Climate-Related Disclosures will have begun. The cumulative impact of a multitude of reforms, not limited to those noted above, have resulted in significant changes to the compliance obligations of the resources sector, such as increasingly detailed reporting requirements and additional mandatory audits.

CME contends that there are three policy pillars that must be considered when conducting the carbon leakage review:

1. Domestic measures including SGM and Powering the Regions Fund (PRF)
2. Trade agreements coordinated via the Department of Foreign Affaris and Trade (DFAT) and
3. Standards bodies including the International Sustainability Standards Board (ISSB) and the Australian Accounting Standards Board (AASB).

With this in mind, CME recommends that the review:

- Incorporates early experience from the EU CBAM and reformed Safeguard Mechanism into the design of policy recommendations.
- Is conducted in collaboration with relevant government departments and agencies, including Treasury, CCA, and others, to ensure that policies to reduce the risk of carbon leakage are aligned and consistent with other Australian and state-based policy settings.
- Ensures policy settings arising from the carbon leakage review are carefully designed to avoid regulatory duplication and do not impose unnecessary costs to business.

It is critical that any policy recommendations arising from the carbon leakage review enable the resources sector to continue to operate in the context of ongoing reforms.

More information is required to support a carbon border adjustment mechanism

In principle, CME members would support policy options that protect strategically aligned and/or vulnerable domestic industries from carbon leakage, including a carbon border adjustment mechanism (CBAM) applied to imported goods. Many of our members belong to industries classified as trade-exposed by the Safeguard Mechanism. These industries make valuable contributions to the WA and Australian economy, and CME believes it is important that they are not disadvantaged due to differences in climate policies between Australia and our trading partners.

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However, as noted by MCA in their submission on the Consultation Paper, CME and our members are cognisant of the potential risks of introducing a CBAM on imports, such as:

- Retaliation measures with affected trade partners
- Supply chain disruptions for key materials and
- Increases to the cost of goods required for operations.

CME members have expresses concern that implementing import taxes may lead to trade tensions and disputes between countries. Trading partners adversely affected by an Australian CBAM may retaliate with their own trade barriers, contributing to escalating geopolitical tensions. Trade disputes may cause cost increases of imported goods beyond the applied tariff and shortages across critical supply chains. When considering an Australian CBAM, CME recommends DCCEEW collaborate closely with DFAT to assess trade dynamics and adherance to the regulations stipulated by the World Trade Organisation (WTO).

Supply chain disruptions driven by an Australian CBAM on imported goods may result in deteriorating trade relationships, import channels diverted to tariff-free jurisdictions, or overwhelmed domestic production. Supply chain impacts have the potential to create delays in key projects, including infrastructure and retrofitting projects that support decarbonisation. For example steel and cement, key materials proposed in the Consultation Paper to be subject to a CBAM, are critical components to the installation of wind turbines.

Constraints to the supply chain of these materials, or the higher prices likely to result from limited supply, could set back the rollout of key renewable energy projects. This would be counter to the overall aim of climate policies to reduce greenhouse gas emissions in line with Australia's ambitions to achieve net zero ambitions by 2050. CME recommends that the carbon leakage review consider possible risks and adverse impacts when designing any CBAM on imported goods, ensuring that strategic projects, such as those that progress industrial decarbonisation, are not negatively impacted by the policy.

It is worth acknowledging that the EU CBAM protects a vastly different economy to a prospective Australian CBAM. Australia's economy, including the majority of facilities covered by SGM, are export-dominated industries. These industries are more likely to face a disadvantage from a CBAM on imports, experiencing increased costs of essential goods, rather than receiving protection from the mechanism. The difference between the EU and Australian economy should be an important consideration when conducting the carbon leakage review. CME contends that a CBAM on imports is not a complete solution to the risk of carbon leakage, especially for export-focussed commodities, and should only be considered as part of a suite of policies.

CME considers that more information regarding the opportunities, risks, and effectiveness of a potential CBAM are required to confidently support such a measure. CME recommends that DCCEEW prepare clear guidance on the scope and coverage of a potential Australian CBAM, including an exhaustive list of the commodities under consideration and the mechanism by which it would be applied.

The carbon leakage review should include exports that support decarbonisation

CME believes that there is an opportunity to expand the current review to include policies that support export-focused industries that contribute to emissions reductions in other jurisdictions. For example, although magnetite iron ore requires more energy inputs for primary processing prior to export than hematite ore, it enables a significant reduction in carbon emissions during the steel-making process. Magnetite ore is required for steelmaking via direct-reduced iron, which can be powered by green hydrogen instead of traditional steel-making using coal. Green hydrogen is also a growing export-dominated industry in Australia that has potential to displace emissions-intensive industries in other jurisdictions, such as transport fuels and fertiliser. CME recommends that DCCEEW consider how the current review can be expanded to include policies that support magnetite, green hydrogen, and other strategic commodities that enable the export of carbon abatement.

Investment in technology innovation can reduce the risk of carbon leakage

CME recognises that trade-exposed industries are often denoted as 'hard-to-abate' industries that face the most challenging abatement task towards net-zero emissions, due to highly specific energy demands, complex chemical interactions, and/or limited commercially viable technology alternatives. Decarbonising Australia's hard-to-abate industries requires ongoing investment in low-emissions technology innovations. This investment must be targeted at each stage of development: research, pilot programs, and commercial demonstration. CME recommends that government consider expanding financial support for innovation in low-emissions technologies as an enabler for Australia's resources sector to reduce emissions in line with voluntary and legislated commitments while remaining globally competitive.

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The carbon leakage review should consider financial and regulatory enablers

As identified in the Consultation Paper, climate policies are not the only driver of carbon leakage: economic policies both within Australia and in other jurisdictions influence an economy's composition. Investment choices are made in an increasingly competitive global context for highly mobile funds, with some jurisdictions providing significant incentives and concessions for critical and battery minerals processing and downstream value chains to be established domestically. The most notable example is the United States' Inflation Reduction Act (IRA) of 2022. In the six months following the passage of the IRA, over US$45 billion in investments were announced across the critical minerals and battery supply chain.[8] Other international jurisdictions have responded to the Inflation Reduction Act with their own significant policy incentives to attract capital investment. This includes the European Union's Green Deal Industrial Plan,[9] the Republic of Canada's Canada Growth Fund,[10] and the Republic of Korea's range of tax incentives for qualifying investments in critical mineral and battery industries.[11]

Neither WA nor Australia have equivalent incentives, and we have an international reputation as a high-cost jurisdiction for project investment and production. While WA has some of the world's largest and highest quality mineral deposits, the opportunities from these endowments will only be realised if the cost settings relative to other jurisdictions are sufficiently competitive to attract highly mobile investment funding.

While the PRF funding streams may be a useful tool to bring forward abatement, the scale of funding is much smaller than the examples listed above and the timeframes for application and project completion are likely to limit proponents to those already sufficiently developed rather than incentivising new innovation. Therefore, both the scale of investment and longer timeframes need to be considered to support long term decarbonisation at SGM facilties.

To reduce the risk of carbon leakage and ensure Australia remains a stable and cost competitive jurisdiction, CME recommends that policy options considered in the carbon leakage review are expanded to include financial and regulatory enablers. The following policy options should be considered in the review:

- Additional financial incentives for technological innovation, such as grants and tax incentives.
- Increased funding for infrastructure that enables a low cost, reliable and globally cost-competitive energy system to support industrial electrification.

A voluntary rating scheme is a sensible precurser to a CBAM

A voluntary rating scheme, such as The National Australian Built Environment Rating System (NABERS) energy efficiency rating scheme, is a structured and standardised program designed to assess and communicate the performance of a product against an established measurement criteria.[12] Such schemes are typically initiated and overseen by relevant industry bodies or governmental agencies. A voluntary rating scheme on carbon performance of key commodities could be considered as a precursor to a potenatial CBAM and would provide an opportunity to develop the necessary conditions for an Australian CBAM to be effective. For example, standardised emissions accounting methodologies for key commodities, and an appropriate and reliable data transparency model for scheme compliance.

CME recognises that an Australian Guarantee of Origin (GO) scheme is currently under development, with recent consultation by DCCEEW on the GO scheme design and emissions accounting methodologies for both hydrogen production and renewable energy generation. CME understands that the GO scheme may be expanded to cover additional commodities in the future, such as those proposed to be covered by a prospective CBAM. The CME proposes that the GO scheme could be adapted into a standardised methodology for use in a voluntary rating scheme for emissions intensive commodities at risk of carbon leakage. Critically, the GO scheme must be developed in collaboration with trading partners to ensure emissions measurement and reporting standards are consistent across jursidictions, enabling it to be applied to exported goods.

The insights gained from a voluntary rating scheme can play a useful role in informing the government's decision-making regarding the potential need for a CBAM in the future. A voluntary rating scheme could act

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[8] The White House, Treasury releases guidance to drive investment in critical minerals and battery supply chains in America, 31 March 2023
[9] European Commission, The Green Deal Industrial Plan (europa.eu)
[10] Canada Development Investment Corporation, Innovative funding to help accelerate Canada's decarbonization strategy
[11] Price Waterhouse Coopers (2023), Worldwide Tax Summaries
[12] The NABERS rating scheme for commercial buildings presents an example of the impact of a voluntary rating system. The scheme provides a standardised and comparable measurement system to report on sustainability metrics of a commercial property, such as energy efficiency, water, and waste, with a highly-rated tenancy attracting a premium. The NABERS scheme has facilitated a reduction in energy consumption of 30-40% over 10 years for scheme participants, https://www.nabers.gov.au/about/what-nabers

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as a practical testing ground, allowing policymakers to observe the effectiveness of emissions accounting standards and transparency measures on a voluntary basis. Thus, the voluntary rating scheme not only serves as an opportunity businesses to demonstrate improving performance but also offers a valuable learning opportunity that can significantly contribute to shaping future carbon policy decisions.

CME recommends that a voluntary rating scheme, exampled by NABERS, that is reinforced by an expanded GO scheme, is considered by DCCEEW as a precursor to a potential CBAM. The impact and lessons learned from a voluntary rating scheme may support future assessments of Such as scheme presents an opportunity to market the carbon performance of Australian commodities without contributing to increasing mandated obligations.

Conclusion

While we welcome the Carbon Leakage Review, we recommend that all stages of the review are conducted in close collaboration with industry to ensure that policy settings support Australia's decarbonisation goals and maintain the international competitiveness of the WA resource sector.

If you would like to discuss the matters raised in this submission, or require any further information, please contact Adrienne LaBombard on 0400 912 525 or via email at A.labombard@cmewa.com.

Yours sincerely,

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Chief Executive Officer