



Department of Climate Change,  
Energy, the Environment and Water  
Carbon Leakage Review –  
first consultation

**submission**

December 2023





# DCCEEW: Carbon Leakage Review – first consultation

## submission

---

The Carbon Market Institute (**CMI**) welcomes this opportunity to provide feedback to the Department of Climate Change, Energy, the Environment and Water (**DCCEEW**) on its Carbon Leakage Review consultation paper (**Consultation Paper**), which opened for consultation on 12 November 2023.

CMI is an independent member-based institute that promotes the use of market-based solutions and supports best practice in decarbonisation to limit warming to 1.5°C. CMI's 150 strong membership includes organisations from across the entire carbon value chain, including primary producers, carbon service providers, legal and financial institutions, technology firms and emissions intensive companies.

CMI's Board annually updates the CMI's Policy Positions in consultation with, but independent of, members.<sup>1</sup> CMI also administers the Australian Carbon Industry Code of Conduct (**ACI Code**), which was established in 2018 to promote and steward consumer protection and market integrity.<sup>2</sup>

The positions put forward in this submission are CMI's views, independent of members, and do not represent any CMI individual, member company or industry sector.

### Strategic outlook

CMI supports the Government's commitment to investigate durable approaches to address carbon leakage risks as it continues to build Australia's climate policy architecture following foundational reforms to the Safeguard Mechanism that commenced in July 2023. We welcome the opening of this first consultation to support its Carbon Leakage Review (**Review**) led by Professor Frank Jotzo.

CMI recognises that the industrial sector faces the most immediate carbon leakage risks in the Australian economy under the strengthened Safeguard Mechanism. However, as emissions regulations and policies are introduced in adjacent sectors—for example, through the Government's forthcoming sectoral decarbonisation plans<sup>3</sup>—other activities in the economy may also face carbon leakage risks.

Mitigating carbon leakage risks will be critical to support the ongoing international competitiveness of a decarbonising Australian economy, as well as in ensuring Australia's strengthened climate policy suite is driving overall reductions in global emissions. As such, CMI continues to advocate for robust policy measures to prevent carbon leakage.<sup>4</sup>

---

<sup>1</sup> CMI's Policy Positions were updated in November 2023. See: CMI 2023, 'CMI Policy Positions', [https://carbonmarketinstitute.org/app/uploads/2023/11/CMIPolicy-Advocacy-Positions\\_FINAL-2023.pdf](https://carbonmarketinstitute.org/app/uploads/2023/11/CMIPolicy-Advocacy-Positions_FINAL-2023.pdf); CMI 2025 Strategy: Accelerating climate action, <https://carbonmarketinstitute.org/app/uploads/2022/12/CMI-2025-Strategic-Plan.pdf>.

<sup>2</sup> More information can be found on the ACI Code website: <https://carbonmarketinstitute.org/code/>.

<sup>3</sup> For more information on the Government's plans to develop six sectoral decarbonisation plans, see: DCCEEW 2023, 'Net Zero', <https://www.dcceew.gov.au/climate-change/emissions-reduction/net-zero>.

<sup>4</sup> As in: CMI 2023, 'CMI Policy Positions', [https://carbonmarketinstitute.org/app/uploads/2023/11/CMI-Policy-Advocacy-Positions\\_FINAL-2023.pdf](https://carbonmarketinstitute.org/app/uploads/2023/11/CMI-Policy-Advocacy-Positions_FINAL-2023.pdf); CMI 2023, 'Climate Change Authority: Setting, tracking and achieving Australia's emissions reduction targets submission', [https://carbonmarketinstitute.org/app/uploads/2023/07/FINAL\\_CMI-submission\\_CCA-2023-consultation.pdf](https://carbonmarketinstitute.org/app/uploads/2023/07/FINAL_CMI-submission_CCA-2023-consultation.pdf); CMI 2023, 'Safeguard Mechanism Rules: Consultation on proposed design submission',



## Review parameters and guiding principles

We support the description of carbon leakage provided in the Consultation as appropriate and will seek further feedback from our members on this matter ahead of further consultation.<sup>5</sup>

Given the continued evolution of Australia's climate policy suite across the Australian economy, we recommend that the Review should be guided by the following principles:

- effectiveness;
- durability and scalability;
- flexibility to accommodate evolving policy circumstances;
- fit-for-purpose for an Australian context;
- proportionate to material (rather than perceived) risks; and
- sequenced to phase in and ramp up over time as appropriate.<sup>6</sup>

## Australian policy options to address carbon leakage

With these principles in mind, CMI maintains our recommendation that the Australian Government work to ultimately introduce a carbon border adjustment mechanism (**CBAM**) (Policy Option 3.2), with early commencement for highly trade-exposed, essential industries, such as steel and cement.<sup>7</sup>

We recognise elements of the additional policy options canvassed in the Consultation Paper, in particular targeted public investment including direct subsidies (Policy Option 3.4), as well as multilateral and plurilateral initiatives that could reinforce carbon border protection policies (Policy Option 3.5). These may offer value as complementary supports or precursors to an Australian CBAM—particularly in fulfilling the immediate need to protect emissions intensive, trade exposed (**EITE**) industrial facilities under the reformed Safeguard Mechanism from carbon leakage.

CMI cautions that the existing measure under the reformed Safeguard Mechanism of extending trade exposed baseline adjustments (**TEBAs**) to highly cost impacted EITE facilities should be short-term only (Policy Option 3.1).<sup>8</sup> In the longer term, TEBAs would likely undermine facilities' longer-term global competitiveness by

---

[https://carbonmarketinstitute.org/app/uploads/2023/02/FINAL\\_Carbon-Market-Institute-submission\\_Draft-Safeguard-Rules-1.pdf](https://carbonmarketinstitute.org/app/uploads/2023/02/FINAL_Carbon-Market-Institute-submission_Draft-Safeguard-Rules-1.pdf); CMI 2023, 'Senate Inquiry: Safeguard Mechanism (Crediting) Amendment Bill 2022 [Provisions] submission', <https://carbonmarketinstitute.org/app/uploads/2023/02/Carbon-Market-Institute-submission-to-Senate-Inquiry-on-SMC-Bill.pdf>; CMI 2022, 'Safeguard Mechanism Reform – Consultation on draft legislation submission', [https://carbonmarketinstitute.org/app/uploads/2022/11/20221101\\_CMI-submission\\_Safeguard-Mechanism-Reform-consultation-on-draft-legislation.pdf](https://carbonmarketinstitute.org/app/uploads/2022/11/20221101_CMI-submission_Safeguard-Mechanism-Reform-consultation-on-draft-legislation.pdf); Safeguard Mechanism Reform – First Consultation submission', [https://carbonmarketinstitute.org/app/uploads/2022/09/FINAL\\_Safeguard-Mechanism-Reform-Submission-1.pdf](https://carbonmarketinstitute.org/app/uploads/2022/09/FINAL_Safeguard-Mechanism-Reform-Submission-1.pdf).

<sup>5</sup> The Consultation Paper defines carbon leakage as: "referring to production of emissions intensive trade exposed goods and commodities shifting from countries with more ambitious emissions reduction policies to those with weaker (or no) emissions reduction policies solely because of different policy settings." See: DCCEEW 2023, 'Carbon Leakage Review Consultation Paper', [https://storage.googleapis.com/files-au-climate/climate-au/p/prj2a056033efffb0b89f5fe/public\\_assets/Carbon%20Leakage%20Review%20consultation%20paper%20-%20November%202023.pdf](https://storage.googleapis.com/files-au-climate/climate-au/p/prj2a056033efffb0b89f5fe/public_assets/Carbon%20Leakage%20Review%20consultation%20paper%20-%20November%202023.pdf), p. 9.

<sup>6</sup> See more on the policy design principles in the Appendix.

<sup>7</sup> CMI 2023, 'CMI Policy Positions', [https://carbonmarketinstitute.org/app/uploads/2023/11/CMI-Policy-Advocacy-Positions\\_FINAL-2023.pdf](https://carbonmarketinstitute.org/app/uploads/2023/11/CMI-Policy-Advocacy-Positions_FINAL-2023.pdf); CMI 2023, 'Setting, tracking and achieving Australia's emissions reduction targets submission', [https://carbonmarketinstitute.org/app/uploads/2023/07/FINAL\\_CMI-submission\\_CCA-2023-consultation.pdf](https://carbonmarketinstitute.org/app/uploads/2023/07/FINAL_CMI-submission_CCA-2023-consultation.pdf); CMI 2023, 'Safeguard Mechanism Rules: Consultation on proposed design submission', [https://carbonmarketinstitute.org/app/uploads/2023/02/FINAL\\_Carbon-Market-Institute-submission\\_Draft-Safeguard-Rules-1.pdf](https://carbonmarketinstitute.org/app/uploads/2023/02/FINAL_Carbon-Market-Institute-submission_Draft-Safeguard-Rules-1.pdf).

<sup>8</sup> See: CMI 2023, 'Safeguard Mechanism Rules: Consultation on proposed design submission', [https://carbonmarketinstitute.org/app/uploads/2023/02/FINAL\\_Carbon-Market-Institute-submission\\_Draft-Safeguard-Rules-1.pdf](https://carbonmarketinstitute.org/app/uploads/2023/02/FINAL_Carbon-Market-Institute-submission_Draft-Safeguard-Rules-1.pdf).



slowing their requirement to decarbonise. This may ultimately undercut scheme-wide mitigation outcomes, as well as the Government's ambition to establish Australia as a renewable energy superpower.<sup>9</sup>

CMI therefore also recommends that the Review consider the appropriate timeframe and manner by which to phase out the TEBA measures and consider the merits of replacing these with a carefully designed combination of limited direct subsidies (where appropriate) and public investment schemes (Policy Option 3.4) that could complement an Australian CBAM (Policy Option 3.2). We would also welcome further consideration of reinforcing multilateral and plurilateral initiatives and cooperative arrangements (Policy Option 3.5).

While preferring an Australian CBAM as a long-term means to address carbon leakage risks, complemented by a combination of public investment, direct subsidies and reinforcing multilateral or plurilateral arrangements, CMI provides a detailed analysis of the benefits and drawbacks of all five policy options canvassed in the Consultation Paper in **Attachment 1** for the Review's consideration. Commentary is ordered from most appropriate to least appropriate policy option. **Attachment 2** that follows provides a table summarising responses to specific Consultation Paper questions.

To support the structural simplicity of this submission, we have evaluated the Powering the Regions Fund (**PRF**) within our commentary on Policy Option 3.4, although existing measures (Policy Option 3.1) under the Safeguard Mechanism include public investment programs (Policy Option 3.4) through the PRF.

### **Broader trade policy tools to support action**

Alongside considering the Review's feedback on durable approaches to mitigating carbon leakage risks to the Australian economy, CMI recommends the Australian Government consider the broader suite of trade policy tools that could accelerate progress towards climate goals under the Paris Agreement.

As Dr Ngozi Okonjo-Iweala, Director-General of the World Trade Organization (**WTO**) recently highlighted,<sup>10</sup> in a global economy characterised by higher borrowing costs due to increasing interest rates, trade offers a tool for delivering greater emissions reductions for each dollar spent. The WTO canvasses 10 policy tools that could accelerate progress through incorporation into Nationally Determined Contributions (**NDCs**) and National Adaptation Plans as countries look to ratchet national ambition.

CMI therefore urges the Government to:

- support the development of international standards to promote coherent regulations and alignment of financial and business approaches to net zero transition and the emissions intensity of specific products and industrial applications, noting the evolving work of the ISSB IFRS Sustainability Disclosure Standards and the ISO Net Zero Guidelines and the opportunity for WTO-recognised standards to overcome fragmentation;
- phase out all public fossil fuel subsidies and tax incentives; and
- support international cooperative initiatives to harmonise carbon pricing frameworks, including through the G7 Climate Club and the taskforce recently established by the WTO and other international monetary bodies that will create a methodology to determine global carbon prices and support equity across markets.<sup>11</sup>

<sup>9</sup> The Hon. Chris Bowen MP, Minister for Climate Change and Energy, 2023, 'Annual Climate Change Statement to Parliament', <https://minister.dcceew.gov.au/bowen/speeches/annual-climate-change-statement-parliament-0>.

<sup>10</sup> World Trade Organization (WTO) (2 December 2023), 'Trade Policy Tools for Climate Action', Available at: [https://www.wto.org/english/news\\_e/news23\\_e/publ\\_02dec23\\_e.htm#:~:text=The%20options%20include%3A%201\)%20introduc%20energy%20efficiency%20regulations%3B%204\)%20reviewing](https://www.wto.org/english/news_e/news23_e/publ_02dec23_e.htm#:~:text=The%20options%20include%3A%201)%20introduc%20energy%20efficiency%20regulations%3B%204)%20reviewing).

<sup>11</sup> See further Reuters (17 October 2023) WTO launching global carbon price task force - Okonjo-Iweala, Available at <https://www.reuters.com/sustainability/wto-launching-global-carbon-price-task-force-okonjo-iweala-2023-10-17/>.



Should you have questions or wish to discuss CMI's submission in greater detail, please contact Gabriella Warden (Manager, Research and Government Relations) at [gabriella.warden@carbonmarketinstitute.org](mailto:gabriella.warden@carbonmarketinstitute.org).

Yours sincerely,

A handwritten signature in black ink that reads "Kurt Winter".

Kurt Winter

**Director, Corporate Transition**



## ATTACHMENT 1

### **A best practice carbon leakage protection policy: An Australian CBAM [Policy Option 3.2]**

CMI advocates for a long-term solution to address carbon leakage akin to the European Union's CBAM, emphasising protection of high-exposure sectors.<sup>12</sup> An Australian CBAM should be carefully sequenced and draw on learnings from the EU. As noted in the Consultation Paper, the UK and Canada are also investigating material carbon leakage risks and the potential introduction of CBAMs to mitigate these that should also be drawn on.<sup>13</sup>

A phased approach to CBAM implementation, supported by complementary policy measures including direct subsidies (where appropriate, i.e., in the shorter term for highly cost impacted facilities during TEBA phase out) and targeted public investment, can protect the competitiveness of Australian industry without decelerating domestic industrial decarbonisation or damaging critical trade relationships. CMI makes specific recommendations on additional policy measures that would complement an Australian CBAM in latter sections.

Whilst the basis of an Australian CBAM could be founded on the EU CBAM, it is essential that the design features and introduction timeline suits the Australian context.

For example, the Consultation Paper notes that if importers' production emissions intensity is lower than that of domestic production, importers will be in a relatively competitive position under a CBAM.<sup>14</sup> It is therefore important that the Review consider a well-sequenced pathway for the introduction and phase in of a CBAM. CMI suggests that the Review explore whether introducing comprehensive targeted public funding initiatives to help accelerate the decarbonisation of EITE facilities may ensure these are not at a competitive disadvantage relative to imports under a CBAM.

Another benefit of a CBAM for addressing carbon leakage is that it is scalable and flexible to respond to current and future emerging risks and policy decisions. For example, if the Government made a policy decision to scale the Safeguard Mechanism to cover more sectors of the economy, the CBAM could similarly be extended to additional sectors. If the Government was to adopt emissions regulations in adjacent sectors that are distinct from the Safeguard Mechanism—such as for the agriculture and land sector<sup>15</sup>—the CBAM could still be expanded to support the competitiveness of these industries and protect against carbon leakage.

In the context of implementing an Australian CBAM, the mechanism could impose a fee on imports at the border (equal to the carbon embedded in the good multiplied by the difference in carbon compliance price). The funds generated from a CBAM operationalised in this way could then be directed towards support for decarbonisation efforts in Australia or in key trading partners (supporting international climate finance obligations), or a combination of both.

---

<sup>12</sup> Carbon Market Institute (CMI) 2023, 'CMI Policy Positions', [https://carbonmarketinstitute.org/app/uploads/2023/11/CMI-Policy-Advocacy-Positions\\_FINAL-2023.pdf](https://carbonmarketinstitute.org/app/uploads/2023/11/CMI-Policy-Advocacy-Positions_FINAL-2023.pdf)

<sup>13</sup> DCCEEW 2023, 'Carbon Leakage Review Consultation Paper', [https://storage.googleapis.com/files-au-climate/climate-au/p/prj2a056033efffb0b89f5fe/public\\_assets/Carbon%20Leakage%20Review%20consultation%20paper%20-%20November%202023.pdf](https://storage.googleapis.com/files-au-climate/climate-au/p/prj2a056033efffb0b89f5fe/public_assets/Carbon%20Leakage%20Review%20consultation%20paper%20-%20November%202023.pdf), p. 25.

<sup>14</sup> DCCEEW 2023, 'Carbon Leakage Review Consultation Paper', [https://storage.googleapis.com/files-au-climate/climate-au/p/prj2a056033efffb0b89f5fe/public\\_assets/Carbon%20Leakage%20Review%20consultation%20paper%20-%20November%202023.pdf](https://storage.googleapis.com/files-au-climate/climate-au/p/prj2a056033efffb0b89f5fe/public_assets/Carbon%20Leakage%20Review%20consultation%20paper%20-%20November%202023.pdf), p. 26.

<sup>15</sup> CMI notes that any carbon constraint applied to the agriculture and land sector is not expected in the near future, but lists it as an example of a trade exposed sector.



Another implementation option would be to require importers to acquire and surrender Australian Carbon Credit Units (**ACCUs**) relative to the carbon intensity of the good. CMI notes that this implementation option would depend on legislative amendments to allow for the international trade of ACCUs.<sup>16</sup>

Finally, CMI would recommend that any Australian CBAM be introduced along with a statutory requirement for regular review of the instrument to ensure it is efficient and meeting intended outcomes of supporting the competitiveness of Australian industry and minimising carbon leakage risks. We suggest that the Productivity Commission could be charged with such a regular review.

### **Complementary measures for an Australian CBAM: Targeted Public Investment [Policy Option 3.4]**

Well-designed public investment can accelerate ambition, drive the development of green technologies, and promote behavioural change on a global scale. Within public investment schemes, CMI notes that the Review should consider direct subsidies as a targeted means of preventing carbon leakage in cases such as for highly cost impacted EITE facilities under the strengthened Safeguard Mechanism.

Grant programs and similar models, such as those currently provided for under the existing PRF \$600 million Safeguard Transformation Stream (**STS**)<sup>17</sup> and \$400 million Industrial Transformation Stream (**ITS**),<sup>18</sup> are another means of provisioning public funding and investment. However, CMI notes that these can be inefficient; individual assessment of grant and funding applications can be administratively cumbersome.

We therefore encourage the Review to explore more efficient, targeted means of allocating public investment in decarbonisation to build on and complement the existing STS and ITS as part of the sequencing and supporting architecture of an eventual Australian CBAM.

The measured success of the *Inflation Reduction Act 2022 (IRA)* in the US demonstrates this and reaffirms the need for DCCEEW to assess and quantify opportunities to expand the provision of financial support for decarbonisation. CMI notes that the careful design of public investment policy is vital to ensuring financial support is accessible and impactful, and meaningfully supports domestic decarbonisation.

CMI appreciates a fiscal package at the scale of the IRA is perhaps less appropriate or feasible for Australia. Instead, we recommend the Review investigate innovative, targeted approaches to public investment that may accelerate the decarbonisation of Australian industry ahead of, and as an ongoing complement to, an eventual Australian CBAM. These innovating financing models may include carbon contracts for difference (CCfD)<sup>19</sup> and production subsidies.

---

<sup>16</sup> The Government is due to consult in late 2023 on amending legislation to allow high integrity international units to be held in the Australian National Registry of Emissions Units (ANREU) to provide a mechanism for these to be used to support Safeguard compliance at a future time, if warranted. See: DCCEEW 2023, 'Safeguard Mechanism Reforms Position Paper', [https://storage.googleapis.com/files-au-climate/climate-au/p/prj23cd662ff4387d8c254ae/public\\_assets/Safeguard%20Mechanism%20Reforms%20Position%20Paper.pdf](https://storage.googleapis.com/files-au-climate/climate-au/p/prj23cd662ff4387d8c254ae/public_assets/Safeguard%20Mechanism%20Reforms%20Position%20Paper.pdf), p. 3.

<sup>17</sup> Australian Government 2023, 'Powering the Regions Fund – Safeguard Transformation Stream Round 1: Funding for trade exposed Safeguard facilities to reduce emissions', <https://business.gov.au/grants-and-programs/powering-the-regions-fund-safeguard-transformation-stream-round-1>.

<sup>18</sup> Australian Renewable Energy Agency (ARENA) 2023, 'Powering the Regions Industrial Transformation Stream', <https://arena.gov.au/funding/powering-the-regions-industrial-transformation-stream/>.

<sup>19</sup> Carbon Contracts for Difference (CCfD) are a form of financing support that helps counterbalance carbon price volatility that may otherwise impede investment decisions, thereby supporting the financing of decarbonisation. For an explanation of CCfDs and examples in practice, see: ENGIE Impact 2023, 'Carbon Contracts For Difference To Boost Industrial Decarbonization', <https://www.engieimpact.com/insights/carbon-contracts-for-difference>.



The recent Capacity Investment Scheme expansion announced by the Government to accelerate renewable electrification of the grid is another example of a public investment program that should help to de-risk and accelerate investment in new renewable energy generation and capacity projects.<sup>20</sup>

Alongside investigating measures for addressing carbon leakage risks, CMI also encourages the continued consideration of how carbon pricing could be applied to the electricity generation sector to provide an additional complementary driver to accelerate the sector's transition. As Australia looks to ratchet its national climate ambitions, CMI believes Australia should broaden and deepen carbon pricing measures across the Australian economy, through further reform to the Safeguard Mechanism and/or complementary market-based mechanisms.

### **Worthy of consideration: Multilateral and Plurilateral Initiatives** [Policy Option 3.5]

CMI recognises the benefits to pursuing this option to support carbon border protection policies. Key benefits which may be realised include information sharing regarding the emissions intensities of commodities produced internationally, transparency in carbon compliance costs in other jurisdictions, and the advancement of ambition in national climate policies.

Although likely to be insufficient as a standalone measure, key policy options could benefit from international cooperation regarding emissions measurement and verification, information sharing, and the alignment of carbon pricing, amongst others. It is possible that CBAMs could support or connect to broader carbon clubs, for example.<sup>21</sup>

Additionally, Australia could leverage its position within existing forums such as the G7 Climate Club and other initiatives already in place for cooperation on climate-related matters canvassed in the Consultation Paper.<sup>22</sup>

### **Inappropriate measures for addressing carbon leakage: Existing 'TEBA' provisions under the Safeguard Mechanism** [Policy Option 3.1]

Existing measures under the Safeguard Mechanism include both differential baseline decline rates via the TEBA provision and targeted funding support through the PRF. However, this section focuses on the TEBA measures. Please see 'Complementary measures to support an Australian CBAM' above for more detailed commentary on the PRF's ITS and STS provisions.

CMI considers existing trade exposed, baseline adjusted (TEBA) measures under the Safeguard Mechanism are okay in the short term for minimising carbon leakage risks facing severely EITE facilities.<sup>23</sup> However, in the medium- to longer-term, CMI further notes that TEBA provisions—which grant differential, shallower decline rates for some facilities—may dilute the Safeguard Mechanism's scheme-wide decarbonisation driver and could hinder the ultimate goal of net zero emissions by 2050. TEBA provisions are also not flexible for expansion to address carbon leakage risks in other economic sectors.

---

<sup>20</sup> DCCEEW 2023, 'Capacity Investment Scheme', <https://dcceew.gov.au/energy/renewable/capacity-investment-scheme>.

<sup>21</sup> T Wildgrube et al. 2022, 'The EU CBAM and a climate club', <https://adelphi.de/en/publications/the-eu-cbam-and-a-climate-club-0>.

<sup>22</sup> DCCEEW 2023, 'Carbon Leakage Review Consultation Paper', [https://storage.googleapis.com/files-au-climate/climate-au/p/prj2a056033efffb0b89f5fe/public\\_assets/Carbon%20Leakage%20Review%20consultation%20paper%20-%20November%202023.pdf](https://storage.googleapis.com/files-au-climate/climate-au/p/prj2a056033efffb0b89f5fe/public_assets/Carbon%20Leakage%20Review%20consultation%20paper%20-%20November%202023.pdf), p. 32.

<sup>23</sup> Under TEBA provisions, facilities with an elevated carbon leakage risk can apply for a baseline adjustment to reduce the rate at which their baselines decline. Facilities can apply for a TEBA once their cost impact exceeds 3 percent of company revenue. In the initial design of the Safeguard Mechanism, a buffer built into the 4.9 percent decline rate minimizes risks that TEBA provisions will reduce the scheme-wide abatement outcomes of the reformed Safeguard Mechanism. See: CMI 2023, 'Safeguard Mechanism FAQs market brief', <https://carbonmarketinstitute.org/app/uploads/2023/01/CMI-Safeguard-Mechanism-FAQs.pdf>.





CMI cautioned against EITE support measures that would impact internal, scheme-wide decarbonisation drivers in our responses to iterative government consultation on the design and implementation of the Safeguard Mechanism reforms.<sup>24</sup> Instead, support should be provided from outside the scheme in the form of priority access to funding support and refund mechanisms to support facilities to recoup the costs of compliance where there is evidence the cost impact is severe.

We maintain these recommendations and do not consider existing TEBA measures under the Safeguard Mechanism to be durable or appropriate long-term solution for mitigating carbon leakage risks and recommends that these be phased out as part of the sequencing of a more durable approach, ultimately culminating in a CBAM.

CMI provides further comments on the existing public financing measures currently provided for EITE Safeguard-covered facilities under the PRF above, under Policy Option 3.4.

### **Less suitable for mitigating carbon leakage in an Australian context: Emissions Product Standards [Policy Option 3.3]**

CMI recognises the potential for emissions product standards to help address carbon leakage, and the global precedent for similar performance standards for imported commodities, as the Consultation Paper notes is being investigated by the international community.

We note the potential for product standards to regulate emissions from imported commodities and have supported the Government's efforts to introduce a mandatory fuel efficiency standard (**FES**) for light vehicles.<sup>25</sup>

CMI notes that, as evidenced in the Consultation Paper, many currently trade-exposed Australian products have a higher carbon intensity relative to those produced by international peers.<sup>26</sup> As such, implementing emissions product standards may be deemed protectionist and anti-competitive under WTO rules, should these standards be based on international emissions intensity benchmarks. This is because it would essentially require imported products to meet a more stringent standard than that met by Australian manufacturers.

Conversely, should emissions product standards be set based on Australian benchmarks, they may be ineffective or seek to encourage the import of higher emissions intensity products that could contribute to increasing Australia's overall emissions.

CMI therefore suggests that the Review assesses the feasibility of emissions product standards and any potential impact on domestic manufacturers if Australia was to adopt a globally recognised standard. In particular, CMI encourages DCCEEW to assess commodities whose emissions intensity is greater in Australia than the international market, which may result in adverse treatment for domestic manufacturers.

---

<sup>24</sup> CMI 2022, 'Safeguard Mechanism Reforms First Consultation', [https://carbonmarketinstitute.org/app/uploads/2022/09/FINAL\\_Safeguard-Mechanism-Reform-Submission-1.pdf](https://carbonmarketinstitute.org/app/uploads/2022/09/FINAL_Safeguard-Mechanism-Reform-Submission-1.pdf); CMI 2023, 'Safeguard Mechanism Rules: Consultation on proposed design', [https://carbonmarketinstitute.org/app/uploads/2023/02/FINAL\\_Carbon-Market-Institute-submission\\_Draft-Safeguard-Rules-1.pdf](https://carbonmarketinstitute.org/app/uploads/2023/02/FINAL_Carbon-Market-Institute-submission_Draft-Safeguard-Rules-1.pdf).

<sup>25</sup> CMI 2023, 'The Fuel Efficiency Standard – Cleaner, Cheaper to Run Cars for Australia submission', [https://carbonmarketinstitute.org/app/uploads/2023/06/2022.05.31\\_Carbon-Market-Institute-submission\\_Fuel-efficiency-standard-consultation.pdf](https://carbonmarketinstitute.org/app/uploads/2023/06/2022.05.31_Carbon-Market-Institute-submission_Fuel-efficiency-standard-consultation.pdf).

<sup>26</sup> Noting the exception of Australian alumina, which is comparatively low-emissions compared to international competitors. See: DCCEEW 2023, 'Carbon Leakage Review Consultation Paper', [https://storage.googleapis.com/files-au-climate/climate-au/p/prj2a056033e9ffb0b89f5fe/public\\_assets/Carbon%20Leakage%20Review%20consultation%20paper%20-%20November%202023.pdf](https://storage.googleapis.com/files-au-climate/climate-au/p/prj2a056033e9ffb0b89f5fe/public_assets/Carbon%20Leakage%20Review%20consultation%20paper%20-%20November%202023.pdf), p. 20.



Although CMI does not consider emissions product standards as a particularly appropriate approach to protecting EITE sectors in the Australian economy from carbon leakage risks, we would still encourage the Government to support the development of consistent international emissions standards that could support coherent approaches to regulation between jurisdictions in the future. Here, we note the evolving work of the ISSB and ISO Net Zero Guidelines, as well as the opportunity for WTO-recognised standards to overcome fragmentation.



## ATTACHMENT 2

Topic	Question	CMI Position
<b>1.1 Carbon leakage</b>	<b>Is the description of carbon leakage appropriate for the purpose of this Review?</b>	CMI views this description as appropriate but will seek feedback from its members on this matter ahead of further consultation.
<b>1.2 The Safeguard Mechanism</b>	<b>What is your view on how your business or industry could be affected by carbon leakage?</b>	CMI's membership is diverse, and the impact of carbon leakage would be expected to vary significantly across sectors. However, we believe CMI members would appreciate the need for a robust and transparent mechanism to address carbon leakage as it undermines Australia's ability to achieve positive economic outcomes while decarbonising.
<b>2.1 Relevant goods and commodities</b>	<b>Are there other goods or commodities beyond those identified as trade exposed under the Safeguard Mechanism that should be included in the assessment?</b>	CMI will consult its membership on whether additional goods or commodities should be considered for carbon leakage ahead of further consultation. Noting the changing national climate policy landscape, it is our preference that DCCCEW allows for changes to the classification of trade exposure over time and as appropriate.
<b>2.2 Assessing impacts of carbon leakage and policy instruments</b>	<b>Is this characterisation of the potential impacts of carbon leakage and instruments to address it appropriate for the purpose? Are there other aspects that should be considered?</b>	CMI agrees that assessing carbon leakage should look at economic effects domestically and in trade partner countries, alongside national and international emissions profiles under different policy scenarios. We would also recommend that assessments review the impact on the domestic carbon market, and changes to the proposed impact on carbon compliance costs under the Safeguard Mechanism.
<b>2.4 Analytical approach</b>	<b>What domestic economic effects from carbon leakage and policy approaches to address it are of particular importance for analysis and modelling?</b>	See above.
	<b>Would the analysis benefit from an assessment of impacts on bilateral trading partners and net global emissions?</b>	CMI encourages the inclusion on impacts on bilateral trading partners, complementing the 'international economic analysis' domain.
<b>3. Policy options to address carbon leakage risks</b>	<b>Are there additional policy options that should be considered alone or as part of a portfolio of approaches to address carbon leakage?</b>	<p>In exploring the best manner and timeframe for phasing out TEBA provisions under existing Safeguard Mechanism EITE measures, the Review could consider the short- to medium-term appropriateness of direct subsidies to help highly cost impacted facilities contain compliance costs.</p> <p>As CMI has previously suggested, subsidies to support compliance costs should be provided</p>



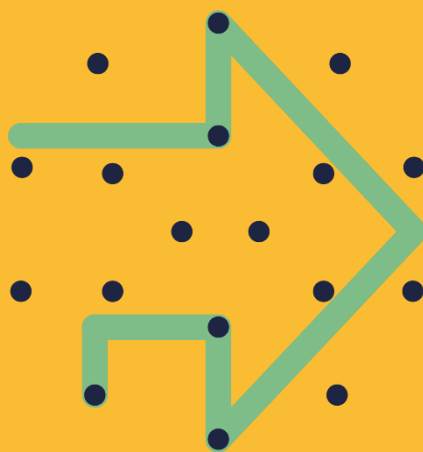
		<p>through a refund mechanism rather than upfront funding.<sup>27</sup></p> <p>We encourage DCCEEW to conduct a robust analysis of effectiveness and impacts of all five policy approaches (and the appropriateness of direct funding support) alone and combined, and the potential sequencing of a combination, rather than considering options in isolation.</p>
<b>3.1 Existing measures under the Safeguard Mechanism</b>	<b>What is the capacity of current policy settings of the Safeguard Mechanism to mitigate carbon leakage risk into the future?</b>	<p>CMI suggests that existing measures included as part of the revised SGM are broadly effective at mitigating carbon leakage in the short term. However, changes will be required to ensure they remain fit for purpose in the medium to long term. In particular, we consider the TEBA provision to be inappropriate in the medium to long term and recommend that this is phased out and replaced with other approaches to addressing carbon leakage risks, sequencing towards the introduction of a CBAM.</p>
<b>3.2 Australian carbon border adjustment mechanism</b>	<b>Is an Australian carbon border adjustment mechanism desirable? If so, which design features should be considered?</b>	<p>CMI is supportive of the development of a CBAM, considering an early commencement for high-exposed sectors such as cement and steel.</p> <p>Key design features can be leveraged from international best practice experience, particularly the EU, but also emerging approaches being explored by the UK and Canada.</p> <p>Care should be taken to ensure the CBAM designed for Australia is fit for our unique domestic context. Ongoing public funding measures may complement and reinforce the effectiveness of an Australian CBAM in protecting Australian industries from carbon leakage and supporting their competitiveness in a globally decarbonising economy.</p>
<b>3.3 Emissions product standards</b>	<b>What is the appropriate role for emissions product standards to mitigate carbon leakage?</b>	<p>Although CMI recognises the ability for emissions product standards to prevent carbon leakage as part of a portfolio approach, it recommends DCCEEW to assess the potential impact on domestic manufacturers of introducing this approach.</p> <p>The Review should consider approaches to addressing carbon leakage through emissions product standards with a view to ensuring recommendations are WTO compliant.<sup>28</sup></p>

<sup>27</sup> CMI 2022, 'Safeguard Mechanism Reform – First Consultation submission', [https://carbonmarketinstitute.org/app/uploads/2022/09/FINAL\\_Safeguard-Mechanism-Reform-Submission-1.pdf](https://carbonmarketinstitute.org/app/uploads/2022/09/FINAL_Safeguard-Mechanism-Reform-Submission-1.pdf).

<sup>28</sup> Please refer to: WTO n.d., [https://www.wto.org/english/tratop\\_e/envir\\_e/envt\\_rules\\_gatt\\_e.htm](https://www.wto.org/english/tratop_e/envir_e/envt_rules_gatt_e.htm).



		<p>CMI reiterates that even if emissions product standards are not the policy option deemed best to address Australia’s carbon leakage risks, the Government should support international initiatives, such as through the ISSB, to support globally harmonised approaches to emissions standards.</p>
<b>3.4 Targeted public investment in firms’ decarbonisation</b>	<b>What is the appropriate role for public investment measures to mitigate carbon leakage?</b>	<p>CMI acknowledges that the design of public investment policy is vital to ensuring financial support is accessible and impactful, and adequately supports domestic decarbonisation. Again, we highlight that public funding initiatives may complement the introduction of an Australian CBAM.</p> <p>Exploring other public investment measures, similar to the US IRA, as well as other innovative modes of public investment (CCfD, production subsidies, etc.) may be beneficial.</p>
<b>3.5 Multilateral and plurilateral initiatives</b>	<b>What is the appropriate role for multilateral and plurilateral initiatives to help to mitigate carbon leakage, and the impact of unilateral measures taken to address carbon leakage?</b>	<p>CMI notes the value of international cooperation as a parallel measure that could complement any mechanisms/policies selected to address carbon leakage risks.</p>
<b>4. Feasibility of policy options</b>	<b>What principles should guide Australian policies to prevent carbon leakage?</b>	<p>CMI considers that an approach to mitigating carbon leakage risks in Australia be guided by the following principles; the approach should be:</p> <ul style="list-style-type: none"> <li>• effective;</li> <li>• durable, flexible and scalable;</li> <li>• flexible to accommodate evolving policy circumstances;</li> <li>• fit-for-purpose for an Australian context;</li> <li>• proportionate to material (rather than perceived) carbon leakage risks; and</li> <li>• appropriately sequenced.</li> </ul>
	<b>Should other factors be considered to assess the feasibility of potential policies?</b>	<p>As required and if there are compelling reasons to, however the current scope is already broad and complex.</p>



## **for more information please contact**

Gabriella Warden

Manager, Research and Government Relations

[gabriella.warden@carbonmarketinstitute.org](mailto:gabriella.warden@carbonmarketinstitute.org)

+61 (0) 418 263 296

+61 (03) 8601 1142

The Carbon Market Institute is at the centre of climate change policy and business in Australia. Independent and non-partisan, we bring business, policy makers and thought leaders together to drive the evolution of carbon markets towards a significant and positive impact on climate change.

Engaging leaders, shaping policy and driving action, we're helping business to seize opportunities in the transition to a low carbon economy.



**Carbon  
Market  
Institute**