

Safeguard Mechanism - Summary Position

Australian Aluminium Council, March 2023

The focus of policy design for Safeguard Mechanism should be on establishing a framework to maintain industry, jobs and competitiveness while also decarbonising, through the period to 2030 and beyond to achieve net zero by 2050. The success of this policy will not be measured in 2030 alone, but in the transformation of Australia's industry in the biggest clean industrial and economic revolution this country has seen.

Tailored treatment for emissions-intensive, trade-exposed (EITE) businesses

The Government's stated policy intent is to provide "tailored treatment" for EITE industries based on comparative impact and to help ensure businesses are not competitively disadvantaged, and that emissions do not 'leak' overseas. The proposed design does not achieve this policy intent and must be addressed, otherwise Australia risks exporting production, jobs and emissions.

The proposed Trade Exposed Baseline Adjusted (TEBA) test uses revenue as the denominator. Revenue is a poor metric for manufacturing industries, like aluminium and alumina, which have high revenue but thin margins. It does not take into consideration the profitability of the facility, the limitations of the facility to abate or to fund abatement investment from cashflows.

Tailored treatment for EITE facilities should be a tiered structure:

- Recognition of Trade Exposed (TE) facilities – including bauxite, alumina and aluminium;
- Publication of an additional list of Manufacturing PVs and alternative tests for TEBA eligibility for these industries; and
- For industries of strategic national importance, which are value adding and aligned with the Australia's low carbon future but with incompressible Scope 1 emissions apply the lowest decline rate (proposed at 2%) to ensure their on-going competitiveness. These industries should continue to demonstrate their commitment to developing technologies to abate and be subject to periodic review of eligibility. This addresses the particular challenges with designing a universal test, which can never deliver tailored treatment to prevent carbon leakage and maintain competitiveness in all circumstances.

Powering the Regions Fund (PRF)

The scale of the dedicated \$600 million Safeguard Transformation Stream (STS) within the PRF is inconsistent with the cost of transformational abatement.

- The Mission Possible Partnership highlighted that a global investment of approximately US\$1 trillion will be required for the aluminium sector transition.
- An investment of ~US\$30bn would be necessary to deliver the same outcome for Australia
- Under the US Inflation Reduction Act there are US\$370 billion in Energy and Climate Tax Credits and Incentives, including those which the aluminium related industries qualify.
- Consider the use of a decarbonisation fund. For example, in Quebec, Canada, the revenues from the carbon pricing scheme are allocated as funds for decarbonisation projects.

Carbon Board Adjustment Mechanisms (CBAM)

Any current EITE treatment must be sufficient to prevent carbon leakage without a CBAM in place.



For more information, the full submission is available from: <https://aluminium.org.au/news/aac-submission-on-response-to-safeguard-mechanism-reform-position-paper-and-rules/>

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Implementing the new Hybrid Model

- There should be a maximum decline rate limit that any single facility should reasonably be required to reduce year on year to help manage the decarbonisation challenge whilst staying economically viable and competitive.
- The Department should continue consulting with liable entities on their particular needs and challenges in the baseline design, particularly for EITE facilities, to help ensure marginal abatement incentive and scheme integrity are both maintained. This is also part of the Government's commitment to tailored treatment for industry.

Flexible compliance options to lower costs

- International offsets should be allowed, subject to future rules of international trading, and, providing they meet integrity principles.
- Multi-year monitoring periods (MYMP) should be applicable to a range of capital projects and other abatement programs that take time to implement but will deliver a step-change in emissions reduction.
- The timescale for MYMPs needs to match the timescale for major capital investments and contractual arrangements, which do not fit the current 5 year definition.
- A more flexible approach to ending MYMPs (other than whole years) would support greater adoption of transformative abatement.
- The initial starting price for the cost containment measure of \$75 is too high and should more closely reflect the current market cost for carbon (\$38).

Declining baselines to deliver the target

Declining baselines need to recognise:

- The duration of existing commercial contracts for fuels (gas and coal) and electricity which may last for many years;
- Physical constraints in regional electricity generation, transmission infrastructure and transmission and gas pipeline capacity; and
- Availability of appropriate skills, labour and equipment to implement transformative abatement – particularly in light of the post COVID ongoing skills and supply chain shortages.

It is unlikely that almost any Safeguard facility will be able to undertake abatement of 4.9% by 30 June 2024 supporting the need for a softer start in Year 1 (e.g., a 3% decline rate).

Share of the National Abatement Task

The abatement share for safeguard facilities should take into account available technology and the availability of enabling infrastructure, such as, renewable electricity, with increased contribution post-2030.

- The biggest single opportunity to decarbonise the vertically integrated domestic aluminium industry is via decarbonisation of the electricity supply (i.e. Scope 2).
- Aluminium smelters have limited ability to abate Scope 1 emissions until post 2030. Without Inert Anodes, other Scope 1 abatement opportunities are <5%.
- ARENA's Roadmap for Decarbonising Australian Alumina does not show any substantial abatement potential until close to 2030. Alumina refineries need not only technology availability but also the supply of competitive renewable electricity. This supply may be the rate limiting step.
- Safeguard is the only sector facing significant punitive financial impacts. The Government's intention for other sectors such as agriculture, transport and waste have not been outlined.