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Department of Climate Change, Energy, the Environment and Water

<https://consult.dcceew.gov.au/carbon-leakage-review-consultation-paper-november-2024>

29 November 2024

Dear Minister

Re: Carbon Leakage Review – Consultation Paper 2

The Australian Aluminium Council (the Council) represents Australia’s bauxite mining, alumina refining, aluminium smelting and downstream processing industries. The aluminium industry has been operating in Australia since 1955, and over the decades has been a significant contributor to the nation’s economy. Aluminium is Australia’s highest earning manufacturing export. The industry directly employs more than 20,000 people and indirectly supports a further 55,000 families, predominantly in regional Australia.

The Council welcomes the opportunity to respond to the Carbon Leakage Review Consultation Paper 2 (the Paper). The Council acknowledges that over the fourteen months since this review commenced that the Members of the Council have had the opportunity for both collective and bilateral discussions with the review team. This deep consultation with industry is to be commended and the Council believes that the quality of this consultation has led to a broadly consistent understanding of Carbon Leakage risks between the Review team and the industry. It is worth highlighting that while the assessment was completed at an industry level, certain facilities may have a greater than 3% carbon cost impact in the very early years of the scheme.

The Council recognises that the Review is focussed solely on carbon leakage, being the 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, and not on other policy objectives such as supply chain security and regional economic prosperity. While this is not the domain of the Review, it is important for Australia’s long term prosperity that these are appropriately addressed elsewhere.

The Review recognises that policy frameworks that provide market premiums for low emissions products, including for traded goods, can contribute to demand for Australian low carbon industrial commodities. To date, it is the experience of the industry that a green premium will only apply at scale when the demand for low carbon aluminium exceeds supply and the market is willing to pay. Rather than consumers paying a green premium reflecting cost increases, there is a need for production incentives or similar supports, until market demand exceeds supply. Higher energy costs are not offset by a green premium. The Council recognises that such a production incentive is within the scope of the Government’s Future Made in Australia (FMIA) Green Metal agenda, which is expected to be further articulated in the 2024-25 Mid-Year Economic and Fiscal Outlook (MYEFO).

The Paper finds that addressing carbon leakage means helping create the preconditions for investment in new low emissions industrial structures in the most suitable locations, rather than shielding existing high emissions processes from change. The Council believes that there is an opportunity for a well designed carbon leakage approach to not shield high emissions processes, but to facilitate decarbonisation while retaining jobs, supply chains and economic prosperity.

With regard to the preliminary findings for consultation, the Council agrees that while current Safeguard Mechanism settings are largely effective at mitigating carbon leakage risk in the short- to medium-term, they are likely to need to be augmented with additional measures and that alumina and aluminium are considered for this additional augmentation as part of the 2026-27 Safeguard Mechanism Review. The Council also encourages ongoing monitoring by the Government during the period until the 2026-27 Review, using annual data and bilateral discussions with facilities, to monitor for the risk of earlier escalation. For example, in aluminium smelters inert anode technology, will provide a >95% step change for Scope 1 emissions. There are, therefore, limited process emission abatement opportunities (<5%) for smelters until this technology is deployed and limited opportunities to bring this forward in Australia before 2030. This highlights the importance of Trade Exposed Baseline Adjustments (TEBA) while decarbonisation technology is developed and commercialised for sectors such as alumina and aluminium.

The Review noted that there are limitations in quantitatively assessing investment leakage risk. Current measures, such as the Powering the Regions Fund, are orders of magnitude too small to be effective in driving transformational abatement at a commodity scale and mitigating this risk and must be complemented by a Transformational Infrastructure and Technology Fund, under FMIA, to enable Australia to be competitive and attract global decarbonisation investment.

The Paper recognised that leakage impacts affecting the viability of one part of the bauxite, alumina, aluminium supply chain could also affect other parts, due to vertical integration as well as being a sector facing material risks of investment leakage. The Council has recently¹ undertaken economic modelling of the contribution and interdependencies in the sector which found these extend beyond the boundaries of alumina refining and primary aluminium.

The Council welcomes the recognition in the Paper that a border carbon adjustment (BCA) is not appropriate for export oriented industries such as bauxite, alumina and aluminium in Australia. The Council also agrees that mandatory emissions products standards and multilateral / plurilateral initiatives are also not appropriate mitigation measures for carbon leakage risk.

There are a number of issues the Council does not believe the current Paper adequately addresses.

- While the Paper identifies that the cost of a border carbon adjustment may be passed on to consumers and would generally be small for finished goods (e.g. house, wind farm), it does not address the situation where one emission intense trade exposed good (such as alumina) procures another in bulk (such as lime). Where alumina is already exposed to carbon leakage, the impact of this price transfer to a sensitive market with thin margins, such as alumina, does not appear to be addressed and should be modelled. The flow through implications of a BCA on supply to domestic consumers requires further consideration.
- Additionally, energy is one of the most significant costs related to the aluminium sector and the industry are anticipating carbon cost pass-through related to energy, including gas and coal, costs, particularly for the alumina refining segment. It is not clear how the modelling currently considers this carbon cost pass through between sectors.
- The Council notes that as the Review focussed only on Scope 1 emissions, within the confines of Safeguard, and as such cannot address the leakage risks associated with Scope 2 emissions and the challenges associated with this aspect of the transition.
- While the Paper does not recommend a BCA for alumina and aluminium, it does identify that other regions such as Europe and the UK are. It would be prudent to continue to monitor border carbon adjustments globally, and ensure any complementary scheme design in Australia, such as the proposed product Guarantee of Origin are also internationally aligned.

¹ <https://aluminium.org.au/wp-content/uploads/2024/09/241003-AAC-Report-Economic-Contribution-of-the-Australian-Aluminium-Industry-FINAL.pdf>

The Paper considers two options for an importer to discharge their carbon liability under a BCA, a fee or the use of Safeguard eligible carbon credits. For the latter option, the impact on the carbon price and carbon credit availability for Safeguard facilities should be modelled as part of the design development.

Australia is one of the very few countries which has bauxite mining, alumina refining, aluminium smelting and aluminium extrusion, making aluminium one of only two commodities in which the raw materials are mined and are processed all the way to a consumer product right here in Australia. The Council seeks a national climate and energy policy framework which is transparent, stable and predictable, while maintaining the economic health of the nation including vital import and export competing industries. The Council looks forward to continuing constructive dialogue with during the finalisation of the Review.

Kind regards,



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