

Department of Climate Change, Energy, Environment and Water  
Australian Government

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### **Carbon Leakage Review**

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the Department of Climate Change, Energy, Environment, and Water's ('DCCEEW') consultation on its Carbon Leakage Review ('Consultation Paper').

The Australian Energy Council is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

Carbon border adjustment mechanisms ('CBAM') are increasingly being considered around the world as a policy tool to prevent carbon leakage and ensure industries are not disadvantaged by governments pursuing ambitious carbon policy. The recent Safeguard Mechanism reforms have precipitated similar deliberations in Australia as major industrial facilities now face a de-facto carbon price.

For domestic electricity generation, which is not captured under the Safeguard Mechanism and does not compete against international supply, a CBAM should not have direct competitive impacts on existing electricity supply. Nevertheless, a CBAM – or any policy equivalent – might have some effects on the ability of electricity companies to access at reasonable cost the critical equipment and material needed for the energy transition – this includes things like wind turbine components, transmission and stabilisation equipment (e.g. [synchronous condensers](#)), and [lithium-ion batteries](#).

To give some broader context, the Australian Energy Market Operator's (AEMO) [Draft 2024 Integrated System Plan](#) ('ISP') spoke to how "global supply chains need to be negotiated so that equipment is available to deliver the transition at reasonable cost". The ISP did sensitivity analysis regarding supply side constraints, which found that "tight constraints may lead to renewable energy and emissions reduction targets being missed. Under the sensitivity analysis, the total renewable energy share would be only 63% by 2030".<sup>1</sup> To what extent then a carbon border adjustment tax might impact supply and/or the costs of imported electricity equipment is something the Department should look further into.

Stakeholders in similar consultations have said a CBAM will incentivise local production and manufacturing of goods. While this might be true in some sectors, for electricity it arguably underestimates the scale of equipment needed, the time it would take to upskill the workforce relative to the urgency of the energy transition, and the high costs associated with that.

Finally, as part of this review, the Department should consider whether Australia introducing a CBAM might result in retaliatory policies. The European Union's CBAM, while attracting academic interest, does not have a material impact on Australian exports. This would obviously change if Australia's major export

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<sup>1</sup> Australian Energy Market Operator, '2024 Draft Integrated System Plan', December 2023, p77.

markets were to adopt a carbon border tax. In that situation, the electricity sector would have some role in helping other sectors decarbonise their operations.

Any questions about this submission should be addressed to Rhys Thomas, by email [Rhys.Thomas@energycouncil.com.au](mailto:Rhys.Thomas@energycouncil.com.au) or mobile on 0450 150 794.

Yours sincerely,

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