

24<sup>th</sup> February 2023  
 Safeguard Mechanism Taskforce  
 Department of Industry, Science and Resources  
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**Safeguard Mechanism reform: consultation on proposed design**

Thank-you for the opportunity to comment on the Safeguard Mechanism reform: consultation on proposed design.

Manufacturing Australia (MA) is led by the CEOs of some of Australia’s largest manufacturing companies: AdBri, Alumina, BlueScope, Brickworks, Capral, Cement Australia, CSR, DuluxGroup, Incitec Pivot, Orora, Rheem, Sims and Tomago Aluminium. These companies are key to Australia’s sovereign manufacturing capabilities.

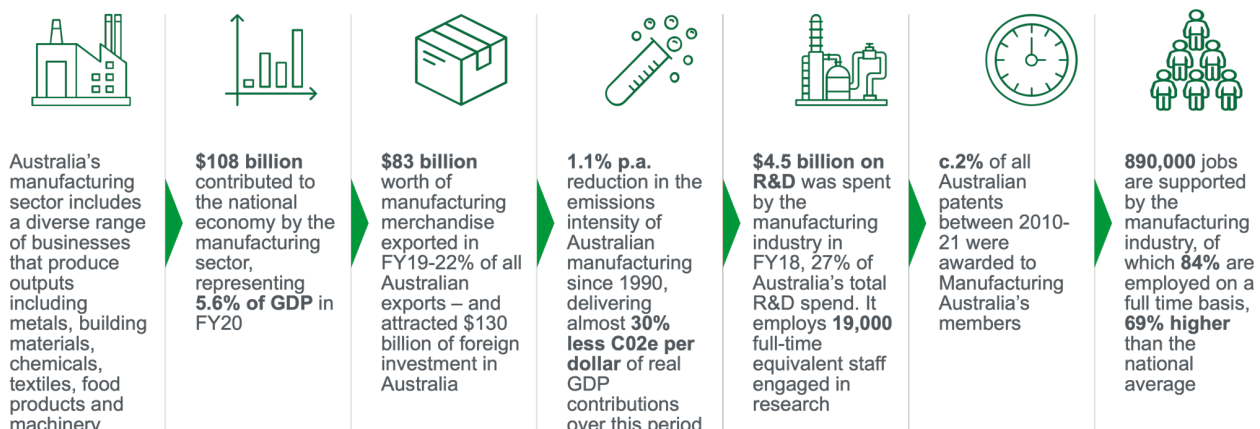
MA’s member companies provide direct and indirect employment to more than 100,000 Australians, operate more than 500 manufacturing plants or smaller facilities around Australia and support more than 25,000 downstream suppliers.

In addition, these companies have direct operations in more than 30 countries globally, and export to more than 50. They are amongst Australia’s most innovation-intensive businesses, having spent more than \$2bn on R&D over the past decade, and with more than 50 research partnerships in place with Australian universities and the CSIRO. The exhibit below summarises the broad benefits afforded to the Australian economy from domestic manufacturing capabilities.

Australia has a significant opportunity to create and retain high-quality jobs, grow its manufacturing sector and “re-shore” capabilities lost to imports, through a carefully managed transition to low emissions manufacturing.

- Key long term emissions reduction pathways for Australian manufacturing industries include direct electrification using clean energy; green hydrogen for use as a process feedstock; green hydrogen for use in process heating; and carbon capture, usage and storage.
- Each of these pathways are the subject of considerable R&D investment by MA member companies.
- In the medium term, reductions in emissions will also be achieved through substitution of emissions-intensive inputs, increased recycling and re-use of materials, process changes and efficiency improvements to existing assets.
- A successful transition that delivers globally competitive Australian energy inputs not only secures today’s c.1.3 million direct and indirect manufacturing jobs but could also create c.100,000 new, high-quality manufacturing jobs.

Several MA members are providing separate submissions in response to the proposed design, either in their own right or via industry-specific associations. Some of these submissions include detailed commentary on the impacts of the proposed design on specific facilities or businesses, and proposed amendments relevant to those facilities. This submission does not seek to replicate those facility-specific comments. Rather, it reinforces key principles relevant across the MA membership, for consideration in reforming the Safeguard Mechanism.



Source: *Low Emissions Manufacturing: Australia’s Opportunities*. Manufacturing Australia/L.E.K Consulting. March 2022.  
<https://www.lek.com/insights/sr/low-emissions-manufacturing-australias-opportunities>

**Safeguard Mechanism Reforms: Manufacturing Australia Comments**

Manufacturing Australia (MA) supports a well-designed and effective *Safeguard Mechanism* as a key element of the Federal Government’s policy measures to encourage emissions reduction in Australian industry.

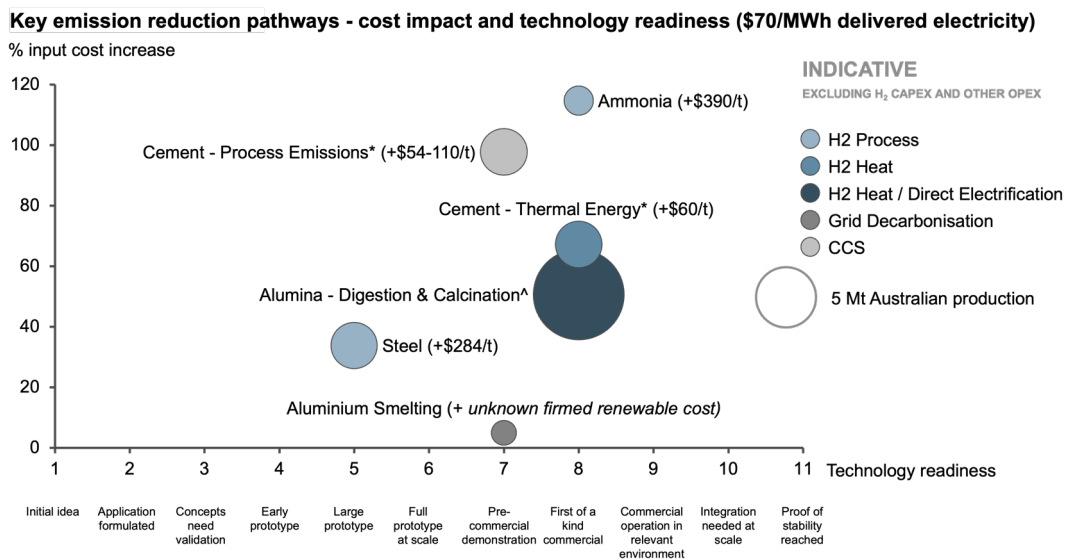
As currently drafted, however, the proposed design of the Safeguard Mechanism Reforms is likely to reduce the international competitiveness of some of Australia’s largest and most strategically significant manufacturing capabilities, putting at risk existing facilities and future investment.

This is particularly the case for steel manufacturing; cement, clinker and lime manufacturing; alumina manufacturing; aluminium smelting; ammonia manufacturing; and, glass container manufacturing.

Each of these manufacturing industries is reliant on technology breakthroughs or substantial advancements to be able to commercialise technologies to abate scope 1 emissions.

In most cases, these breakthrough technologies are not reasonably expected to be commercially viable by 2030, while in other cases, the technologies cannot be deployed until other inputs or infrastructure, such as sufficient firming renewable electricity to support electrification, cost competitive hydrogen production, or carbon capture, usage and storage infrastructure, are in place.

The exhibit below illustrates the technology readiness and input cost increase of the most promising emission reduction pathways for some “hard to abate” manufacturing processes, demonstrating the need to overcome both technical and commercial barriers to abatement pathways.



Source: *Low Emissions Manufacturing: Australia’s Opportunities*. Manufacturing Australia/L.E.K Consulting. March 2022.

In most cases, the proposed design of the safeguard mechanism reforms impose a linear, uniform, compounding annual decline rate of 4.9% on these manufacturing industries. Given the reliance on technologies or enabling infrastructure, linear emissions reduction of that magnitude are neither technically nor commercially feasible until at least 2030.

As a consequence, those industries will face an escalating offsets liability that will be borne by Australian manufacturers but not by their import competitors. Manufacturing Australia estimates the cost to Australia’s steel; cement, clinker and lime; alumina; aluminium; ammonia; and, glass container manufacturing industries will be ~\$3bn between now and 2030.

The absence of similar liabilities on import competitors places Australian manufacturers at significant competitive disadvantage. This presents material risk to existing manufacturing facilities and jobs in Australia, while also limiting the commercial capacity for manufacturers to invest in the low emissions pathways the mechanism seeks to encourage.

**Recommendations:**

MA recommends changes to the proposed design to better meet the following policy design principles, which MA contends have not been adequately addressed in the current draft:

1. *Tailored treatment*: the Safeguard Mechanism Reforms should afford meaningful tailored treatment for emissions intensive, trade exposed, industries based on a proper assessment of the technical and commercial barriers to scope 1 emissions reduction in different industries.
2. *Level playing field*: the proposed reforms should ensure that trade exposed, import-replacing, manufacturing industries are not placed at a competitive disadvantage.
3. *Carbon leakage*: the proposed reforms should include measures to prevent carbon leakage from emissions intensive, trade exposed, manufacturing industries replacing domestic production with imports.

Specifically, MA makes the following recommendations:

1. Create an additional category of safeguard facilities for the emissions intensive, trade-exposed and strategically significant manufacturing capabilities identified above.
2. For facilities in this category, several changes should be made to the baseline methodology:
  - a. differential rates of baseline decline should be developed, based on the availability and commercial viability of abatement technologies for the facility. This was implied by “tailored treatment” as a key principle in the design of these reforms and is essential to avoid carbon leakage.
  - b. The current, revenue-based, test for entry to the *Trade Exposed Baseline Adjusted* facilities should be replaced by an alternative metric that measures profitability or value added. Revenue is an inappropriate metric for high revenue, low margin facilities that are typical in these manufacturing industries.
  - c. At a minimum, baseline decline rates in this category of facility should be no greater than the 2% annual decline rate available under the TEBA category, until at least 2030, recognising the lack of viable scope 1 abatement pathways for technology-dependent manufacturing industries.
  - d. Extended multi-year monitoring periods should be available to facilities in this category.

**Additional comments:**

**“Hybrid” model to determine industry average baselines**

- The proposed design of a “hybrid model” to transition from facility-specific to industry-average emissions intensities creates the perverse outcome whereby facilities with lowest emissions intensity in their industries will face greater relative offset liabilities than those with higher emissions intensity.
- This should be remedied by enabling sites to opt-in to industry average baselines from 1 July 2023, based on their own emissions profile and the need to remain viable and competitive within their domestic industries.

**Carbon Border Adjustment Mechanism (CBAM):**

- MA notes the Government’s commitment to undertake further consultation regarding a CBAM.
- MA’s position is that a well-designed CBAM would help to level the playing field and mitigate the risk of carbon leakage. This is especially important for EITE manufacturing industries identified above, especially those industries that are predominantly domestic-market, import replacing, manufacturing industries.
- MA would welcome continued debate and consultation surrounding a possible CBAM in Australia.
- MA does not, however, regard future consultation on a CBAM as sufficient remedy to the challenges outlined above, for the simple reason that developing a complex trade policy such as a CBAM is likely to take years, while the liability for trade exposed manufacturing industries commences on 1 July 2023, with an immediate impact on asset values and future cash flows.

Thank-you for the opportunity to comment on the proposed design of the Safeguard Mechanism Reforms.

Yours Faithfully,

Ben Eade  
Chief Executive Officer  
Manufacturing Australia