# CBAMs: friend, not foe

Capitalising on Australia's comparative advantage in a net-zero world

The Superpower Institute
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# Carbon pricing flips Australia's comparative advantage

**No international price on carbon**

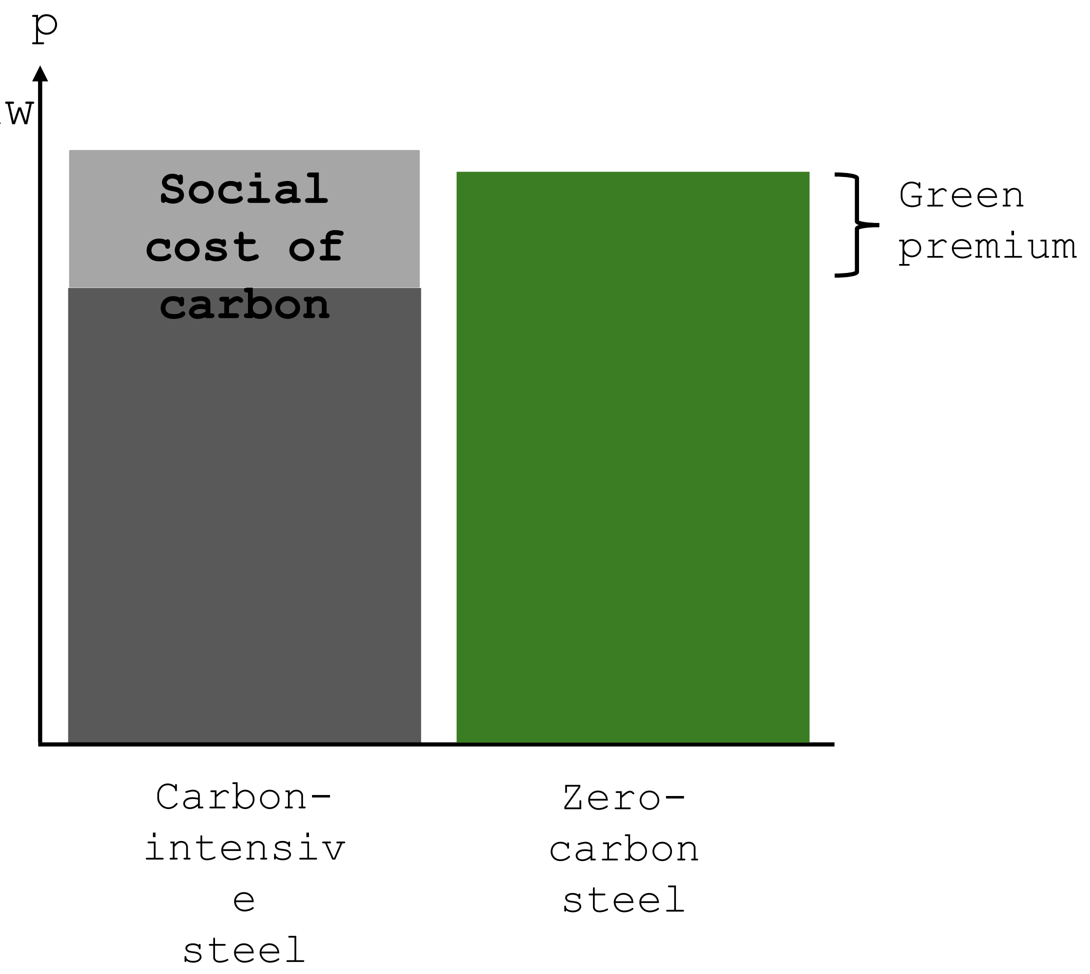
Australia's comparative advantage – raw inputs to carbon-intensive steel:

- Iron ore
- Metallurgical coal
- Thermal coal or gas

Processing location is competitive

- Energy is 20-40 per cent of processing cost
- Transport costs for coal are low – about 10 per cent of cost

**Australia exports raw inputs for carbon-intensive steel**



# Carbon pricing flips Australia's comparative advantage

**An international price on carbon**

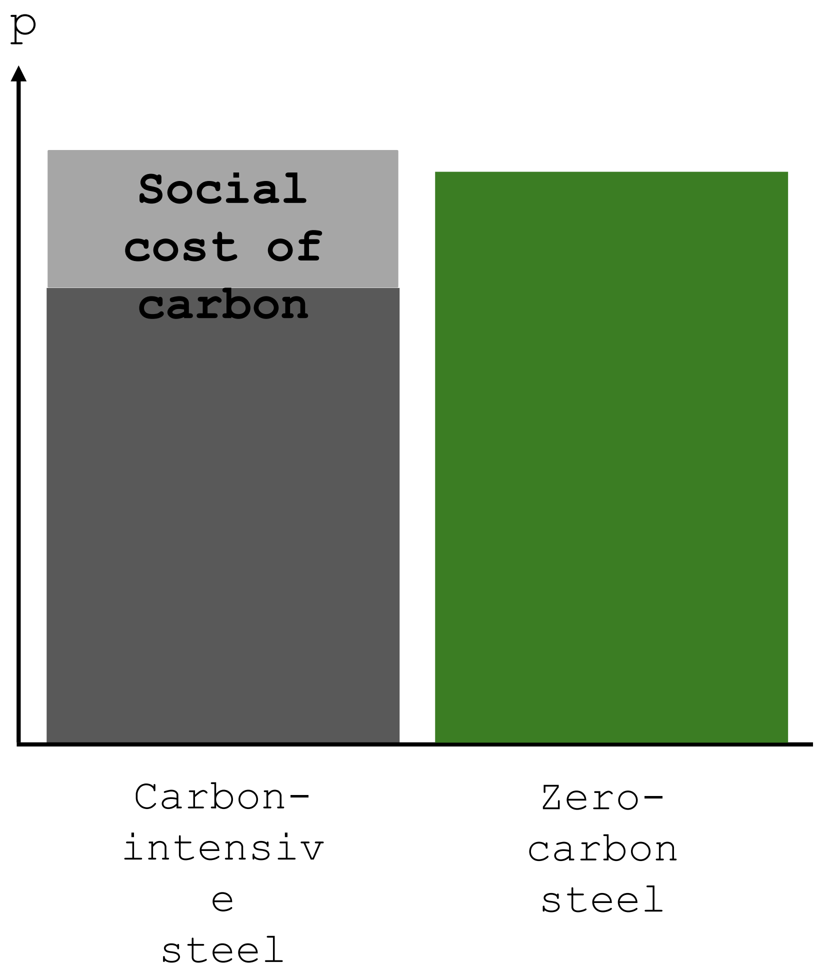
Australia's comparative advantage – raw inputs:

- Iron ore
- Renewable energy

Australia's comparative advantage – processing:

- Energy is 20-40 per cent of processing cost
- Transport costs for renewable energy and hydrogen are high – roughly twice their value

**Australia exports processed zero-carbon iron and steel, displacing**



# EU CBAM: how carbon is priced

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**Direct emissions:** Iron/steel, aluminium, fertilisers, electricity "as a good"
**Direct and indirect emissions:** cement, hydrogen

Produced **within** border:
Pay EU ETS carbon
€

Revenue to EU

Produced **outside** border.
No EU-equivalent

Importer declares embedded emissions:
• Transaction costs

Importer surrenders equivalent EU ETS allowances
€

Revenue to EU

Produced **outside** border
Pay EU-equivalent carbon price
$ = €

Importer proves that an EU-equivalent carbon price has been paid

Revenue to country that applies carbon price

Produced **outside** border, zero-carbon

Importer proves zero-carbon status

No revenue

All goods incur EU-equivalent carbon price

# EU CBAM: products with embedded emissions

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**Direct emissions:** Iron/steel, aluminium, fertilisers, electricity "as a good"
**Direct and indirect emissions:** cement, hydrogen

Produced **outside** border.
No EU-equivalent

Importer declares embedded emissions:
- Transaction costs

Importer surrenders equivalent EU ETS allowances

€

Revenue to EU

Produced **outside** border
Pay EU-equivalent carbon price

$ = €

Importer proves that an EU-equivalent carbon price has been paid

Revenue to country that applies carbon price

If Australia **doesn't** have a carbon price, it will be applied at the EU border.

Implication: Revenue will go to the EU.

This will be true for a small and declining

All goods incur EU-equivalent carbon price

# EU CBAM: zero-carbon products

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**Direct emissions:** Iron/steel, aluminium, fertilisers, electricity “as a good”
**Direct and indirect emissions:** cement, hydrogen

Produced **outside** border, zero-carbon

Importer proves zero-carbon status

Whether or not Australia has a carbon price, producers of zero-carbon products will need to demonstrate zero-carbon status.

**This is essential for zero-carbon products to capitalise on the benefits provided by CBAMs.**

No revenue

All goods incur EU-equivalent carbon price

# EU CBAM: Measuring indirect emissions

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**The EU will accept:**

1. Physical measurement of carbon emissions
2. Calculation-based measurement
   - Based on the emissions intensity of the energy grid; or
   - **Using emission factors if production installation is directly physically linked to electricity generator; or**
   - **Using emission factors if production installation has a power purchase agreement with an electricity generator.**

*Source: Section 6.1.4 "Indirect emissions", Guidance document on CBAM implementation for importers of goods in the EU, p 70, December 2023*

# Australia needs an EU-compliant zero-emission certification scheme

**Proposed Guarantee of Origin scheme?**

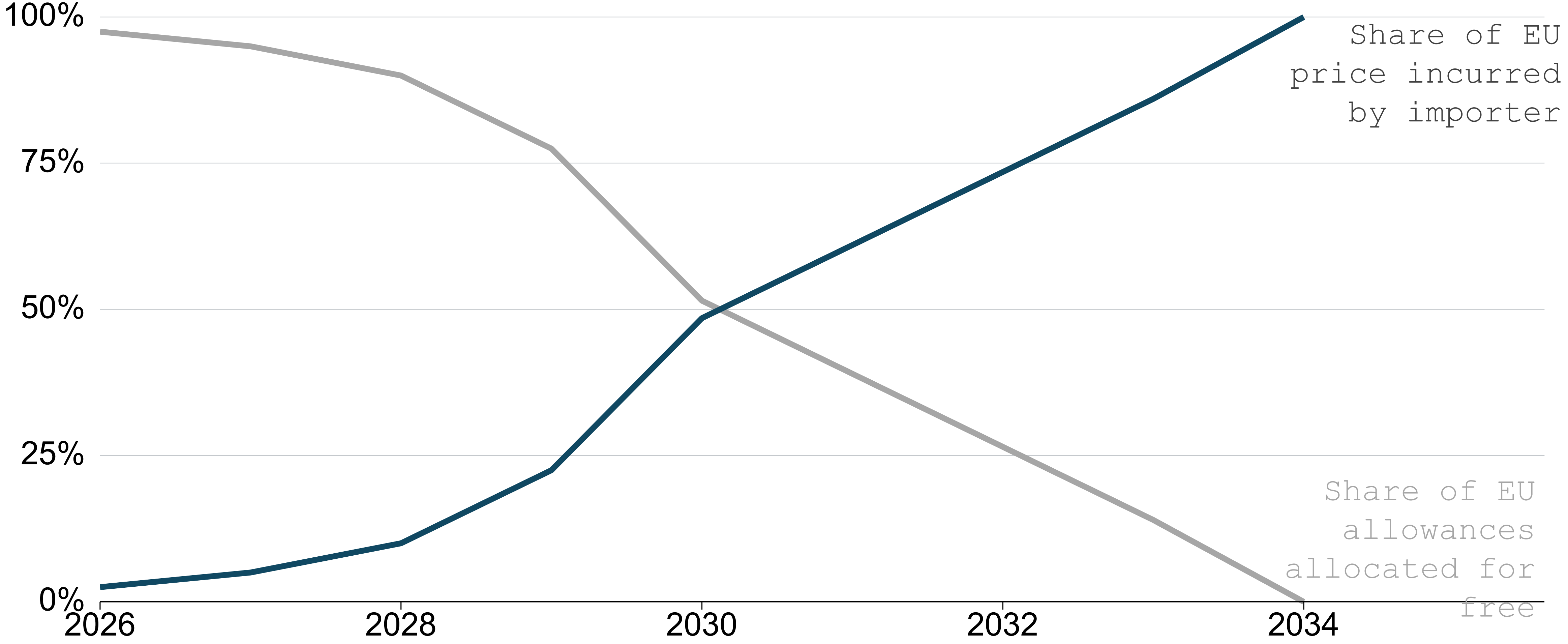
- Goal is to be "internationally aligned" but not yet clear will satisfy EU requirements
- Currently limited to hydrogen and renewable energy
- "Could" expand to cover metals, low emissions fuels, and other products

**Crucial that in addition to zero-emission hydrogen, certification scheme also covers…**

- zero-emission steel
- zero-emission aluminium
- zero-emission urea
- zero-emission silicon
- zero-emission fuel

# Australia needs to get ready:
# The EU CBAM carbon price is coming

Allocation of free permits to EU producers and share of carbon price paid by importers




ce: Review of the EU ETS: 'Fit for 55' package, European Parliament (2023)

# Australia needs to get ready: Where ETS lead, CBAMs follow

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| Country/region | Carbon pricing mechanism | Carbon border adjustment mechanism? |
|---|---|---|
| EU | EU ETS | EU CBAM, introduced 2023 |
| UK | UK ETS | UK CBAM in 2027 |
| US | RGGI (13 states) | Proposed: Clean Competition Act + domestic carbon standards |
| Canada | Mix: provincial and national schemes | 'Exploring' a CBAM |
| Australia | Largest emitters: Safeguard Mechanism | Considering a CBAM under Carbon Leakage Review (due Sept 2024) |
| Japan | Progressive introduction of ETS | |
| South Korea | ETS | |
| New Zealand | ETS | |