Australian Sustainable Finance Institute

Professor Frank Jotzo
Lead Reviewer, Carbon Leakage Review
Department of Climate Change, Energy, the Environment and Water
Submitted electronically

3 December 2024

Dear Professor Jotzo,

**Carbon Leakage Review Consultation Paper 2 – November 2024**

The Australian Sustainable Finance Institute (ASFI) welcomes the opportunity to provide feedback on the second consultation paper in your Review of Carbon Leakage. ASFI is a not-for-profit organisation committed to realigning the Australian financial system to be sustainable, resilient, and inclusive. ASFI's members are large Australian financial institutions – including major banks, superannuation funds, insurers, asset managers, and financial services firms – that support ASFI's mission.

The global transition to a net zero economy presents a range of opportunities for Australia, but also poses risks and challenges. Australia's significant endowment of renewable energy and mineral resources provides an enviable comparative advantage to capitalise on a clean economy. However, deliberate and sustained effort is needed to ensure Australia is viewed as an attractive destination for green investment to position Australia as a leading exporter of low-carbon commodities and products. ASFI welcomes the proposals set out in the Review's second consultation paper and regards the suggested border carbon adjustment (BCA) scheme as a reasonable and proportionate framework to mitigate risks of carbon leakage across Safeguard Mechanism-liable production in Australia.

ASFI does not have comments on the detail of the proposals but is strongly supportive of policies that provide clear signals to encourage investment in low-emissions industry and technology within Australia. While the absolute quantum of emissions at risk of leakage may be small relative to global industrial production, policies that provide comfort to investors - and inspire confidence in Australia's ambition to become a welcoming jurisdiction for clean, net zero-compatible industry - are valuable and important. ASFI encourages the Government to continue to develop and strengthen a broad, holistic, and coordinated approach to clean industrial development within Australia. In this context, successful deployment of BCAs would support opportunities to further increase the level of ambition for decarbonisation achieved through the Safeguard Mechanism, supporting more effective pricing of carbon in the Australian economy and encouraging capital allocation for the transition.

ASFI notes that the proposed BCA scheme would apply only to imports and notes the difficulties the Review has outlined in applying BCAs to exports. Nonetheless, Australian exports remain sensitive to carbon competitiveness risks and encourages the Government to continue to incentivise development of low-emissions export capacity through a suite of policies that support innovation, such as the Future Made in Australia package, the ARENA program and other Specialist Investment Vehicles. ASFI notes the suggestion that funds raised through a BCA could be used to support decarbonisation among developing trade partners and would welcome support of decarbonisation efforts both within Australia and among our regional partners.

Finally, ASFI is supportive of the attention the Review has paid not only to trade-based carbon leakage risk, but also investment-based carbon leakage risk. Business investment in Australia as a share of GDP – while improving over the last couple of years – remains at a level comparable to investment in the wake of the 1992 recession.[1] Measures that encourage further investment in Australia will be critical to ensure that Australia captures the benefits of the transition to net zero. ASFI members have noted that capital is flowing towards opportunities overseas, following ambitious industrial policies such as the Inflation Reduction Act. Ongoing action needed to ensure Australia remains an attractive investment destination. BCAs may be one piece of the puzzle to build confidence in Australian industry among investors and the wider community.

Yours sincerely,



Kristy Graham
Chief Executive Officer
Australian Sustainable Finance Institute

[1] Reserve Bank of Australia, *The Australian economy and financial markets chart pack – November 2024*, p.8