AUSTRALIAN HYDROGEN COUNCIL

15th December 2023

Professor Frank Jotzo
Lead, Australia's Carbon Leakage Review
Department of Climate Change, Energy, the Environment and Water
Australian Government
GPO Box 3090
Canberra ACT 2601

Dear Professor Jotzo,

Re: Public consultation on the proposed approach to assess and address carbon leakage risk, as part of the Carbon Leakage Review

The Australian Hydrogen Council (AHC) welcomes the Carbon Leakage Review (the Review) and the opportunity to provide input on this important matter.

The AHC is the peak body for the emerging clean and green hydrogen industry, with over 100 members from across the hydrogen value chain. Our members are at the forefront of Australia's hydrogen industry, developing the technology, skills and partnerships necessary to ensure that hydrogen plays a meaningful role in decarbonising Australian industry.

We note that the overarching intention of the Review is to assess the impact of carbon mitigation policies on the viability of existing industries, as well as on investment attraction. Within this remit, the Review has been asked to focus on:

- an assessment of carbon leakage risks;
- the development of policy options to address carbon leakage; and
- an assessment of the feasibility of an Australian Carbon Border Adjustment Mechanism (CBAM), particularly in relation to steel and cement.

Overall, we are pleased to see the issues addressed, and welcome the statements about likely next steps for the analysis. However, we are concerned that the paper lacks sufficient analysis at this stage to elicit more useful input, especially given that there is only one more consultation paper prior to the final policy. We seek explicit inclusion of hydrogen and ammonia in the modelling and demonstrated links to other work occurring in this space.

More nuanced analysis is required

The paper shows the high-level analysis to be undertaken to estimate the effects on the Australian economy of carbon leakage but does not appear to beyond economic indicators of production, substitution and trade flows. We would also expect the Review to consider social impacts for communities and regions from major industry shutdowns, and regional impacts to supply chains for Australia and our neighbours. There might also be consideration of the value of economic complexity and costs to Australia of further losses of industry and industrial investment, including the RD&D we need to further develop manufacturing opportunities.

In our view it is vital that policy seeks to find the balance *not only* between the direct costs to reach industrial decarbonisation objectives and the costs of keeping strategically viable industries in Australia, but also the major indirect costs.

This then requires an assessment of the industries in question to not only address the economic criteria set out in the paper, but also address:

- each industry's role in the economy, including contribution to GDP, regional prosperity and quality jobs;
- relative timeframes for likely pathways to decarbonisation both in Australia and potentially competing countries, and effects on the above; and
- the relative mobility of each industry (that is, the necessary investment and threshold for moving investment away from Australia).

Assessment and analysis of the impacts of high energy prices in the EU (for example, the impact on the petrochemical industries), alongside the carbon pricing and CBAM measures, would be illustrative as a counterfactual for proposed Australian reforms and may demonstrate the types of policies that would need to be in place in Australia to prevent capital flight as well as (hopefully) incentivise investment.

Hydrogen, ammonia and urea should be on the carbon leakage list

The current terms of reference for the Carbon Leakage review refer only to steel and cement, noting that these were identified by stakeholders during the Safeguard reforms as sectors at particular risk of carbon leakage. Noting that "leakage risks can also apply to other goods and commodities …that are not currently produced in Australia but may be in future as new industries develop", the paper states that the Review will also consider possible future low or zero emissions intensity production that may emerge in Australia.

Hydrogen is feedstock for ammonia, which is feedstock for urea. AHC seeks for hydrogen, ammonia and urea (or the best one or combination) to be included on the Australian carbon leakage list. This is to:

- **Align with other jurisdictions**

  Global policy and legislative trends indicate that the remit of carbon border adjustment schemes will increase to cover a range of products beyond fossil fuels or their replacements such as hydrogen, ammonia and methanol.

  For example, the first phase of the EU's CBAM (from October 2023) covers cement, iron and steel, aluminium, fertiliser, electricity and hydrogen. The *Prove It* Act in the US, should it be passed, would require the Department of Energy (DOE) to study and compare the carbon emissions of products that are produced in the United States vs. other countries. Within two years, the DOE will publish a study comparing the carbon output of U.S. goods, like aluminium, cement, crude oil, fertilizer, iron, steel and plastic, to goods made elsewhere, paving the way to a CBAM.

- **Align with the Safeguard Mechanism**

  The recent consultation on the Safeguard Mechanism (a major consideration of the carbon leakage review) indicated support for a hydrogen production variable. Additionally, ammonia production is already covered under the Safeguard Mechanism, with the ammonia industry one of Australia's most emissions intensive.

- **Make room for future new industries by defraying the green premium**
  Australia will need to develop a hydrogen supply chain to realise our energy transition. This includes decarbonising our existing industries, such as ammonia. Across seven sites, Australia currently supplies over 2Mtpa of ammonia and imports the remaining demand. As we look to transition and expand our green ammonia production, this will naturally be delivered at a green premium, leaving Australia's ammonia producers at risk to traditional fossil fuel ammonia being imported at a lower cost. A CBAM can help defray the green premium.
  We also note that Australia currently imports over 80% of its urea, mostly from the Middle East. A CBAM on urea (or hydrogen or ammonia, its precursors) will provide a means to reduce Australia's reliance on imports by incentivising domestic supply.

  The Review should investigate and model the potential impact on investment in domestic production of urea and also the impact on pricing; that is, whether it would go some of the way to addressing the price differential between domestically and internationally produced urea.

In the context of hydrogen, the considerations of the Guarantee of Origin scheme (both product GO and RE GO) should be incorporated into the operations of the CBAM.

The links to the bigger picture should be explicit

The energy transition requires a whole-of-economy assessment of what industries we support, how we look after citizens and workers, how we maintain prosperity, how we protect biodiversity and water, and how we realign development to include Indigenous Australians.

We are pleased that there are a number of processes underway to support meaningful solutions, such as this review, the establishment of the Net Zero Economy Agency, the review of the National Hydrogen Strategy,[1] and the development of six sectoral decarbonisation plans supported by Climate Change Authority modelling.

We recommend that the teams responsible for this work liaise closely, particularly between DCCEEW, the Net Zero Economic Agency and DISR. The policy options put forward in the paper will require additional support, or, rather, clear connections to the additional support that we know is required to decarbonise industry. This includes an increase in subsidy for domestic production of hydrogen and planning and investment in infrastructure.

I look forward to engaging in further consultations and developments as part of this Review and encourage you to contact me to discuss our submission further.

Yours sincerely,

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[1] Please see our comprehensive submission to that process, including an appendix on industrial decarbonisation, at https://h2council.com.au/ahc-publications/.