



Safeguard Mechanism reform consultation - factsheet 8

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Emissions-intensive, trade-exposed facilities

What are EITEs and why do they need support?

Emissions-intensive, trade-exposed (EITE) facilities undertake emissions-intensive production activities and face competition – in Australian or export markets – from goods produced overseas. As a result, EITEs may have more difficulty managing their emissions reductions, because the price of their goods are set in global markets.

Funding support would help create a level-playing field for Australian EITEs and prevent domestic production from moving to countries with weaker emissions reduction requirements. It would also help prevent carbon leakage, a situation where the shift of domestic production to countries with weaker emissions reduction requirements leads to increased global emissions. Many international emissions reduction schemes include support or concessions for facilities producing EITE products.

How are EITEs defined under the Safeguard Mechanism?

Under the proposed reforms to the Safeguard Mechanism, two categories of facilities would be assisted to maintain competitiveness and reduce carbon leakage risks.

- **Trade-Exposed facilities:** Facilities that undertake activities relating to products identified as trade-exposed in the draft Safeguard Rule. These activities had a trade share above 10% during 2016–17 to 2019–20.¹
- **Trade-Exposed Baseline Adjusted (TEBA) facilities:** The subset of trade-exposed facilities with an elevated risk of carbon leakage, where the impact from the reformed scheme exceeds a threshold.

The proposed impact metric is the scheme cost divided by revenue for that facility. It is a simple transparent metric that can be readily calculated, and provides a strong indicator of the risk of carbon leakage for a particular facility.

Scheme costs for a financial year will be determined by the facility's exceedance, multiplied by the Safeguard Mechanism default certificate price. The default certificate price estimates the price Safeguard facilities would face if they purchased certificates during the compliance period.

¹ Trade share is calculated as the value of imports and exports, divided by the value of domestic production.

What support will be available to EITEs?

Access to funding support for decarbonisation activities

‘Trade-Exposed facilities’ will have exclusive access to a dedicated \$600 million Safeguard Transformation Stream (STS) of the Powering the Regions Fund (PRF).

This will be a grants program linked to the reformed Safeguard Mechanism. It will provide a range of funding opportunities to support on-site decarbonisation activities on a technology-neutral basis.

Where relevant, all Safeguard facilities will also have preferential access to the remaining PRF funding outside of the STS, as well as continued access to other sources of finance such as the Australian Renewable Energy Agency, the National Reconstruction Fund and the Clean Energy Finance Corporation.

Differentiated declining baselines

In addition to access to the STS, facilities qualifying as TEBA can apply for a lower baseline decline rate to further moderate potential cost impacts.

This ‘discount’ will vary, depending on how impacted a particular facility is. The discount will start applying when the cost impact metric first exceeds 3% and reaches a maximum discount value when the metric hits 8%. These percentages have been conservatively calibrated to minimise carbon leakage risks.

TEBA facilities’ baselines will still decline to ensure all facilities contribute to Australia’s emission reduction targets. The minimum baseline decline rate – for the most impacted TEBA facilities – is 2%. This is a 2.9 percentage point discount on the standard decline rate of 4.9%.

Applications for TEBA status are proposed to be due by 31 October following the year for which the status is being sought, with decline rates to be locked in for a 3-year period.

Exploring additional policy options to address carbon leakage

Many submissions to the previous consultation paper raised the issue of carbon leakage and suggested an Australian carbon border adjustment mechanism (CBAM) could be a preferable way to manage carbon leakage in the medium to long term. CBAMs operate by imposing an import tariff or export rebate on trade with countries without an equivalent carbon constraint. The European Union is developing a CBAM and other economies are considering it. Designing such a mechanism for Australia would be a complex task, and require careful calibration with our trading partners.

The government will undertake a review commencing in 2023 to explore policy options to further address carbon leakage. The review will consider CBAMs as one of the potential responses to carbon leakage that could complement Safeguard Mechanism reforms.

More information

Learn more about the Safeguard Mechanism reforms at <https://consult.industry.gov.au/safeguard-mechanism-reform-consultation-paper>.