

Australian Government  
Department of Climate Change, Energy, the Environment and Water

Submission via the Department's Consultation Hub

12 December 2023

## **RE: Consultation on the first phase of the Carbon Leakage Review**

Rio Tinto welcomes the opportunity to make a submission to the Department of Climate Change, Energy, the Environment and Water (the **Department**) on the proposed approach to assess and address carbon leakage risks as part of the Carbon Leakage Review.

For climate action to translate to net reduction in global emissions, measures to address carbon leakage risks are needed, but the potential impacts on the competitiveness of importers and exporters and regional trade must be carefully considered.

Recent reports such as the UN Environment Programme Emissions Gap report and the (upcoming) Global Stocktake highlight the gap between the goals of the Paris Agreement and current progress, and the pressing need for more stringent climate policy to help bridge the gap. We observe that Governments globally are grappling with how to balance climate policy with industrial policy, and how to manage the associated trade-offs including impacts on domestic competitiveness, and relationships with trade partners.

Rio Tinto has committed to decarbonising our assets, particularly reducing our Scope 1 & 2 emissions to net zero by 2050, and to make significant investments by 2030 towards delivery of our decarbonisation strategy. It is our assessment that a market-based price on carbon is the most effective way to incentivise the private sector to make low-carbon investments and drive down emissions, however carbon pricing on its own is unlikely to be sufficient to transform the metals sector. Other forms of support are needed to address harder-to-abate activities which, absent policy adjustments, may be unable to remain commercially competitive in a global market.

Effective climate policy should incentivise investment in low-carbon technology without undermining the competitiveness of trade-exposed industries and shifting production, jobs and supply chains to countries with lower emissions standards. When assessing policies to address carbon leakage risks, the impact of country-level policy on business' international competitiveness and the future viability of facilities must be managed to minimise the risk of loss of industry. To use the aluminium value chain as an example, a domestic carbon price disproportionately impacts the competitiveness of Australia's emissions-intensive Alumina and Aluminium products, compared to Bauxite. Australia exports around 85% of its Alumina and 93% of its Aluminium production<sup>1</sup> but these volumes represent only 14% and 3%<sup>2</sup> of these global markets respectively. Additional costs related to carbon and the energy transition can generally not be transferred with the products because the bulk of Australia's Aluminium industry exports go to customers that are highly price sensitive. For emissions-intensive heavy industry, policies that positively incentivise low carbon solutions with targeted

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<sup>1</sup> Australian Aluminium Council <https://aluminium.org.au/wp-content/uploads/2023/08/231117-AAC-Factbook.pdf>

<sup>2</sup> International Aluminium Institute <https://international-aluminium.org/statistics/primary-aluminium-production/>

funding and support can reduce the risk of industry loss relative to policies that tax existing emissions heavy facilities.

Rio Tinto has considered the impact of carbon border adjustments in many jurisdictions in which we operate, including in the EU and Canada where we have participated in consultation processes. Based on our experience, we acknowledge the potential for carbon border adjustments to reduce carbon leakage, however full regional coordination would be needed for a carbon border adjustment mechanism (CBAM) to be effective, particularly given the role that Australia plays in the regional supply chain and price sensitivity of customers for some Australian exports, including Alumina and Aluminium.

In analysing the potential impact of a CBAM specifically, we note that isolating carbon leakage from other factors driving business decision-making is difficult in practice. Assessment of the merits of an Australian CBAM needs to trade off any expected benefits against potential challenges including the administrative burden for government, regulators, and parties in the supply chains of impacted goods and can only achieve stated climate goals while maintaining industry competitiveness if effectively implemented on a co-ordinated regional basis.

We thank the Department for the opportunity to engage on the proposed approach to assess and address carbon leakage risk. We look forward to continuing to engage with you on the Carbon Leakage Review and may provide additional feedback as it progresses.

We would welcome the opportunity to discuss this submission with you further. In the interim, if you have any questions, please contact Rachel Storrs ([Rachel.storrs@riotinto.com](mailto:Rachel.storrs@riotinto.com)).

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'JM', with a long horizontal stroke extending to the right.

Jonathon McCarthy  
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