CBAM signals opportunity for hydrogen in the move to net zero

By Dr. Fiona Simon on Aug 02, 2021 | Translate NEWS

Let there be no doubt – the EU is serious about fighting climate change. The recent unveiling of a suite of policy proposals, under the name The Green Deal, shows the EU's determination to reduce greenhouse gas emissions by at least 55% by 2030, and make Europe a climate-neutral continent by 2050. The Carbon Border Adjustment Mechanism (CBAM) is a key part of this package and has caused a flurry of commentary.

The EU characterises the proposed CBAM as a tax on emissions-intensive imports to ensure a level playing field between imports and locally produced goods. However, the Australian Government believes the CBAM may be in breach of World Trade Organisation rules.

Think tanks are weighing into the debate, with The Grattan Institute arguing that it's an unprecedented measure, and warning that it could be taken up elsewhere. Their predictions were correct, with the US Democrats announcing a polluter import fee, which does what is says on the tin. It's a proposed tax on imports from high-polluting countries.

The EU defends CBAM on the basis that it does not want to disadvantage locally produced goods that may be more expensive because of domestic carbon prices, or the use of technologies that are cleaner.

It is worth noting that Australia exported A$11.7bn worth of goods to EU countries in the 2019-2020 financial year, with major exports including coal (A$2.7bn), gold coin (A$689m) and gold (A$409m).[1]

Details of the CBAM are yet to be released, but one thing is clear. The Australian business community must prepare and work with governments to design an appropriate response.

Prepare domestic markets now

'Technology, not taxes' is a powerful rallying-cry to try to encourage growth in clean energy technologies at home. Indeed, technology will play a huge role in achieving our environmental objectives. But taking this approach domestically won't stop our neighbours and trading partners from taxing Australian goods and services in the meantime.

With 24% of our GDP comprising exports[2], Australia always needs to pay attention to what our neighbours tell us. Australian manufacturers are already feeling the pressure from net zero obligations, and this will impact various supply chains.

Money paid in tax overseas would be better spent domestically – and now – to accelerate Australia's transition to clean energy.

Turn risk into competitive advantage

We all agree that Australia has an abundance of natural resources to produce clean hydrogen, to not only lower emissions domestically but also to enable our trading partners to lower theirs.

And Australia's federal and state/territory governments are setting ambitious plans to lead the global hydrogen economy. Western Australia, for example, says it wants to secure a 12% share of the global renewable hydrogen market by 2030, which is similar to its share in gas exports today.[3]

The Australian Federal Government is building international partnerships with countries such as Germany, Singapore, Japan and the Republic of Korea to advance hydrogen supply chains and lower the cost of production.

With the EU planning to introduced CBAM by 2026, efforts to develop the hydrogen industry take on a renewed sense of urgency.

The fruitful work that we have been doing to get our hydrogen industry up and running can help us to lower domestic emissions and also export goods that have a lower carbon price.

CBAM will certainly push Australian exporters to reduce emissions in their production processes and supply chains. It is now up to government and industry to ensure Australian-made clean hydrogen is part of the solution.

References

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[2]https://wits.worldbank.org/CountryProfile/en/AUS#:~:text=Australia%20exports%20of%20goods%20and,percentage%20of%20GDP%20is%2021.60%

[3]https://reneweconomy.com.au/wa-targets-12-of-global-renewable-hydrogen-export-market-by-2030/