Pre-Budget Submission 2024-25

January 2024

Executive Summary

The world is currently in a technology, trade and finance race as the global energy transition takes hold and we grapple with the growing impacts of climate change and climate risk.

For Australia, this is one of the biggest investment, employment, and net export opportunities this century, but only if we proactively build a strategic national response proportional to the investment opportunity.

A major public policy shift is required, at scale, the likes of which has not been seen in decades. It would not only set the right market signals but also strategically leverage the national balance sheet, and selectively provide public budget support to unlock and crowd-in private capital to enable large-scale investment to ensure Australia seizes the economic and employment opportunities from being a renewable energy and critical minerals superpower.

Two likely consecutive budget surpluses have demonstrated this government’s financial credentials, accompanied by the rolling out of innovative and strategic building blocks.

The time is right for the government to broaden its focus:
- to the electrification of everything across the economy;
- to strategically stimulate onshore value-adding of our resources;
- to process and build domestically; and then
- export products with embodied decarbonisation to a growing global market.

Australia has world leading and affordable renewable energy, and this creates a massive global competitive advantage, if we can harness this cost advantage to build out our capacity and help diversify global supply chains in zero emissions industries of the future.

This submission builds upon previous recommendations in Climate Capital Forum’s September 2023 Discussion Paper – An Australian Response to the US IRA.

By making available an additional A$100bn investment of public capital and budget support over the coming decade well over A$200-300bn of private capital can be crowded in – through debt,
infrastructure and equity, both domestic and via collaborative partnerships with strategic international technology and industry leaders. We need a “uniquely Australian” response to “complement not copy the priorities and plans” of the US IRA and other nations, as Treasurer Chalmers said.

The policy recommendations from the Climate Capital Forum include:

- A progressive threefold increase for North Australia Infrastructure Fund (NAIF), Export Finance Australia (EFA), ARENA, Australian Infrastructure Financing Facility for the Pacific (AIFFP) and Virescent Ventures, as has already been committed in 2023 for expansion of the Clean Energy Finance Corporation (CEFC) balance sheet to A$30bn.
- A$20bn for a new strategic national interest mandated allocation to the Future Fund to take strategic equity stakes in emerging Australian mining developments.
- A$5bn to EFA or CEFC as a strategic reserve capital allocation to write long term minimum price offtake agreements or contracts for difference (with a share in upside as in the Capacity Investment Scheme (CIS)) to support project proposals through FID, construction and into operation.
- Time-limited advanced manufacturing tax credit (A$15bn over 10 years) to incentivise local content and local manufacturing but only subsidise the portion of manufacturing that is done locally, so it does not have any adverse inflationary impact on the whole market.
- Tax incentives and/or expanded ARENA grants and/or National Reconstruction Fund (NRF) patient capital and/or production tax credits to incentivise onshore commercial scale first-of-a-kind new facilities to produce green iron, and potentially aluminium (leveraging the enormous potential of demand response management services to the grid), copper, lithium, and nickel.
- Continue electrification programs across the community.
- Introduce local content requirements for CIS tenders.
- Fair labour conditionality across public capital investments to ensure good-quality jobs in clean industry and to develop the necessary workforce.
- Support long-term, federal patient and/or non-dilutive capital for cleantech startups and requisite testing and development infrastructure. Patient capital can provide taxpayers a return if and when startups are successful, as opposed to the grant-only nature of ARENA currently.
- Implement strong fuel efficiency standards for vehicles.
- Cap the diesel fuel subsidy at A$50m pa per consolidated group to raise A$14bn by 2030, and entirely reinvest the proceeds as an incentive for mine EV and electrification learning by doing.
Introduction

The world is currently in a technology, trade and finance race as the global energy transition takes hold and we grapple with the growing impacts of climate change and climate risk.

For Australia, this is one of the biggest investment, employment, and net export opportunities this century, but only if we proactively build a strategic national response proportional to the investment opportunity.

With China’s huge technology leadership and the US Inflation Reduction Act (IRA) providing upwards of a trillion dollars of incentives, "free global markets" are being heavily and rapidly disrupted. To avoid remaining a zero value-add "dig and ship" country servicing China and greater Asia, Australia must pivot quickly to investing in our own development, in partnership with global technology leaders.

This requires a major similar public policy shift at scale, the likes of which has not been seen in decades. It would not only set the right market signals but also strategically leverage the national balance sheet, and selectively provide public budget support to unlock and crowd-in private capital to enable large-scale investment to meet the challenge.

It is already possible to see the impacts and benefits of the IRA in the US: it is driving the energy transition across the country using a mix of policy initiatives – grants, loans, rebates, incentives, and other investments. Central are tax provisions with the dual function of saving families money on their energy bills while also building demand that accelerates the roll out of clean energy, clean vehicles, clean buildings, and clean manufacturing – all opportunities available to Australia with the right investment.

We know the growing risks associated with inaction. As one the three largest petrostates globally, Australia’s existing, outdated industry profile means failure to overcome the inertia of relying on fossil-fuels will undermine our economic security and sustainable growth.

Two likely consecutive budget surpluses have demonstrated this government’s financial credentials, accompanied by the rolling out of innovative and strategic building blocks, such as: the Safeguard Mechanism; the $20bn Rewiring the Nation fund; the $15bn NRF; $4bn into the Critical Minerals facility; establishing the Net Zero Authority and the Climate Act 2023; and the 32GW CIS. And with the fossil-fuel hyper commodity price rises of 2022 slowly fading, general inflation in Australia is starting to moderate, as is the cost-of-living crisis. The more we deploy firmed, new renewables, the faster the move to sustainably lower energy prices to underpin re-industrialisation in Australia.
The time is right for the government to broaden its focus to the electrification of everything across the economy and to strategically stimulate onshore value-adding of our resources; to process and build domestically and then export products with embodied decarbonisation to a growing global market. Australia has world leading and affordable renewable energy, and this creates a massive global competitive advantage, if we can harness this cost advantage to build out our capacity and help diversify global supply chains in zero emissions industries of the future.

Globally, multiple economies have released substantial government-backed fiscal packages to shore up their own industries. The US has laid out a massive trillion dollar subsidy through the IRA resulting in the crowding-in of up to US$3 trillion in private investment, the EU has an immense subsidy program in its Net Zero Industry Act (NZIA) and policies such as its Carbon Border Adjustment Mechanism (CBAM) to build domestic EU supply chains, Korea has its massive battery and EV public-private partnership program, Japan has its GX Roadmap, Canada the Clean Investment Tax Credits and India has its Production Linked Incentive (PLI) funding.

This is all taking place alongside China’s finely-honed strategy to fund R&D and investment at an unprecedented pace and scale with a lack of regard for near term profitability at the individual sector level; this on top of it being the biggest buyer in the world of lithium, rare earths, iron ore, copper and nickel. And at the same time, it is in China’s national interest to flood in new global supply and push down imported commodities prices – those same commodities that Australia produces.

Decarbonising is also an energy security necessity. With next to zero domestic stockpiles of diesel and oil and increasing global supply chain challenges, Australia’s national security is best served by building local supply chains and renewable energy and non-fossil fuelled transport as well as to ensure decarbonised products have the right price signal in both local and international markets.

Profound economic reform and modernisation in Australia is needed, as is international collaboration.

Doing so will ensure that Australia is not just in the race, but that we are a front runner, leveraging our global competitive advantage of the rich natural resources, low population density and world-class renewables, the smarts of our people, the power of our world leading A$3.5 trillion superannuation base, the stability of our political system and our position as a trusted supplier of commodities at global scale.
Submission

The Federal budget position today is in rude financial health. After a decade of deficits under previous governments, careful and prudent management – and some good luck on international markets – the Australian government has delivered a very welcome massive fiscal surplus in 2022/23, which is set to be repeated in 2023/24.

Building on the policy initiatives announced in 2023, we encourage the government to continue to develop programs such as the Capacity Investment Scheme – a clever and innovative low risk response that underwrites cash flows that will crowd-in A$40-50bn of private investment and leverage many state government programs already in place.

This submission builds upon previous recommendations in Climate Capital Forum’s September 2023 Discussion Paper – An Australian Response to the US IRA.

The Climate Capital Forum (CCF) provides recommendations for the May 2024 Budget by arguing for a strategic public interest response to the global economic changes commensurate with the massive opportunities in front of Australia; one that outlines how we can leverage our own decarbonising actions, illustrate the growing capacity across the economy, and help drive the global move to renewable energy and energy storage, consistent with the COP28 pledge to triple renewables and double energy efficiency by 2030 and the massive uplift in momentum the IEA Renewables 2023 details, noting China’s growing dominance in all these measures.

By making available an additional A$100bn investment of public capital and budget support over the coming decade well over A$200-300bn of private capital can be crowded in – through debt, infrastructure and equity, both domestic and via collaborative partnerships with strategic international technology and industry leaders. We need a “uniquely Australian” response to “complement not copy the priorities and plans” of the US IRA and other nations, as Treasurer Chalmers said.

Provide capital funding that supports the public interest

Focus strategic investment through the development of a package of funding that builds an Australian renewable energy industry – including a value-adding critical minerals industry development package.

Similar to the existing initiatives in the CEFC and opportunities to be leveraged by the new NRF, at least half of this A$100bn of additional government strategic investment should leverage the Australian government balance sheet. This would be designed on average to generate returns above the cost of borrowings, so at most only the operating costs and a provision for any potential bad debts would have an impact on the forward estimates. Public strategic national interest patient capital, not subsidies.
This increase in funding should include a further significant step-up in capital allocations to federal financing authorities – the NAIF, EFA, ARENA and CEFC for venture capital (VC), loan, equity, export credits, grant and infrastructure funding.

CCF proposes a progressive threefold increase for NAIF, EFA, ARENA, AIFFP and Virescent Ventures as has already been committed in 2023 to expand the CEFC balance sheet to A$30bn. The US Department of Energy’s Loan Program Office received US$400bn. Before we hear yet again that Australia’s economy is smaller than the US, we need to think proportionate to the investment opportunity of sustained value-added exports worth hundreds of billions annually for Australia, with all the corporate tax, employment and enabling investments associated with this. Australia plays as a world leader when it comes to export markets, #1 in iron ore (38% share), coking coal (55%) and lithium (50%), #2 in thermal coal (20%) and #1 in LNG. These rankings also highlight the legacy over-representation of our fossil fuel export reliance.

We must also support this by ensuring the enhancement of the skill-sets and diversity of members on the independent boards of these funding bodies to optimally manage governance and integrity. This element would ensure community trust, avoid accusations of governments picking winners and giving ‘jobs for mates’.

We acknowledge and welcome Section 17(4) of the National Reconstruction Fund Corporation Act which outlines the nature of similar governance reforms that could be applied to these funding bodies.

**Capital Allocations (another $50bn)**

**A new strategic allocation to the Future Fund for strategic minerals equity (A$20bn of capital)**

CCF recommends that the government provides a new A$20bn strategic national interest mandated allocation to the Future Fund to take strategic equity stakes in emerging Australian mining developments. Benefits would be particularly to deliver patient capital support for firms investing in resource value-adding onshore, to avoid premature takeover by strategic foreign investors, and to ensure the wider Australian community reaps the longer term benefits from successful investments made on its behalf. Ideally it would also help firms to retain a majority Australian ownership so that ATO can realistically expect to gain Australian corporate taxes (rather than have multinationals take control via their multitude of foreign tax haven entities).

The Future Fund over the past 10 years has returned 8.4% per annum, versus its “inflation plus 4-5%” benchmark of 6.9%. This recommendation is about enhancing the independence and expertise of the Fund to invest sustainably to build long term wealth for Australia, leveraging the national value and capacities of its now $255bn war-chest, enhancing not draining its capital base.
Further leverage of NAIF, EFA, ARENA, NRF and CEFC (A$25bn of capital)

CCF recommends that over the coming decade the government continue to leverage the existing financial capacities of these public entities, progressively widening their technology and geographic remits and building on the expanded capacity allocated over the last year. This would build on the 20.5bn allocation to the CEFC in June 2023 ($19bn for the Rewiring the Nation Fund, $1bn for the Household Energy Upgrades Fund, and $0.5bn the Powering Australia Technology Fund), as well as in advanced critical minerals projects through the A$4bn Critical Minerals Facility, managed by Export Finance Australia (in a good if incremental step, the initial A$2bn was doubled in November 2023). NAIF’s capital was expanded by $2bn to $7bn in June 2023 for northern Australia initiatives, as well as in the Indian Ocean Territories, and there is a clear opportunity to broaden and deepen AIFFP and Australia’s wider collaboration with the Asian Development Bank, The World Bank, Multinational Development Banks and strategic QUAD partners such as the Indian Renewable Energy Development Agency Limited (IREDA). May 2023 saw the A$2bn Hydrogen Headstart Program, managed by ARENA. December 2023 saw ARENA launch the A$40m National Industrial Transformation Program to accelerate industrial decarbonisation, a step towards the A$400m Industrial Transformation Stream (which is a subset of the new $1.9bn Powering the Regions Fund).

While timeliness and ambition require much of this capital investment strategy commitment to be front end loaded, the full A$25bn of additional investment would take years to be fully deployed, and as with the CEFC, successfully recycled over time as project outcomes are delivered and private market interest builds.

A critical minerals and strategic metals national stockpile ($5bn of capital)

The volatility and opaque nature of the limited / concentrated global market for many of Australia’s critical minerals and even some strategic metal resources means new project proposals often struggle to secure debt and equity financing, or lose strategic control too early, or have to accept unfavourable offtake agreements from global giants. The heavy concentration of control in global battery markets (the top five Chinese and Korean firms have >80% global share) and in EV (BYD and Tesla have a >40% combined global share together) leaves Australian startups exposed and capital costs often prohibitive. Further, the extreme volatility (to the downside currently in nickel, rare earths, lithium for example) means firms are vulnerable to bankruptcy and creditor takeovers, often at cents on the dollar.

The EFA or CEFC should be given an A$5bn strategic reserve capital allocation to write long term minimum price offtake agreements or contracts for difference (with a share in upside as in the CIS) to support project proposals through FID, construction and into operation. This could work alongside the Future Fund taking a 10-20% equity stake if onshore value-adding and / or the CEFC financing long term renewable energy supply. This could also work in with our QUAD partners e.g. India is building out its solar, battery and EV supply chain, but lacks the domestic commodities access, including
quartz for polysilicon. The strategic reserve fund could match the buying needs of India as it builds out its domestic manufacturing supply chains in support of the fund’s contracts of supply with new domestic mine / refinery offtakes, to leverage Australia’s strategic relationships with India. Similar offtake opportunities should be considered with other trading partner countries.

Aligned with this, the Australian government could join the development of a global battery passport, leveraging the leadership of the EU where such an initiative will become a mandatory requirement by 2026. This could be part of the solution to ensure a green premium for high ESG suppliers (as suggested by Minister Madeleine King this month), ideally with the Australian government working both with the EU and US, but also working directly with Indonesia and North Asia to strive towards a global best practice, rather than trade bifurcation.

**Direct budget program support (A$50bn over a decade, half in the forward estimates)**

Direct forward estimates budget support for key initiatives focused on decarbonisation, such as electrification of everything and onshore battery and renewable energy supply chain manufacturing and refining of commodities pre-export.

**Advanced manufacturing tax credits (A$15bn over a decade)**

Time-limited advanced manufacturing tax credit to incentivise local content and local manufacturing but only subsidise the portion of manufacturing that is done locally, so it does not have any adverse inflationary impact on the whole market.

This could also consider ties to development and deployment of new Australian technologies in partnership with our world leading universities e.g. UNSW solar cells. This could be part of the wider strategic opportunity for Australia to develop onshore solar manufacturing supply chains. This should consider green polysilicon to leverage and develop Australia’s silica / quartz resources and take advantage of our renewable energy potential both per the Australian low cost solar initiative by ARENA, and particularly if done as part of a strategic QUAD partnership to support the development of an alternate supply chain e.g. Australia manufactures polysilicon, then exports this to India for conversion into wafer and cells, which in turn are imported to Australia for conversion into solar modules.

For battery supply chains, a similar logic could apply to leverage the development of new lithium hydroxide and lithium phosphate salt refineries, cathode and anode materials, battery cells or battery pack assembly with associated software systems, in partnership with Chinese and South Korean world-leading, and advanced European and American next generation chemistry battery makers. Advanced Australian battery IP including new chemistries should be supported directly to compete globally and leverage Australia’s leading mineral resources.
**Tax breaks for critical mineral and strategic metal processing onshore**

Tax incentives and/or massively expanded ARENA grants and/or NRF patient capital to incentivise onshore commercial scale first-of-a-kind facilities to produce green iron. This blue-sky A$100bn pa value-add uplift opportunity would allow Australia, as the world’s largest producer of iron ore, to develop a price signal for embodied decarbonisation in the Asian export market, working in collaboration with our international trade partners in Korea, Japan and China to jointly develop a green premium or carbon pricing model to value add Australia’s exports, leveraging the logic of the EU CBAM and extending this policy direction into the Asian sphere. Centre for Policy Development’s [Green Gold](#) report argues for A$30bn in contracts-for-difference to support the absolute first movers in key industries (iron, alumina, aluminium, and ammonia) and A$1.5bn of new funding for the Net Zero Government Fund to defray first mover costs of procuring domestic low-carbon material (eg. for government infrastructure).

**Fair labour conditionality on public capital expenditure associated with the net zero transition**

The net zero transition will not succeed and gain social licence unless Australians can make a decent living driving it, with secure work and safe conditions. Ensuring the creation of good-quality regional jobs in clean energy—as the norm, rather than the exception—is critical both for securing social licence and attracting a sufficiently large workforce. Public capital invested in the transition generates material returns for workers and communities creating a positive political-economic feedback loop that builds community support for renewable projects while ensuring the growth of the workforce needed to run them at scale.

The US Inflation Reduction Act provides tax credits to a broad swathe of clean energy industry and generation projects. If the employer receiving the credit pays prevailing wage under the U.S. Davis-Bacon Act and utilises at least 10% apprentices in their workforce, their credit is multiplied by five. If their project is located in a designated energy transition region, the credit is increased by an additional 10%. Smaller-scale projects can even receive an additional 20% credit for locating in a designated low-income community and signing a community benefit agreement. We need an Australian version of this to build social licence and positive outcomes.

In 2023, Canada legislated its own slate of clean energy tax credits with even stronger labour conditionalities. The Canadian credits also provide incentives for the payment of prevailing wages, but are set based on an eligible collective bargaining agreement in the province in question.

Adopting a similar set of labour conditionalities—in the form of requirements, incentives, or a mixture of both—across various investment vehicles, including the CEFC, CIS, NRF and Future Fund will help to lock in social licence and ensure the renewable economy works for Australian workers and vice versa.
Continue electrification and energy savings cost of living programs across the community (A$10bn over 10 years)

We advocate for a rapid leveraging upwards of decarbonisation, energy efficiency and electrification of everything.

The Australian government 2023/24 budget allocated A$1.0bn to establish the Household Energy Upgrades Fund, and we see this as a strong first downpayment, which now needs to be doubled or tripled over the forward estimates. Within this, the A$300m for co-funding of upgrades to 60,000 social housing properties needs to be expanded manyfold, developing a pipeline of investment over the coming 5-10 years to address all social housing properties. The January 2024 announced $206m from the Commonwealth and state governments for energy saving upgrades for NSW social housing properties and the allocation of $30m to the previously announced Solar Banks scheme to help low-income households and apartment residents install rooftop PV are both very useful advances in the electrification objective. We advocate for these initiatives to be expanded as proof of effectiveness and uptake is confirmed.

Beyond the requirement for new builds of 7 star minimum ratings, we see the work of the CSIRO on tools to deploy the National House Energy Rating Scheme (NatHERS) at the point of sale of every existing residential property as a means to develop new products to crowd-in private capital which could leverage both the government’s 82% renewables by 2030 target and the associated 60% decarbonisation of the residential loan book target pledged by Commbank (and 56% by Westpac, with ANZ and NAB to follow this year).

Continue work on home energy building and ratcheting up minimum appliance efficiency standards so that we get the domestic supply chains established and so it works for all - inclusive of homeowners, people in apartments and the growing rental market (resolving the split incentive issues here e.g. by immediate tax write-offs) and providing market certainty through aligning building codes and regulations with best practices nationally, for new builds and the far larger A$10 trillion existing home asset base in Australia.

Support rapid scaling of the clean energy workforce

Skilled trades workers are essential in the renewable energy transition and significant investment is needed to rebuild both the teaching of these skills, and the requisite workforce. Replicating programs such as the Renewable Energy Training Facility in Queensland to support the development of electricians, solar installers and telecommunications workers will ensure Australia can build the skill sets required to get the transition to renewables right. These centres provide a valuable model for other trades such as welding, as well as facilitating the interaction between different trades and sectors, opening up lines of communication and connection to ensure project delivery.
Direct incentives for homes to electrify

The CEFC has already been providing financing to a range of lending organisations to provide discounted finance to build or buy homes with high energy efficiency ratings (7+ Star NatHERS, A$120m fund with Bank Australia) or to finance energy-efficient equipment and rooftop solar systems. This needs to be expanded and broadened to leverage and de-risk the balance sheet exposure of the big 5 banks in Australia.

Support appliance replacement

Direct support (tax write off and/or direct subsidies leveraging existing state programs) to shift to the modern electric versions of their current fossil gas appliances, specifically to install: heat pump hot water heaters, heat pump space heaters (reverse cycle air conditioners), electric cooking, and to power those appliances via the installation of rooftop solar with storage capacity in household and community batteries supported by cheap accessible finance (e.g. tied to rates) and government guarantors for loans.

Rooftop solar and batteries

A 10 year interest free loan program for rooftop solar and behind-the-meter batteries, with A$1,000m pa nationally for loans repaid one-tenth each year – with the scheme going for a decade. This provides a A$5bn interest subsidy over the full 20 year life of the project, with the immediate impact of significantly contributing to the delivery on the 82% renewables target without having to wait for the interstate grid transmission projects to be approved, reach financial close, be built and then energised.

It was reported that in Germany the market for home and commercial storage systems grew by over 150%, in 2023 doubling the total number of behind-the-meter battery units to more than one million, with a combined capacity of 12 gigawatt-hours. This demonstrates the speed of the disruption underway and the massive opportunities now for Australia, even as we wait for new grid transmission projects to be approved, financed and built.

We applaud the rollout of multiple 4MW/8MWh batteries across Queensland as a ‘solar-soaker’ and to enhance grid reliability, and recommend this be scaled-up and done nationally.
Local content initiatives

The updated CIS tender process provides an excellent opportunity to concurrently enhance supply chain diversity and energy security, with very few negative impacts.

Including a domestic content stipulation or a qualitative bias in submissions towards local and First Nations content in CIS tenders would underpin investor confidence and encourage investment into establishing local capacity by Australian companies. It would also build a critical skills base for Australia’s energy transition, facilitate regional community / First Nations social licence (by sharing some of the local benefits, not just the costs). Of note is the minimised risk associated with projects that embrace local content and First Nations arrangements, contributing to a more commercially viable project. These mechanisms would also prepare Australia for international opportunities as a renewables and cleantech superpower in the zero-emissions world economy.

Around the world, governments have increasingly included local content requirements (LCR) in tenders to require firms to include and use domestically-manufactured goods or domestically-supplied services as part of their operations within an economy. They aim to achieve a variety of policy objectives that target economic, employment, industrial, First Nations and technological development goals.

The US IRA offers production tax credits and investment tax credits targeted at renewable energy generation and storage with an up to 10% bonus for projects that meet minimum domestic content requirements. For steel and iron, the domestic content condition requires that all manufacturing processes for structural steel and iron occur in the United States (with the exception of metallurgical processes for refinement of steel additives). For manufacturing, starting in 2023 40% of the value of manufactured products and components will have to originate in the United States, scaling up to 55% after 2026. Offshore wind projects start lower at 20% and scale to 55% after 2027. Finally, the IRA offers consumers an up to $7,500 rebate on the purchase of electric vehicles. To qualify for the full rebate, the batteries of those vehicles must meet two conditions: components representing at least 50% of the value of the battery were assembled in the United States; and 40% of the critical minerals in the battery were extracted in the U.S. or a country with which they have a free trade agreement. Both percentages are set to increase incrementally over time.

Australian businesses have long called for Australian government contracts to include workable local content requirements. The recent House of Representatives committee report into advanced manufacturing in Australia - Sovereign, smart, sustainable recommended¹:

¹ Sovereign, smart, sustainable report – House of Representatives House Standing Committee on Industry, Science and Resources,30 Nov 2023 Chapter 3 - point 3.153
“In partnership with the states and territories, the government should identify further steps it could take to increase locally manufactured content in renewable energy infrastructure and equipment installations, medical and health supplies, and other areas where governments are major customers.”

A LCR for CIS tenders – as a significant first step – would illustrate a commitment to developing Australian companies and offer opportunities for local communities. It would ease the pathway to social licence and have benefits for local supply chains. Building community acceptance of the transition, particularly in regional areas, is essential, reducing the risks and costs of project approval delays.

**Reform of diesel fuel subsidy (redeploying an additional $14bn into the NRF)**

Cap the diesel fuel subsidy at A$50m pa per consolidated group to raise A$14bn by 2030.

100% of the tax revenue gained from the fuel tax credit scheme (FTCS) cap should be directed into a special purpose fund within the National Reconstruction Fund. Revenues in the special purpose fund should be invested to partner with world leading mining original equipment manufacturers (Liebherr, Komatsu, Caterpillar) to scale domestic manufacturing and adoption of battery and electric vehicle (EV) zero-emission technology across Australia’s mining sector, electrifying Australian mining industry transport and driving embodied decarbonisation into our bulk commodity exports. Support could take the form of subsidy programs and production-based tax credits.

**A$50m annual cap** means only eight mining firms would be impacted: Fortescue Metals Group, Rio Tinto, Hancock Prospecting, BHP, Glencore, Peabody, Yancoal and Anglo American. There would be zero impact on the agricultural sector or small businesses.

**Vehicle fuel efficiency standards**

The delay in releasing vehicle fuel efficiency standards for Australian vehicles is beyond disappointing, Australia is a global laggard. These standards are needed immediately.

Fuel efficiency standards will reduce the cost of living by saving motorists money, increase the uptake and availability of electric vehicles, lower fuel use and carbon emissions and drive efficiency improvements in the vehicle fleet.

Any further delays to implementing strong fuel efficiency standards will lock Australians into substantially higher fuel costs and carbon emissions.
The government should introduce fuel efficiency standards that are:

- Legislated in 2024 and in force by 1st January 2025.
- Strong and ambitious; align with Australia’s emissions reductions commitments and catch Australia up to the standards set in other car markets.
- Independent and robust; avoid loopholes and make emissions data publicly available.
- Accompanied by a smart transport strategy to encourage a shift to active and public transport, decarbonise freight, heavy vehicles and non-road transport and accelerate the local EV, battery charging and component part industry. There is over 1.5TWh in a fully EV-transitioned Australian vehicle fleet of 20 million vehicles. These batteries could be made in Australia to accelerate EV adoption and de-risk a world-scale embedded decarbonisation export battery industry, supporting in turn a significant onshore battery recycling capacity.

**Pacific and Asian regional support**

Significantly restore our financial aid to Pacific and ASEAN countries where geopolitically feasible, using DFAT skills and expertise to ensure advocacy, skills development and location specific development and adoption of decarbonisation technologies.

**First Nations support**

To minimise project risk and establish more valuable projects, ensure First Nations and regional communities are included in efforts to develop climate solutions, particularly in their communities, and are consulted and included on new climate finance incentives, alternative ownership models and wealth creation sharing opportunities by all tiers of government.

Public equity funding for First Nations engagement early in a project’s development to align interests and ensure it is not delayed by protracted approvals processes, whilst also working towards financial independence of First Nations communities.

Require consultation and tendering processes to meet strong benchmark criteria on engagement, benefit sharing, economic participation (including equity ownership) with First Nations communities.

**Early Stage Australian Cleantech Startup Support**

Australia has a long and proud history of innovation, but also one of letting Australian, particularly cleantech, innovation be commercialised and scaled up offshore, and hence lost to Australia. Missed opportunities such as solar and EV fast chargers have gone on to outstanding international commercialisation success.
This has occurred not only in Australia, but also in other advanced western economies; surprisingly in California, where a first generation of battery and solar innovation left for other markets.

California’s answer to this issue has been and is a consistent, multi-year and completely non-dilutive scheme with the early-stage components called CalSEED and CalTESTBED to optimally service, fund, and guide startups and entrepreneurs to success.

Australia should adopt similar early stage programs; AusSEED and AusTESTBED with a 10-year, $100M investment.

**Reform PRRT**

Adjust upwards the failed Petroleum Resources Rent Tax (PRRT) to ensure a remotely fair share of LNG export revenues return to Australia, particularly at times of windfall profits for the multinationals operating here. The proposed legislation adjustment of late 2023 of limiting deductions to 90% should be reduced to an 80% limit, particularly in light of the reduced PRRT contribution flagged in MYEFO in December 2023. We note the Treasurer’s [January 2024 proposed legislation](https://www.abc.net.au/fantasy/2023/01/24/4383832/) to modernise the PRRT and to strengthen anti-avoidance laws.

**Carbon Border Adjustment Mechanism**

Exponential growth in demand for EV, and the resulting associated boom in global battery manufacturing capacity, are being led by China in both cases. But commodity markets are driven by supply and demand and China is the world’s biggest buyer of the commodities it needs to manufacture batteries and EVs. It is therefore in China’s interest to flood the global market with new supply of these minerals, faster than new demand grows. This in turn is pushing commodity prices down, with a negative impact on Australia’s export revenues and royalty returns to taxpayers.

Co-operation and global partnerships are needed to open up both diversity and security of global supply chains. While competition can be a powerful accelerator, we need to ensure that the current geopolitical trends do not become a headwind to the global energy transition.

The European Union (EU) has long been a leader by taking action on an international trade to price in industrial carbon emissions, imposing a carbon price on foreign firms wanting access to the EU market. There is much to learn from their experiences in policy approaches that seek to limit carbon leakage. We acknowledge the government’s [review of carbon leakage](https://www.abc.net.au/fantasy/2023/01/24/4383832/) and look forward to the outcomes due later this year.
Providing an incentive for manufacturers by placing a green premium on mining practices and processes that have high standard environmental practices should also be adopted. This would make Australian minerals more attractive, particularly in the EU, where the EU Battery Passport has been introduced to manage environmental, social, and governance impacts, as well as providing transparency across the supply chain and for stakeholder engagement.

We cannot afford to jettison responsible and safe workforce practices, and environmental and sustainable governance practices in the transition to industrial scale renewable energy. We would lose more than we would gain.

We encourage the government to continue exploring the most ambitious policies to set Australia up for the renewable energy transition and are ready to provide support as needed.

**Encourage targeted onshore manufacturing**

Research and establish a new Make Australia Make Again program to drive smart energy and smart transport manufacturing where it makes the most economic sense in Australia and can add value to the mining of metals and rare earth minerals. A production tax credit scheme as outlined in the proposal on reform of the diesel tax rebate scheme above could also help to incentivise processing of Australia’s energy transition materials onshore. Focus could be on specific sectors, such as heavy industrial vehicles using battery-powered engines on mining sites, for example.

**Review of superannuation performance testing regime**

For a decade, superfunds were stymied from participating in the massive Australian energy transformation caused by the climate and energy policy paralysis of the previous government. Post the current consultations, Australia needs to resolve the unintended negative consequences of the Your Future, Your Super (YFYS) performance testing regime. This regime has been criticised for inhibiting and restricting the super funds’ ability to invest in Australian renewables and infrastructure projects which often have longer investment return timelines.

Given the long-term nature of superannuation investment, and the need for funds to be able to provide for members over decades, the government should adjust the benchmarks to prioritise future-facing industries and low-carbon investments. At very least, the benchmarks should not penalise such investments.

Climate Energy Finance estimates Australia will need to invest upwards of $400 billion in grid transmission, plus new zero-emissions capacity and firming by 2050. An additional $100bn public capital investment and budget support over the coming decade by the federal government in programs and future-facing industries would crowd-in $200-300bn in private capital – including,
potentially, from super. Making the YFYS benchmarks future facing would help unlock Australia’s $3.5 trillion of super funds to become global leaders in decarbonisation investments, consistent with the Super Industry Blueprint to accelerate investment in energy transition released in December 2023 and as was well articulated by IFM Investors at COP28.

About Capital Climate Forum

The Climate Capital Forum was established in December 2022. It brings together the investment, decarbonising, and philanthropy sectors as well as climate finance experts and NGOs to work with government, industry and stakeholders to advocate for ambition in Australia’s drive to become a renewable energy superpower.

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