MYEFO: nothingburger on green iron, Australia's #1 economic opportunity, but some bright spots on renewables

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On 18 December 2024, Treasurer Jim Chalmers and Finance Minister Kety Gallagher released the Albanese Government's 2024-25 Mid-Year Economic and Fiscal Outlook (MYEFO). This comes after the 2024-25 budget, released in May, announced $21bn in new funding initiatives under the landmark Future Made in Australia (FMIA) framework.

Overall MYEFO is true to name, mostly providing a mid-year update on how the budget is progressing, rather than introducing a large range of new measures. As Saul Eslake highlights, the key budget pressures are structural headwinds relating to health, aged, disability and childcare, and defence, plus the drain of funding interest on the $500bn increase in net debt built up over the last decade or so. We commend the government for delivering the only two surpluses seen in the last decade, and banking 78% of the gains of a sustained stronger economy underpinned by a million new jobs.

But the MYEFO provides little change on the 'incremental changes only' approach. As Allegra Spender has highlighted, we need all sides of Parliament to engage in an informed strategic public debate to address the growing intergenerational inequity being locked into our economy that is increasingly undermining our younger generations.

Beyond accelerating the electrification of everything and deployment of consumer energy resources as called for by the Renew Australia For All coalition, CEF's key ask for MYEFO was strategic national interest support for green metals in the form of production tax incentives (PTI) for processing onshore using firmed renewables – preeminently green iron. This ask was absent in today's Budget update.

In 2023-24, Australian iron ore exports generated $138bn in revenues, the largest fuel and resource export industry in Australia by both volume and value. As world #1 exporter (56% market share), iron ore yields 1/3 of our total resource export revenues.

Our recent Green Metal Statecraft report found that repositioning Australia as a global leader in green iron exports has the potential to double the value of our iron exports to >$250bn pa, key to securing economic prosperity. A failure to pivot to green iron, on the other hand, risks halving Australia's export revenues, as China (86% share of Australian iron ore exports) and other key nations decarbonise and restructure iron and steel supply chains.

We cannot afford to stand still. We are already seeing the start of the fiscal impact of the slump in iron ore prices.

Australia must urgently prioritise strategic national-interest green metal 'statecraft' via targeted public investment incentives, and incentivisation of research, development and deployment (RD&D) in the local context. Production Tax Incentives for green metal refining would accelerate private investment into onshore green metals processing ahead of the development of carbon pricing in international trade. This would complement the Hydrogen Production Tax Incentive to lower the cost-differential for first movers in embedding clean energy into resources supply chain, and the critical minerals PTI.

In the case of renewable hydrogen and critical minerals, PTIs were introduced to address market failures and to develop industrial capacities critical to the future economic resilience and security of Australia. Government intervention was deemed necessary to scale investments above the prevailing natural rate given the demand pressures arising from global net-zero transformation efforts to develop sovereign capability in the key decarbonisation sectors. We endorse the government's logic that private markets cannot provide a price signal for supply chain security, that is a public value.

More specifically, the Federal Government introduced the critical minerals PTI as a public intervention to alleviate producers' cost premium for value-adding critical minerals by processing these onshore pre-export using firmed renewable energy relative to countries with lower standards, like nickel refining in Indonesia. This is key to positioning Australia in decarbonising energy transition materials value chains globally, and it is equally critical to Australia grasping its nation-defining green iron opportunity before other nations build too much of a lead on us.

A time-limited production tax incentive would help support producers between now, where we lack a carbon price in international trade to value decarbonisation, and the inevitable emerging policy response of international carbon pricing in the form of CBAMs and the like. This would ensure Australia's green iron industry gets moving, and help align the trajectory of Australia's resource sector with the acceleration of global policy responses to climate change via policy levers that accelerate and reward decarbonisation and penalise carbon.

Realising the green iron opportunity presents a far greater economic upside than critical minerals given the world leading scale of Australia's iron industry, so it is doubly disappointing that we still lack an appropriate public investment policy response in the Federal Budget.

CEF sees the failure to extend these measures to facilitate the creation of a green iron industry in Australia as the single biggest risk to Australia in the domestic and global transition to a net zero economy.

We again call on both sides of Parliament to commit to a green metals PTI in next year's budget and/or as an election policy.

On the upside, we applaud the following new budgetary measures in MYEFO to support the energy transition:

- The Single Front Door initiative is an important step forward, but we call on the government to concurrently clearly welcome all global technology leaders to invest here in Australia in collaboration with Australian firms, like we have seen with the Trina Solar MoU with SunDrive in response to the Solar SunShot Initiative.

- An additional $1.2bn to modernise and deliver new and upgraded transmission infrastructure, building on the $20bn Rewiring the Nation Fund. CEF however questions why this is prioritised now, given much of the first $20bn is still unassigned.

- $500m to expand the existing Social Housing Energy Performance Initiative (SHEPI) to improve energy efficiency and access to solar and batteries, in partnership with states and territories. This is expected to reach more than 100,000 social housing properties, saving up to 25% of energy usage. This needs to be stepped up many fold.

- $253.7m additional funding to rebuild our critically important free TAFE system to reskill the Australian workforce of tomorrow.

- $70m over three years to establish the First Nations Clean Energy Futures Implementation and Grants Program as part of the inaugural First Nations Clean Energy Strategy, which will reduce barriers to accessing clean energy for First Nations and support new First Nations clean energy projects. CEF recognises this is an important step to implementing the FMIA Community Benefit Principles and First Nations engagement standards.

- $68.5m in 2025-26 to DCCEEW to maintain resourcing for environmental assessment, approval and compliance functions to support the timely delivery of approvals, including in priority areas such as renewable energy, transmission, critical minerals and housing.

- $36.9m over six years in new innovations and technologies to deliver more energy through the existing infrastructure, including integrating batteries and other demand management technologies into local grids, and new technologies like digital twins to improve reliability. CEF's new report highlights the accelerating momentum over 2024 that has put the 82% renewables by 2030 target on-track.

- $10.2m over three years from 2024-25 to implement key improvements to fugitive methane emissions reporting under the NGER scheme in response to the Climate Change Authority's 2023 review of the NGER legislation. CEF strongly advocates for methane to be evaluated on a global warming potential of 20 years (GWP20), in line with the climate science.

- $2.5m over four years for the Australian Energy Infrastructure Commissioner to build community engagement and support for those affected by the energy transition.

- Continued energy bill relief in acknowledgement that higher fossil fuel prices are central to the cost of living crisis smashing many Australians.

Complemented with initiatives such as a green metals PTI, the government's renewable energy transition investments in this year's Budget and the MYEFO today are the foundation for our transformation from dig and ship petrostate to a prosperous zero-emissions energy, trade and investment leader into the future. But both are needed if we are to thrive.