Investor Group on Climate Change

July 2024

To the Senate Economics Legislation Committee,

Response to the Future Made in Australia Bill 2024 [Provisions] and the Future Made in Australia (Omnibus Amendments No. 1) Bill 2024 [Provisions] (FMIA)

The Investor Group on Climate Change (IGCC) welcomes the opportunity to provide a submission on the Future Made in Australia bill, which is due to coordinate a package of reforms and initiatives that will support the growth of Australia's vital industries and their communities. IGCC is strongly supportive of the Bill and would welcome the opportunity to appear before the Committee to discuss this submission.

IGCC is a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments. IGCC represents investors with total funds under management of over $3 trillion in Australia and New Zealand and $30 trillion around the world. IGCC's members are the custodians of the retirement savings of around 15 million Australians.

Our members have identified climate change-related damages as one of the greatest risks to their ability to deliver strong returns for their members. They have also identified climate mitigation and adaptation as among the largest investment opportunities to deliver good risk adjusted returns over coming decades.

Unlocking private capital via public financing mechanisms, as outlined in the bill, is critical to overcome barriers outside the control of investors and will accelerate decarbonisation globally and secure economic resilience for Australia.

Noting that this bill is principles-level and more detail will come in future, IGCC seeks clarification on the following:

National Interest Framework

IGCC agrees with the National Interest Framework, acting to deliver economic security and resilience, future-proofed industries and good community outcomes via FMIA financing arrangements.

Recommendation 1. More clarity on how Community Benefit Principles will be measured when deciding whether to allocate financing.

Principle-level support is outlined in the bill, but mechanisms that standardise good community outcomes are absent. Options may include workforce, training and apprenticeships, and local content requirements on financing. A secure workforce increases investor certainty that industries will be durable.

Recommendation 2: That regardless which body provides financing, Community Benefit Principles are required to be considered.

The Australian Renewable Energy Agency (ARENA) and Export Finance Australia (EFA) are explicitly mentioned as delivering FMIA financing, but the Minister may award other bodies funding to deliver industry-building projects. Policy objectives should be aligned across government, regardless of the body coordinating financial support. Policy consistency is a critical factor in setting an enabling environment to catalyse investment, as investors need clarity around what risks and returns they may expect from an investment. Having different bodies subject to different mandates for similar investments creates unnecessary complications for investors and companies seeking opportunities.

Recommendation 3: That all projects receiving FMIA financing have access to the coordinating front door, connecting those executing the project with relevant entities for streamlining and innovation ecosystem development.

As it stands, projects under $100 million will not have access to the front door platform which will coordinate approvals and engage relevant stakeholders to accelerate deployment. Ensuring that capital appropriately flows to all parts of the capital stack, from R&D to commercialisation, is critical for a pipeline of investible opportunities to emerge.[1] Government will be better able to see gaps within sectors when all nodes of innovation ecosystems are accounted for within the one platform. Embedding linkages from ARENA, EFA and others such as the Clean Energy Finance Corporation (CEFC) will result in better supports for industry to incubate and deploy innovation.

Recommendation 4: That the sector assessments outlined under the National Interest Framework are not duplicative of work undertaken during the current sector plans consultations, and are informed by the conclusions of that work.

IGCC supports the sector assessments, so long as they are additive and provide in-depth analysis of the best financial vehicles to support industry. The Government's final sector decarbonisation plans must be considered by the sector assessments, to ensure alignment across all levels of Government. Sector assessments should not unduly delay deploying financial support for projects that are definitively aligned with the goals of FMIA.

[1] IGCC 2023, Driving Australian Climate Innovation [link].

Recommendation 5: That no funds that are allocated on the basis pf principles under the National Interest Framework are given to projects in legacy industries such as fossil fuels.

ARENA has a mandate that prevents it from investing in fossil fuels. The same is not true for EFA, and potentially not for other bodies that will deliver FMIA funds. Government must include provisions that safeguard against public funding going towards projects in industries that have limited value and will decline in a net zero emissions economy. For example, projects that extend or expand the use of fossil fuels under the economic security and net zero transition principles of the Framework. Support towards these sectors should be limited to collaboration to support a just transition for affected employees and communities through the work of the Net Zero Economy Authority.

CCS for energy sources should not be considered eligible for public financing under these principles. CCS in hard to abate sectors or for carbon draw down would be applicable.

Recommendation 6: That close alignment with the Australian sustainable finance taxonomy is embedded within the Bill.

This would provide a sophisticated and standardised approach to which technologies should be prioritised, and ensure consistency with finance industry expectations.

Recommendation 7: In delivering “genuine value for money” FMIA must be careful not to exclude projects with below commercial rates of return which is where the capital stack is most vulnerable.

Innovation and information-sharing is beneficial to all stakeholders within industries, and smaller-scale projects should not be unduly judged for good financial returns. Institutional investors rely on public funds to derisk and prepare early-stage innovations to create a pipeline of projects towards patient capital investment.

Recommendation 8: That adaptation and resilience is embedded within matters to be considered, so that projects receiving funds deliver economic security.

FMIA emphasises the importance of resilient supply chains – this begins with resilient companies and assets. Recipients of funds delivered under the Bill’s principles should be able to demonstrate how they are adapted against climate damages. FMIA should seek out investment opportunities that deliver economic resilience and diversification.

For more information

Please contact Policy Manager, Bethany Richards ([redacted]) for further discussion on any comment made in this submission.