Australian **Sustainable Finance Institute**

Submission to Productivity Commission Consultation Paper - *Investing in cheaper, cleaner energy and the net zero transformation*

6 June 2025

The Australian Sustainable Finance Institute (ASFI) welcomes the opportunity to comment on the Productivity Commission's consultation on 'Investing in cheaper, cleaner energy and the net zero transformation.' ASFI is a not-for-profit organisation committed to realigning the Australian financial system to be sustainable, resilient, and inclusive. ASFI's members are large Australian financial institutions – including major banks, superannuation funds, insurers, asset managers, and financial services firms – that support ASFI's mission.

In this paper, ASFI makes some general remarks about areas we see as important to address in the net zero transition (rather than responding to specific questions posed in the consultation).

1. The relationship between climate change and productivity

Climate change is expected to have a significant impact on capital, labour and multifactor productivity. The European Central Bank notes several potential productivity impacts:

- The physical impacts of climate change are expected to have an ***overwhelmingly negative*** impact on productivity
- A disorderly transition to net zero is expected to negatively impact productivity in the long run, making an orderly transition preferable from the point of view of productivity
- Measures to address climate change can have either a short term positive or negative effect on productivity.[1]

These impacts support the case for taking early and effective steps to address climate change. The disruptions that climate change will bring will be made more severe should insufficient effort be made to mitigate and adapt to its effects, and will make the level of uncertainty about future climate and other circumstances significantly greater. Such a scenario makes investment more challenging, as investors require information, knowledge and reasonable expectations of a return

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[1] European Central Bank (2024), The impact of climate change and policies on productivity.

to commit their funds with comfort. Any situation that makes investment more challenging will ultimately have a dire impact on productivity growth, which is highly dependent on additional investment.

There are ways to address the adverse productivity impacts of climate change. Measures to increase investment can counter slowdowns in productivity that climate change could bring, particularly where directed to align Australia's capital stock with a net zero future.

Strong action to address climate change is essential to future productivity growth and prosperity.

2. A new approach is needed to determine the best course of action

The Commission's framing of one of the most serious challenges – 'lowering the cost of meeting our carbon targets' – reflects an approach to considering climate change that does not reflect current realities. The implicit framing of this question – that addressing climate change is a cost – compares policy and technology measures against a business-as-usual reference scenario in which the 'do-nothing' scenario is costless.

There is now widespread consensus that insufficient action to address climate change will have significant costs – borne by individuals, by companies, by governments, and ultimately by the community at large. The Institute and Faculty of Actuaries in the United Kingdom notes that credible estimates of GDP damages from climate change vary considerably, but could be expected to create a global 50% GDP loss somewhere between 2070 and 2090 in a 3ºC warming scenario.[2]

This clearly demonstrates that the do-nothing scenario is in fact a costly scenario. In evaluating the relative costs of particular policy scenarios, the winning scenario is the one that *reduces the cost of climate change the most*. Conventional cost-benefit analysis that applies a discount factor to costs and benefits to determine the net present value of a particular course of action is also problematic, as this approach inevitably creates a bias against acting early, even if the reduction of the impacts of climate change is significant in the long term.

There is compelling evidence that the reverse should be preferred. The impacts of climate change are understood to be proportional to the cumulative total of emissions to date, and each additional emission has a definite, marginal impact on climate change. Therefore, in any efforts to meet carbon targets (such as net zero by 2050), there is a compelling argument to prefer approaches that reduce emissions more quickly, as this will have the greater chance of avoiding more significant climate impacts.[3]

Long-term costs of climate change will be severe under business-as-usual and determining the optimal policy response should preference pathways that reduce impacts as far as possible.

3. Unlocking investment in mitigation

3.1 The importance of strong policy signals

The transition to net zero will require substantial private sector investment. The capital stock of existing high-emitting infrastructure must be replaced with a capital stock of zero-emissions infrastructure over the next 2-3 decades. This is not a task that governments can achieve on their

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[2] Institute and Faculty of Actuaries (2025), *Planetary Solvency–finding our balance with nature*
[3] Dietz, S, Venmans, F, (2019), 'Cumulative carbon emissions and economic policy: In search of general principles', *Journal of Environmental Economics and Management.*

own, and investors require clear signals to provide them with confidence to invest. To ensure that investors continue to have comfort in investing in the transition, the direction of travel should remain clearly visible and predictable, with an obvious trend towards increasing the level of climate ambition. Clear policy signals would include:

- A strong 2035 national emissions reduction target
- An expansion of the scope and ambition of the Safeguard Mechanism to expand the role of carbon pricing in the economy
- Clear progress towards comprehensive policies that will address economic sectors that are partially covered by policies, including transport and agriculture, as well as plans to help small business respond to the challenges of climate change
- Creating clear economy wide and sectoral decarbonisation plans

Without clear policy signals and ambition, finance and investment will not be deployed at the scale or pace required to support Australia's ambitions to transition to net zero and capture the benefits from a timely transition.

Clear, ambitious and consistent policy signals are crucial to provide confidence to financial institutions, enabling finance to flow towards low-emissions economic activity.

3.2 The need for supportive regulatory settings

There are a range of regulatory settings that could be optimised to remove regulatory barriers to investment and better facilitate finance flows towards net zero-compatible economic activity. These include:

- Reforming the *Your Future, Your* Super performance test to ensure that superannuation funds are not discouraged from investing in newer, low-emissions economic activities
- Adjusting prudential standards for authorised deposit-taking institutions to properly reflect the risk that climate change poses to the financial system, and preference finance flows towards green assets that are safer in the long term
- Reform competition law and enable the Australian Competition and Consumer Commission to better facilitate collaboration between companies on sustainability and climate change.

These types of interventions could make it easier for capital to flow towards those activities that will be necessary to accelerate the transition to net zero.

Optimising financial regulation could unlock new sources of private capital needed to accelerate the transition.

3.3 Sustainable finance policy and regulation is a key enabler

Climate-related Financial Disclosures

The advent of climate-related financial disclosure (CRFD) is a step-change in directing the efforts of organisations towards responding to the risks posed by climate change. Disclosures serve multiple purposes, including:

- Creating a driver for reporting entities to analyse their sources of emissions
- Creating a platform for entities to assess, evaluate and manage the physical, transition and liability risks that climate change presents to their business
- Ensuring the market is informed about the degree of exposure of entities to the risks of climate change

- Providing corporate regulators, governments and other stakeholders visibility of the level of maturity entities have in responding to climate change.

Australia's introduction of mandatory, internationally aligned CRFD from 1 January 2025 is an important step. Ongoing support for CRFD implementation – including through market capacity building, and development of guidance including for corporate transition plans – is important to promote high quality reporting.

The value of CRFD to investors and other stakeholders would be greatly enhanced by digitisation of financial reporting in Australia. Digital reporting – while incurring an initial cost in system transition – would have significant productivity benefits by streamlining reporting activity, and enabling the market to more effectively access and use information provided in CRFD reports.[4]

Australia should support high quality corporate disclosure of climate-related risk and opportunity (including transition plans), and shift to digital reporting as soon as possible

The Australian Sustainable Finance Taxonomy
ASFI in partnership with the Australian Treasury has developed Australia's initial sustainable finance taxonomy for climate change mitigation. A taxonomy is a classification system identifying economic activities that deliver on key climate and/or other sustainability objectives by reference to specific performance metrics. It is designed to guide investment towards economic activities that are consistent with a future net zero economy.

Credible taxonomies create a common language between corporations and financial institutions. They enhance productivity by reducing the transaction costs associated with case-by-case assessments of mitigation credentials, supporting transparency, and enabling objective verification of green claims (mitigating greenwashing).

The Australian taxonomy will be released on 17 June 2025. Ongoing cooperation between industry and government to support market awareness and uptake of the taxonomy will be important to realise the productivity benefits of a common industry standard.

The Australian Sustainable Finance Taxonomy is an important tool to support financial institutions and other businesses to efficiently and effectively allocate capital to low emissions activities.

3.4 Prioritise environmental planning reform

Australia's current environmental regulation system does not adequately serve the environment, the economy, or society at large. Reform is required in order to improve outcomes for nature, and accelerate deployment of low-emissions technologies across Australia.

ASFI supports the Government's commitment to progress reform of Australia's environmental legal framework as a priority for this term. This should include:

- Reforming the Environment Protection and Biodiversity Conservation Act to provide better outcomes for nature and faster outcomes for project proponents

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[4] See ASFI's Submission to the Treasury's second consultation on mandatory climate-related disclosure framework, 2023, available at https://www.asfi.org.au/publications/climate-related-disclosures-second-consultation-paper-asfi-submission

- Creating regional planning frameworks that provide quick 'go or no' assessments for some development types
- Creating a strong, independent regulator and a rules-based order that gives confidence in the process to both proponents and interested parties
- Ensure that governments, proponents and the wider public have access to high-quality environmental information and data to support evidence-based decisions.

Reform to environmental regulation and approvals is essential to deliver improved outcomes for nature, and facilitate faster investment for the net zero transition

4. The transition must embolden First Nations economic self-determination

ASFI notes that despite the Commission overseeing the *Closing the Gap* targets, the Five Pillars inquiry does not mention First Nations peoples, and how their interests may intersect (or otherwise) with a push for greater productivity, and in addressing climate change.

For example, we note that significant amounts of clean energy development will need to occur on land which is subject to First Nations interests. For First Nations people to be genuine partners in this transition – and to support economic self-determination of Indigenous communities – principles of Free, Prior and Informed Consent must be embedded in any consideration of accelerating clean energy deployment.

Futhermore, the transition offers significant opportunities for Indigenous communities. The ability to partner in major projects, as seen in jurisdictions such as Canada, could be catalytic for First Nations self-determination.

ASFI strongly recommends the Commission consider how productivity-boosting reforms will interact with First Nations communities, and how opportunities for increased economic empowerment associated with the clean energy transition can be captured.

5. Investing in adaptation must be holistic

ASFI notes the Commission's interest in residential adaptation and welcomes any consideration of how Australia can encourage efforts to invest in creating more secure, resilient housing that will withstand the effects of climate change. However, consideration of adaptation must be holistic, and considering ***only*** residential adaptation in the absence of adaptation of other sectors of the economy (and community) risks maladaptation.

For example, should efforts at adaptation for residential dwellings not consider their relationship to other important community infrastructure like education, health, employment, transportation, community and other welfare facilities, investment decisions could be made that lock in protection of other assets, or increase costs associated with adapting those assets.

Similarly, consideration of adaptation must always consider human factors, as well as economic ones. Consideration of whether a community can be successfully adapted, or relocated, cannot be made on the basis of economic efficiency alone, and must also consider the needs and circumstances of each individual community.

Without broad economy- and community-wide consideration of adaptation needs and priorities, planning and investment is likely to be piecemeal and increase the risk of maladaptation.

6. Unlocking investment in adaptation

6.1 Consider adaptation as an Australia-wide priority
As noted above, the physical impacts of climate change present a serious risk to Australia's economic productivity and will increasingly inhibit Australia's ability to capture gains from investing in the net zero transformation.

Adaptation requires strong and committed participation from all levels of government – Commonwealth, state and territory, and local governments. The role of local governments, who best understand the circumstances unique to their local area, should not be underestimated. In fact, it is local governments who are the first to deal with the impacts of climate change, yet are least resourced to do so.

Facilitating investment towards adaptation requires a clear set of policies, and effective frameworks for inter-governmental cooperation. This necessitates an immediate upshift in adaptation policy development. The completion of Australia's National Adaptation Plan should be prioritised, without which there is no framework for orderly, efficient adaptation. State and local frameworks for adaptation should then be integrated into the National Adaptation Plan, providing clear areas of responsibility and clear avenues for collaboration.

While governments are practiced at working together in times of disaster, focusing only on disaster response is a more expensive and disorderly approach to responding to climate change. Working together to prevent and mitigate disasters through adaptation and resilience building would be a far more effective and efficient use of resources and promote significantly better outcomes for the community.

Government must create a clear framework for building resilience and security in the community as climate change impacts continue to become more frequent and severe

6.2 Provide supportive policies and tools to guide private capital for adaptation
Ongoing public funding – along with better planning frameworks and other supportive policies – will be required in a range of areas to support adaptation and resilience. However, with the right policy settings there are opportunities for private capital to finance and invest in adaptation. This is particularly the case in the built environment, capital investment by businesses, and agriculture and land management.

Sustainable finance taxonomies can be used as important tools to support capital allocation for adaptation and resilience (as well as climate mitigation). The Australian Sustainable Finance Taxonomy so far covers mitigation only. Expanding coverage to include adaptation should be a high priority to assist financiers and investors to identify suitable opportunities for adaptation investment at scale.

Another important tool for enabling private finance and investment into adaptation is blended finance. Blended finance mechanisms utilise public funds to crowd-in private capital by reducing the risk and/or increasing the returns associated with a particular investment opportunity. They allow limited government funds to catalyse a far wider range of projects than if government was the sole funder (especially in infrastructure), and they allow better allocation of expertise and skills. The Clean Energy Finance Corporation is a strong example of blended finance for climate mitigation, and with the right risk settings could play a similar role in adaptation and resilience.

Governments should consider policies and tools, including taxonomies and blended finance, to increase private capital allocation adaptation, enabling greater adaptive capacity in Australia in advance of more severe climate change impacts. [5]

For further information relating to matters mentioned in this submission, please contact Alex St John, ASFI Policy Manager,

[5] See further ASFI's submission to the National Adaptation Plan Issues Paper, 2024, available at https://www.asfi.org.au/publications/submission-to-the-national-adaptation-plan-issues-paper