Submission to the Productivity Commission

Pillar 5: Investing in cheaper, cleaner energy and the net zero transformation

15 September 2025

About IGCC

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 $4 trillion in Australia and New Zealand. IGCC's members are the custodians of the retirement savings of around 15 million Australians.

Summary of response

The Productivity Commission (PC) accepted responses on all five pillars.

IGCC's response focuses on the following pillars:

- *Creating a more dynamic and resilient economy*
    - On expanding carbon pricing signals
    - On the National Construction Code
- *Investing in cheaper, cleaner energy and the net zero transformation*
    - Supportive policies for renewable energy generation and storage in a post-2030 electricity system
        - Including streamlining planning processes
    - Road charges for carbon emissions
    - Barriers to private investment in adaptation
- *Building a skilled and adaptable workforce*

IGCC builds upon recommendations in its earlier submission to the PC[1], emphasising again that meeting carbon targets will incur a cost, but this must be compared against the cost of inaction – both on missed opportunities from undergoing a smooth transition to net-zero, and as climate damages compound due to a lack of adaptation activity.

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[1] IGCC 2025, Submission: Improving productivity via meeting adaptation and mitigation objectives [link].

IGCC supports the PC's advice around the need for:

- Planning process and regulatory change to streamline renewable energy projects coming online
- Policies that improve market conditions for the net zero transition in the energy and electricity sector
- Reviewing the Safeguard Mechanism to capture more emissions across the economy.

Extended response

Creating a more dynamic and resilient economy

Economic shocks due to climate change

IGCC institutional investors are concerned about the compounding impacts of climate change on Australia's GDP, and their ability to continue to sustain returns for beneficiaries under higher warming scenarios.

Data released by the Network for Greening the Financial System (NGFS) – a group of 141 central banks and financial supervisors including Bank of England, Bank of Japan, European Central Bank, People's Bank of China, Reserve Bank of Australia, Reserve Bank of India and US Federal Reserve – shows Australia could see GDP cut by roughly one seventh due to the broad effects of climate change, from costs associated with extreme weather and second order effects on labour, capital, land and natural productivity.[2]

Under current policy settings, Australia can expect a per annum $147 billion reduction to GDP by 2030. By 2040, the hit to GDP more than doubles to $350 billion before continuing to grow to $656 billion by 2050. Living standards are also impacted, with per capita annual income falling by approximately $5,000 by 2030 then approximately

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[2] NGFS 2024, NGFS Climate Scenarios for central banks and supervisors - Phase V, [link].

$7,300 by 2050. Total National Income (standard of living) losses from climate damages are projected at $7.0 trillion between now and 2050.

Economic damage will likely be significant for Australia's trading partners as well, with countries across Asia likely to see a 16% hit to GDP by 2050 under current policies. This should bring intensified attention to decarbonising energy supply chains in the region, to aid with mitigation efforts, but also to ensure that Australia has secure markets to trade with in future.

The transition to renewable energy and reducing emissions across the Australian and global economy can save the economy billions of dollars a year, rising to over $230 billion a year by 2050. Green industry development is a careful task that will not happen without coherent policy at all levels of government, and with key trade partners, so that market signals for decarbonisation are sustained.

Economic damage due to climate hazards and disaster management

According to BCG and the Global Resilience Partnership, 'every dollar a company invests in implementing adaptation and resilience measures can yield $2–15 in financial benefits'.[3] This principle can be extended more broadly, in that it is more cost efficient to prevent damages, rather than repairing them.

Commonwealth-administered expenditure from FY19 to FY23 was $15.9 billion, to support ongoing climate disaster recovery efforts across Australia[4]. IGCC expects that the National Climate Risk Assessment and the National Adaptation Plan will result in adaptation and resilience policy being better integrated across the economy.

IGCC members reinforce the need for a strategic and future-focused program of work on adaptation to be resourced and embedded in the National Construction Code as soon as possible. The longer the delay, the greater number of homes will be built that

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[3] BCG 2023, Financing Climate Adaptation and Resilience Is Good for Business and the World, [link].
[4] Deloitte 2024, Independent review of commonwealth disaster funding, [link].

are not resilient to the physical impacts of climate change, increasing the (already significant) costs of climate adaptation. In addition, this places the burden on the homeowner to pay the costs of retrofitting or risk the value of their home decreasing[5]. Adaptation that is included in initial builds is typically more cost-effective than retrofitting[6]. Decreasing value of housing also poses a financial risk for banks[7] and investors.

Confusing policies halt green industry development

IGCC emphasises that dynamic and resilient economies are ones that are well-diversified and embedded within durable supply chains. The Australian Government's Future Made in Australia agenda is centred on this logic, noting that green industry development will ensure that Australia meets national security and economic objectives.

Harmonised policies across sectors and between levels of government are essential to creating the right market signals for transitioning towards net-zero industry. Policies that aim to promote ongoing exploration and export of fossil fuels are counter to those objectives and can be seen in the Future Gas Strategy and in the Government's review of the gas markets. Fossil fuel subsidies where economic alternatives are available are distortionary and hinder decarbonisation objectives – the most glaring being the Fuel Tax Credit Scheme where it applies to mine site heavy vehicles.

IGCC strongly supports the PC's advice that without any policy favouring renewables over coal and gas, the electricity sector might not decarbonise fast or deeply enough to make a sufficiently large contribution to the national emissions targets. Building on this, policies that encourage ongoing export of fossil fuels directly undermine green

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[5] UNEP FI (2023) https://www.unepfi.org/wordpress/wp-content/uploads/2023/03/Real-Estate-Sector-Risks-Briefing.pdf
[6] Innovate UK (2021) https://www.ukri.org/wp-content/uploads/2021/12/IUK-061221-AdaptingBuildingsToClimateChangeFullReport.pdf
[7] APRA (2022) https://www.apra.gov.au/climate-vulnerability-assessment-november-2022

industry development in Australia by supressing markets of demand from developing with key trade partners. No amount of subsidy for green commodities will address this problem.

IGCC suggests that export addendums should be developed alongside the sector decarbonisation plans, to ensure government is developing sector policy that aligns with national trade objectives – not just domestic decarbonisation targets.

IGCC agrees with the PC's advice that the Safeguard Mechanism should cover more industrial facilities and carbon leakage provisions should be improved.

There is also no policy that guarantees the exit of coal generators, in line with emissions reductions targets. Bringing electricity generators under the Safeguard Mechanism would put additional price pressures on coal generators that will create phaseout timelines. Further consideration of scheme design to better understand how this could impact the sector should be undertaken as part of the Safeguard Mechanism Review in 2026-2027.

Investing in cheaper, cleaner energy and the net zero transformation

Addressing inefficiencies in market for stronger investment signals

IGCC is engaging on the NEM Review, which seeks to identify the right post-2030 market settings required to stimulate efficient investment in the National Electricity Market. The Review comes at a time where the government is underwriting large amounts of generation and storage, and when consumer energy resources are largely invisible to the market operator, distorting supply and demand projections, leading to inefficient prices for buyers and sellers of electricity.

IGCC holds that subsidy is inherently inefficient but necessary to bring projects to market that would otherwise not come online. Ongoing government subsidy can create inefficiencies, particularly in underwriting when the price of electricity is disconnected from its value in-market. The NEM Review is seeking ways to situate long-term contracts that underwrite technology and demand risks within the market, rather than having government as the backer. Greater efficiencies must be achieved in market, to secure a low-cost pathway to decarbonising the energy and electricity sector.

IGCC supports the PC's recommendations on streamlining planning processes and environmental regulations between national and sub-national jurisdictions, to reduce time taken for renewable energy generation and storage to come online – without compromising environmental standards and community consensus-building.

We urge a laser-like focus to avoid any duplication of effort across government in this endeavour. If implemented poorly, these measures will only add time and complexity to projects by introducing more touchpoints with government. IGCC specifically notes the potential for overlap in the mandate of the single Investor Front Door and suggest effort is taken immediately to clarify the roles and responsibilities of different departments.

These efficiencies must happen alongside reform out of the NEM Review. IGCC also supports the PC's in-principle advice that emissions reduction would be more efficient if incentives in the NEM and non-NEM jurisdictions broadly aligned – i.e. that reforms and rule changes to do with long-term contracts and derivatives markets should be nation-wide.

Future areas of inquiry for the PC – consumer energy resource grid integration

Leaving market settings review to the NEM Panel for the time being, the PC can explore other areas that currently fall outside of its scope. The Panel notes that consumer energy resources are a key component of a decarbonised NEM and suggest that incentives may be required to increase household electrification and to activate those resources in market.

If more assets become visible to the market operator, with those participating in the market being "active", their growing impact on energy supply and demand can be better factored into real-time price signals, reducing the risk that the system over estimates the need for traditional generation and transmission, and as a result, misses opportunities for lower-cost, flexible energy solutions. By identifying such low-cost, flexible solutions, more CER integration can be incentivised, creating more VPPs to invest in (and growing existing VPPs) leading to more efficient prices for electricity more efficient prices for electricity.

Incentivising CER and VPP aggregator development is a worthy line of inquiry for the PC, which can inform the NEM Review and the National CER Roadmap.

Broadening signals for decarbonisation – Safeguard Reforms

IGCC provided comment on further reform to the Safeguard Mechanism in its submission to the Economic Reform Roundtable. A summary of comments are as follows.

- Set a 2035 NDC at the highest possible level of ambition, according to the range provided by the Climate Change Authority.
    - This will require government to rachet Safeguard baselines in alignment with a stronger emissions reduction target, creating stronger market signals for facilities to decarbonise.
- Consider the implementation of a Border Carbon Adjustment to compliment the Safeguard Mechanism's effective carbon price.
    - This will protect budding green industries from external competition that is not subject to decarbonisation obligations.
- Consider expanding the scope of the Safeguard Mechanism’s coverage from 100,000 tonnes to 25,000 tonnes, and include electricity generators.
    - A further line of inquiry for the PC could be to design a mechanism by which electricity generators could be brought under Safeguard, that does not increase costs to end users of electricity.

    - Including generators would create more certainty by creating a market signal for low carbon sources of generation. This could be done by requiring coal generators to offset emissions, not with ACCUs but with Renewable Guarantee of Origin Certificates. This would also create stronger demand signals for renewable energy as coal is phased out.
- Require detailed information from Safeguard facilities as to why they need to offset more than 30% of their obligation with Australian Carbon Credit Units (ACCUs).
- Consider alternatives to surrendering ACCUs to meet Safeguard obligations.

Future areas of inquiry for the PC – road charges for carbon

In line with broadening coverage of the Safeguard Mechanism across more sectors of the economy, there may be a case for expanding coverage to transport where upstream fuel distributors become the liable facilities, rather than downstream users. IGCC recommends the PC undertake further investigation on this.

Private investment in adaptation

IGCC is broadly supportive of all draft recommendations. Resilient housing is essential for a prosperous and productive Australia. We provide some additional comments below:

- Recommendation 3.1:
    - IGCC has been advocating for a central climate risk database for a number of years[8]. While the outputs of the National Climate Risk Assessment and other ACS projects may provide a good foundation, this data will need to be at the asset (in this case, house) level to be useful for decision-making. NCRA outputs are currently provided at 5km or SA2 resolution depending on data type.

[8] IGCC (2023) https://igcc.org.au/wp-content/uploads/2023/07/Briefing-Investor-Expectations-National-Climate-Risk-Assessment.pdf

    - Careful consideration about how this information interacts with climate information provided by states and local governments is needed. Ideally, these would all be available in the same database and some guidance would be provided as to which data to use in which circumstances.
    - The report identifies gaps in information required to make good adaptation decisions. A systemic literature and information review should be included in each NCRA, which, in turn, can inform scientific priorities, and associated funding, for the next five years.
- Recommendation 3.2:
    - IGCC supports the inclusion of adaptation in the Australian Sustainable Finance Taxonomy. However, additional financial mechanisms will likely be needed to direct institutional capital into adaptation investments (e.g., adaptation bonds). Government should co-fund and support case studies and pilots with private investors to develop innovative mechanisms that enable private investment in adaptation.
    - IGCC also recommends the mandates of specialist investment vehicles (SIVs) are reviewed are updated to include adaptation and resilience. Mandates should reflect both financial performance and social benefit and allow for a broad range of adaptation activities and financial structures.
- Recommendation 3.3:
    - IGCC supports quantifiable resilience goals for housing. However, these should be developed in conjunction with quantifiable resilience goals for other key sectors[9]. For example, if housing is resilient but roads (including evacuation routes) are not, this may lead to stranded assets and risks to life.
    - IGCC supports a series of actions (a plan) to improve housing resilience over time. This plan should be developed in conjunction with adaptation

[9] IGCC (2024) https://igcc.org.au/activating-private-capital-for-climate-adaptation/

plans for other key sectors and should align and be complementary to the sector transition plans. The plans should identify key actions and investments needed to meet the resilience goals.

For more information

IGCC looks forward to continued engagement with the Productivity Commission. Please contact Policy Manager, Bethany Richards, for more information: [redacted]

Kind regards,

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