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Submission – Productivity Commission Consultation on Investing in Cheaper, Cleaner Energy and the Net Zero Transformation

We welcome the opportunity to contribute to the Consultation on Investing in Cheaper, Cleaner Energy and the Net Zero Transformation.

We submit that bold, forward-thinking policies will be needed to truly create the conditions under which Australia can become not only more competitive, but a more innovation-driven economy capable of sustained prosperity in an era of rapid global and technological change.

We are the Green Energy Statecraft Project, a policy innovation and research initiative committed to advancing the strategic, institutional, and policy foundations required to accelerate the clean energy transition while building enduring sovereign capabilities in Australia and beyond. Our team is comprised of policy scholars, practitioners, and industry experts, working to bridge applied research with actionable policy design that delivers environmental, economic, and geo-strategic value.

Australia's productivity growth has stalled, despite years of incremental reforms and world-class research institutions. To reverse this trend, we believe Australia now needs a potent blend of pragmatic improvements to current policy settings alongside new, ambitious concepts for productivity reform.

The proposal in this submission belongs to the latter category: the establishment of a Clean Commodities Trading Initiative (CCTI) to help kickstart Australia's Clean Commodities Industries like green iron and sustainable aviation fuel and maximise the innovation- and productivity-related gains for the nation.

By establishing Australia as an early mover in clean commodity production, the CCTI would create opportunities for the development of specialised equipment manufacturing, engineering services, and other high-value activities in the clean commodity supply chain. These knowledge-intensive industries offer precisely the kind of high-productivity, high-wage jobs that are central to Australia's economic future.

The CCTI's approach to performance incentives further enhances its economic impact. By building incentives for continuous improvement into offtake pricing, the CCTI would drive producers to innovate, making these industries long-term research and development powerhouses. This focus on innovation aligns perfectly with the government's ambition to boost productivity and stimulate private sector research and development.

What is the CCTI?

[The Clean Commodities Trading Initiative \(CCTI\)](#) is designed to address one of the biggest obstacles preventing large, first of their kind clean commodity projects like green iron from actually happening in Australia: a lack of guaranteed demand for innovative green products at a bankable price.

Without the certainty of guaranteed demand at a bankable price, project proponents and their financiers lack the confidence they need to make a final investment decision. This has led to the current situation – where we have a lot of talk about the 'potential' of green iron in Australia but no actual projects – or related innovation gains.

The CCTI offers a straightforward and relatively low risk solution to this problem. It proposes that government entities enter into offtake contracts to support the early-stage production of new clean commodities such as green pig iron, sustainable aviation fuel (SAF), and green ammonia.

By stimulating demand, the CCTI fills the gap that current policy instruments like production tax credits (PTCs) cannot for early mover projects. It is also designed for the Australian and regional environment, recognising we cannot 'outspend' trading partners such as China, the EU or US.

The CCTI would enable Australia to move quickly, but also more responsibly and effectively. Specifically, it would allow us to:

- Provide the appropriate level of support for targeted early mover projects so construction and production can start as soon as possible;
- Accelerate the innovation and learning associated with these major projects which will reduce future costs and help kickstart more new projects;
- Ensure that taxpayer dollars are not going just one way; the CCTI is about sharing the financial upsides of these early clean commodity projects wherever possible, to benefit all Australians.

In this submission we explain the current challenges; why CCTI can breakthrough the early project stalemate; and how the initiative can be designed to mitigate potential risks to the Government.

The urgent national challenge we need to solve - now

Across Australia, promising projects – ranging from green iron, green ammonia and sustainable aviation fuel – stand ready to go. They have secured sites, conducted feasibility studies, and in many cases obtained planning approvals. What they lack is certainty that there will be a buyer for the premium-priced clean commodities. This significantly increases the revenue risk of a project, limiting its ability to secure the scale of financing required it needs to proceed. As a result, we repeatedly see first-mover projects stuck at the starting line.

The key problem is that governments, here and in our region, have not yet legislated the demand-side mandates that would create enduring markets for clean commodities - whether through a carbon border adjustment mechanism (CBAM), green public procurement, or regulatory standards. Climate imperatives mean that policies like these will eventually be implemented, driving long-term demand and rewarding clean production. However, these policies will take time to implement and, in the meantime, clean commodity projects will continue to face significant hurdles that cannot be overcome without government support.

Governments across the globe acknowledge this reality and are moving fast to ensure their firms are ready to compete in the clean commodity markets of the future. If we don't start building and scaling our clean commodity industries today, Australia will simply be left behind. We can't afford to wait three, five or ten years for markets to mature. Unless we start today, we put our future economic prosperity at risk.

The circuit breaker

To get us out of the perennial 'chicken and egg' scenario we need to close the bankability gap for first movers with low-cost capital delivered in a targeted and strategic way.

The [Clean Commodities Trading Initiative \(CCTI\)](#) will send the clearest possible signal - to the market, to investors, and to our international partners – that Australia is not only open for clean business, but ready to lead. And when regulatory schemes like carbon prices and production mandates are eventually in place, Australia will be ready with supply.

The CCTI can do for clean commodity projects what State and Federal governments have done (and will continue needing to do) in the electricity market to support the construction of clean energy projects. Without policies like the Renewable Energy Target (a mandate), State government Power Purchase Agreements, CFDs and long-term energy service agreements (LTESAs) the Australian renewable electricity sector would not be where it is today. All we need to do is to apply this same logic to the Australian market for clean commodities.

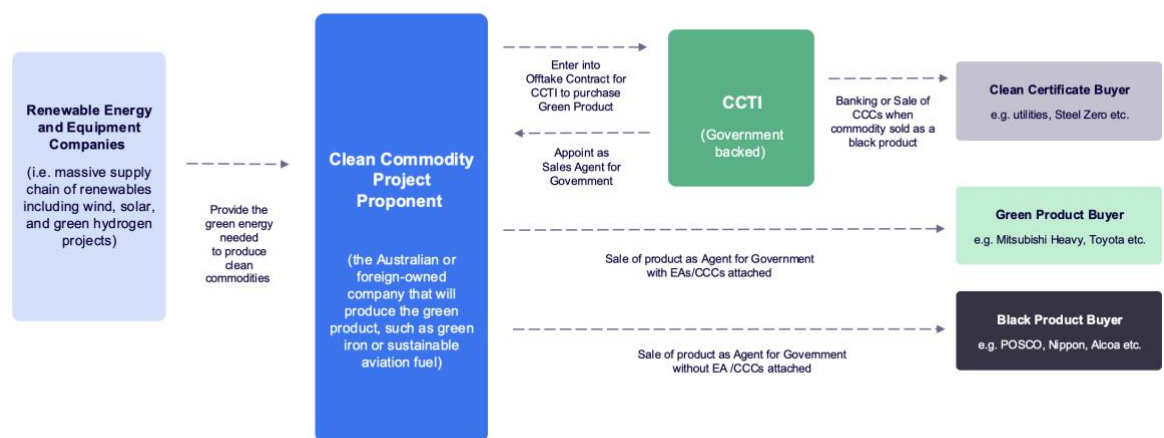
How CCTI would work

Under the CCTI, the government would enter into highly tailored offtake contracts with early clean commodity project proponents, committing to purchase a certain volume of their clean commodity (eg green pig iron) over a certain time frame (eg. 10 years) at a guaranteed price (based on a transparent price discovery process). Upon delivery, the CCTI would de-couple the physical commodity from its environmental attributes (EAs) so these attributes can be monetised in the increasing number of environmental certificate markets. The EAs could be recorded to create clean commodity certificates (CCCs). The CCTI could then:

Sell (or instruct the proponent, as its agent, to sell) the physical commodity with the CCCs attached to buyers wishing to purchase the product together with the EAs, perhaps to meet their voluntary or mandatory carbon reduction commitments; OR

Sell (or instruct the project proponent, as its agent, to sell) the physical commodity in conventional commodity markets at conventional commodity prices, without the green premium. It would then retain the CCCs or trade them elsewhere to address growing demand for emissions reductions in both regulatory and voluntary frameworks being developed.

Figure 1: How the CCTI Would Work



How CCTI can address key challenges

The CCTI model helps address multiple challenges facing clean commodity project proponents and the governments wishing to support them.

-Distortion of the market

Markets are currently distorted by unpriced carbon and legacy fossil subsidies. The CCTI corrects this failure by rewarding cleaner production and stimulating innovation – creating a level playing field for future industries.

-Safeguarding government money

Demand-side policies like the CCTI do not involve up-front payments to project proponents so it avoids the usual risk of capture that supply side policies, like up-front subsidies, create. Under the CCTI model, governments simply enter into a contract with project proponents to buy a green product at a certain price within a certain timeframe. If the proponent does not deliver, the government does not pay.

However, if a project does experience delays – a real risk with complex first of a kind (FOAK) projects –, the government has the option to afford the proponent additional time to deliver without applying financial penalties, as might occur under a contract with a private buyer. This is another benefit of the CCTI model; it helps mitigate risks for proponents of complex FOAK projects without creating undue costs and risks for the government.

-Policy gaps

The CCTI complements rather than competes with existing policy initiatives. Current schemes (e.g. CEFC loans, ARENA grants) help build capability but don't create market demand. CCTI supports these efforts by ensuring producers can secure that demand.

-Maximizing the value of the Environmental Attributes

In the early stages of green commodity markets, where the environmental attributes of the product might be tradable into different markets project proponents and buyers need flexibility. By separating environmental attributes from physical products through the creation of certificates, the CCTI addresses this current challenge and allows the development of solutions like the “book and claim” solution proposed in the aviation sector for sustainable aviation fuel.

-Bureaucracy

The CCTI does not require the creation of another government organisation. In the first instance, it could be established as an independent legal entity (to easily enable the future participation of international partners) under the umbrella of an established government body like the Clean Energy Finance Corporation (CEFC), Export Finance Australia (EFA) or the National Reconstruction Fund (NRF). That entity would then be tasked with writing highly tailored contracts with selected early producers of clean commodities.

-Building in resilience and flexibility

Rapid action, resilience, and flexibility is precisely what the CCTI is designed to deliver. The government enters into contracts all the time; this idea is nothing new and it could start tomorrow. Prior to the first delivery of product, the government can appoint the Clean Energy Regulator (CER) to establish a very simple system to allow the registration of notional Clean Commodity Credits (CCCs) from the small number of early CCTI projects, representing their environmental attributes. These notional CCCs can be held while a regulated scheme is established by the government at a

later date. Monitor, Record and Validate (MRV) systems have matured globally, and digital verification tools reduce administrative complexity so the EAs can be tracked. The approach is no more complex than existing clean energy or carbon trading systems.

Under this registration system, projects entering into an offtake agreement with the CCTI would be required to report their emissions and production data to the CER going forward. That captured and verified data would then be the source data to enable the creation of “real” clean commodity credits (CCCs) once a regulated CCC scheme is actually established by the government.

The CCTI’s contract-based approach also provides certainty for investors and flexibility for government. Contracts can be tailored to specific project needs and market conditions, allowing for precision targeting of support rather than one-size-fits-all approaches.

To reiterate, what makes the CCTI such a valuable policy is that it allows projects to commence construction now. These projects will take 3-4 years to construct and therefore won’t produce anything for 3-4 years, so the government can design and put in place a regulated scheme for CCCs while the project is being developed. And if there is a delay in scheme commencement, we will have a clear process to capture and recognise the EAs of the product for future inclusion in the regulated scheme. Capturing all the data necessary to comply will allow early movers to participate in any future scheme, and allow the government to recover a significant portion of its financial support

-Geopolitical competition and restraints on trading partners

Japan and South Korea's net-zero goals are constrained by limited renewable energy resources, and reliance on imported energy and raw materials. They are the natural customers for Australian clean commodities. By placing the government in the centre of a project through an early offtake agreement, the CCTI creates an institutional framework of support that is visible to our trade partners. This will provide greater opportunity and comfort for all three trading partners to enter into long-term trade agreements and serve complimentary needs.

Risk Mitigation

Signing long term offtakes is not without risk, but these risks are manageable and appropriately allocated. Here we explain how potential risks can be mitigated.

Green Premium Volatility

These offtake contracts will commit the government to purchase clean commodities at prices that exceed prevailing market rates for conventional (black) commodities. If green premiums do not materialise through regulatory or voluntary market mechanisms, the government could incur losses.

Mitigants:

- Record, strip and store the environmental attributes for later sale while selling the physical commodity into conventional markets at conventional prices.
- Hold the credits and sell them later into maturing regulatory markets like CBAM or Sustainable Aviation Fuel (SAF) mandates.

Demand Shortfall for Green Credits

Delayed or insufficient development of demand-side mechanisms could leave the government holding unsellable credits.

Mitigants:

- Introduce public procurement targets, product standards, or credit purchase mandates.
- Align clean commodity credit systems with trading partners (e.g. Korea, Japan).
- Incentivise early uptake in voluntary markets and ESG-linked programs.

Political or Reputational Risk from Project Selection

Offtake selection may be viewed as picking winners or create political exposure if projects fail to deliver.

Mitigants:

- The Government only pays on delivery. It is the private sector's responsibility and risk to deliver the product to agreed specifications.
- Ensure an expert team is established from our existing agencies (CEFC, EFA, NRF) to oversee contract awards.
- The expert team will use transparent, merit-based evaluation criteria to assess projects (like any investment committee).
- Diversify support across a number of projects and commodity types.

Conclusion

The urgency of introducing demand side solutions to kick-start early clean commodity projects and drive innovation and productivity cannot be overstated. Australia holds a sustainable competitive advantage in the production of many of these key clean commodities. But projects remain stuck at the starting line, and this won't change without a change in policy approach.

The global race to establish leadership in clean commodity production is accelerating. Countries around the world — especially in the Middle East and China — are implementing ambitious industrial policies to capture this lucrative market.

Australia can watch our export revenues decline as demand for conventional commodities wanes, or we can substantially increase the value of our key exports such as iron ore, by making strategic investments into processing iron ore locally and exporting green iron instead. Similarly, we can watch other build clean fuels markets and remain a net importer of essential fuels. Or we can use our competitive advantage to meet our domestic fuel needs and become a key fuel exporter. All that is preventing this is vision and early demand support.

By addressing the fundamental market formation challenges currently preventing investment in clean commodity production, the CCTI can unlock Australia's potential as a clean commodity exporter; advance our comprehensive national security interests; maintain our nation's standard of living; drive deep emission reduction; and, crucially, drive the innovation-related productivity gains that our economy so urgently needs.

If you would like to discuss this submission further, or require additional information, please do not hesitate to contact us.

Kindest wishes,

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(Signed on behalf of Elizabeth Thurbon and Oliver Yates).