Australian Chamber of Commerce and Industry

Investing in cheaper, cleaner energy and the net zero transformation

ACCI Submission

15 September 2025

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Introduction

Australia is at a critical point in energy policy. The government has set ambitious goals to drive investment in renewable energy, strengthen domestic manufacturing, and restore integrity in infrastructure development.

However, the shift to renewable energy is facing major challenges. Energy prices have been rising, and this has weighed heavily on Australia's manufacturing and other industry sectors reliant on affordable energy. A number of large energy users have had to either close their operations or leave our shores. Of the heavy industries that remain, many are just hanging on based on past investment. Few are reinvesting to maintain or upgrade their facilities, and more are likely to close or move offshore in next few years when significant maintenance or new investment is required.

Lowering energy costs is essential if we are to maintain an industrial base and keep manufacturing on our shores, while achieving a smooth transition to net zero.

The aim of policymakers is that Australia can position itself as a low-cost, reliable energy producer and attract significant long-term investment. However, the current energy landscape faces numerous challenges relating to affordability and supply.

At the heart of the challenge is reconciling between climate goals and energy policy. While emissions reduction targets are important, they must be achieved in tandem with policies that support stable and affordable energy supply. A more integrated approach that aligns carbon reduction objectives with energy market policy is essential to avoid trade-offs that hurt consumers and weaken business confidence.

The following responds to the recommendations of the Interim Report on *Investing in cheaper, cleaner energy and the net zero transformation*.

Reducing the cost of meeting Emissions Targets

Draft recommendation 1.1 (reducing emissions in electricity sector after 2030)

ACCI **supports** the PC's recommendation that the Government prioritise introducing enduring, broad-based market settings in the electricity sector beyond 2030. We agree that the approach should remain technology neutral. In this respect, ACCI maintains that the Government should lead coordination efforts with state and territory governments to remove restrictions on gas exploration, streamline environmental approvals and planning, and ensure consistent policy that supports investment and improves domestic gas supply.

ACCI agrees with the PC that to achieve net-zero at least cost, Australia needs consistent and comprehensive incentives to reduce emissions. Australia's energy transition must be market-led, with a clear focus on stimulating private investment and increasing competition. Only market-based solutions can deliver the scale of infrastructure required, while keeping downward pressure on energy prices and reducing cost-of-living pressures for households and businesses alike.

Australia must maintain a technology neutral approach to electricity generation and supply to maintain affordability, reliability and security of energy supply throughout the transition. This may mean we accept some energy sources and export opportunities that lower, but don't fully eliminate emissions, to keep the cost of energy down, retain jobs and realise the economic benefit. In particular, the role of gas as a critical transitional fuel must be recognised. Until alternative technologies reach commercial scale, are affordable and reliable, gas will continue to be an indispensable part of Australia's energy mix.

Policy uncertainty and regulatory constraints regarding gas exploration and the development of new reserves are putting upward pressure on energy costs and creating supply risks that contradict the Future Gas Strategy. **With coal retiring, gas demand is set to double by 2050**.

The Commonwealth government must lead coordination efforts with state and territory governments to remove restrictions on gas exploration, streamline environmental approvals and planning, and ensure consistent policy that supports investment and improves domestic gas supply – in the interest of restoring investor confidence, reducing energy costs, and enhancing system resilience.

Draft recommendation 1.2 (Safeguard Mechanism as the primary mechanism for emissions reduction)

ACCI **agrees** that the SM is an efficient and effective policy driver to achieve Australia's emissions reduction targets of 43 per cent below 2005 emissions by 2030, and that the SM should be adopted as the primary mechanism to deliver efficient emissions reduction. ACCI **conditionally supports** the recommendation to lower the SM threshold, provided that this be tied directly to a trade-off benefit for it to be an efficiency measure, rather than just an extra burden on business. If a decision is made to lower the emissions threshold below 100,000 t CO2-e per year, then a lower emissions reduction rate (below 4.9 per cent per year) should be applied for all SM-covered facilities (existing and new), and/or the removal of other less efficient emissions reduction policies. That said, ACCI **does not support** the introduction of a Carbon Border Adjustment Mechanism (CBAM) in Australia, as it would mean introducing a barrier to trade.

The Safeguard Mechanism covers the largest 215 carbon emitting production facilities and other heavy emitters, representing around 30 per cent of Australia's total emissions, with these covered facilities required to reduce their baseline emissions by 4.9 per cent per year between now and 2030.

Any proposal to broaden the base of the SM would need to be tied directly to a trade-off benefit for it to be an efficiency measure, rather than just an extra burden on business. If a decision is made to lower the emissions threshold below 100,000 t CO2-e per year, then a lower emissions reduction rate (below 4.9 per cent per year) should be applied for all SM-covered facilities (existing and new), and/or the removal of other less efficient emissions reduction policies.

ACCI does not support the introduction of a Carbon Border Adjustment Mechanism (CBAM) in Australia: trade barriers increase the overall price of a good, making both the domestic and imported product more expensive. A CBAM would be extremely difficult to integrate with the SM and is unlikely to be effective in addressing the carbon leakage. It is unclear how an effective baseline for imported goods can be determined and how the baselines would be set under the SM.

Emissions-intensive, trade exposed (EITE) businesses are better supported by transitional financial assistance, so that they can invest in new technology that enables them to lower production costs and lower emissions (e.g. grants such as the Reconstruction Fund or low interest loans from the Clean Energy Finance Corporation (CEFC) or the Australian Renewable Energy Agency (ARENA)).

Draft recommendation 1.3 (emissions-reduction incentive for heavy vehicles and phase out policy overlaps for light vehicles)

In general, with regard to Road User Charges for all vehicle types, distance-based charging better aligns road use to damage and offers a more consistent approach to the pricing of road use for all vehicle types. However, to be fair, and consistent, the introduction of road user charging must also involve the phase-out of fuel excise.

Heavy vehicles: ACCI **cautions against** heavy-handed policy interventions in the field of emissions-reductions for heavy vehicles, as the available technology is not at the same level as for light (e.g. passenger) vehicles, which benefits from decarbonisation pathways such as electrification. The achievement of near-term emission reductions in heavier sectors (e.g. off-road mining and agricultural equipment) will likely rely on the development, and market adoption, of low carbon liquid fuels (LCLFs). With the cost of LCLF between two and five times more expensive (dependent on the technology), to create demand and stimulate investment in production of LCLF, there is a case for incentive measures to reduce the cost differential of LCLFs relative to their fossil fuel alternatives. Government support measures should be considered to attract investment (including in infrastructure) and lower the cost to the consumer.

Light vehicles: ACCI considers the proposed phasing-out of the exemption for electric vehicles from the Fringe Benefit Tax: Assessing the FBT exemption for electric vehicles (EVs) solely by its "cost to abate" is too narrow, and ignores broader benefits like unlocking market supply, building a second-hand EV market, and making new technology mainstream. The fiscal cost the exemption should be assessed against the long tail of ongoing public and private benefits, critical especially at this early market adoption stage.

Road transport accounts for around 85 per cent of transport emissions or about 16 per cent of Australia's total emissions and the sector is almost entirely dependent on refined liquid fuels.[1]

[1] Climate Change Authority 2021, Transport, Report

The move to LCLFs offers the opportunity to reduce dependence on imported liquid fuels by developing a sustainable low carbon liquid fuel industry in Australia. This will reduce Australia's exposure to volatility in global markets and safeguard the security and reliability of liquid fuel supply.

Biofuel production in Australia is currently very small and uses first generation processing technology. The most common use of biofuels is the mixing of bioethanol with petroleum at a rate of 10 per cent to produce E10. A small number of renewable diesel projects have been announced in recent years, but these refineries are still seeking finance and construction is yet to begin. Second generation renewable diesel has better compatibility with existing infrastructure and current internal combustion engine technology. It does not require engine modifications to be used without blending.

The demand for LCLFs is highly dependent on its cost competitiveness relative to fossil fuel alternatives. Australian consumers and businesses have shown some willingness to preference sustainably sourced products over a less environmentally friendly product. However, consumers and businesses are rarely prepared to pay a 'green premium' for a sustainably sourced product. With little existing infrastructure, new production facilities will need to be developed to establish a LCLF industry in Australia. Australia is a high-cost producer, due to high labour and material costs. Stringent environmental standards also make development approval processes arduous and can result in very long investment lead times for major projects. In developing new facilities, Australia will need to compete in international markets for investment dollars. Attracting the necessary investment for these production facilities may prove challenging without regulatory reform and the right policy settings to support this investment.

Road User Charging (RUC) is gaining increasing interest from governments concerned about the loss of fuel excise revenue. The focus until now has been on passenger vehicles, due to the growth of electric vehicle adoption.

A number of state and territory governments have implemented RUCs, but these have been inconsistent across jurisdictions, with varying rates and timelines. In a recent High Court challenge to the Victorian RUC, the judge ruled that under the Constitution only the federal government has the authority to impose an EV road user charge, highlighting the need for a nationally coordinated approach.

Heavy vehicles already have some charges that are linked to road use, with a distance-based charge that grants a partial exemption from fuel excise. Recent trials have demonstrated that the technology required for effective distance-based charging is feasible, and in some cases, such a model could reduce costs for certain truck operators. Large-scale trials are currently underway to further assess implementation pathways and cost implications.

Ultimately, the longer-term goal should be a more efficient and equitable approach to road pricing across Australia. Distance-based charging better aligns road use to damage and offers a more consistent approach to the pricing of road use for all vehicle types. However, to be fair, equitable and consistent, the introduction of road user charging must also involve the phase-out of fuel excise.

Assessing the FBT exemption for electric vehicles (EVs) solely by its "cost to abate" is too narrow, and ignores broader benefits like unlocking market supply, building a second-hand EV market, and making new technology mainstream. The fiscal cost of the exemption should be assessed against the long tail of ongoing public and private benefits, critical especially at this early market adoption stage. Around half of all new passenger and SUV electric vehicles that are bought today in Australia are with the help of the EV FBT exemption. The exemption is helping average working families afford the upfront cost of an EV, with the greatest take up of EVs via the FBT exemption in south-west Melbourne, north-west Sydney and south-west Brisbane.

Only countries with sustained demand-side incentives, such as tax exemptions or credits (e.g. Norway 92% EV take up of new light car sales, Sweden 58%, the UK 28%), have consistently achieved mainstream EV uptake and adoption. Where incentives are withdrawn too early (e.g. Germany where BEV registrations declined 27.4% in 2024 following the removal of subsidies), uptake has stalled, showing that government support at this growth stage is crucial for long-term success and market transformation.

Draft recommendation 1.4 (frameworks to achieve emissions targets – lower cost and improved transparency)

ACCI **does not support** the recommendation to establish a (new) independent agency to develop carbon values: this will be costly to administer and is unlikely to be effective in determining the optimum carbon value. ACCI favours market-based mechanisms as the most effective means of determining carbon value (e.g. existing Safeguard Mechanism).

The crediting and trading framework of the Safeguard Mechanism already provides an implied carbon price that is transparent, market-based and technology neutral. Therefore, the SM represents an effective framework for determining a carbon value. The trading of SM credits and ACCUs should be progressively extended to other sectors of the economy to provide a consistent carbon value across the whole economy.

Substantial additional private sector investment is needed to ensure a smooth rollout of renewable energy infrastructure to meet Australia's emissions reduction targets. To facilitate this, governments must improve transparency around progress, both in terms of infrastructure delivery and target achievement.

Businesses require timely, accurate information on the costs, trade-offs, and opportunities of the energy transition to make informed investment decisions. A credible, comprehensive energy transition plan, with clear benchmarks, costings and timeframes, will help reassure both the public and the investment community.

Speeding Up Approvals for New Energy Infrastructure

Draft recommendation 2.1 (reform national environment laws)

Reform: ACCI **welcomes** the initiative to consider reforming national environment laws: the overarching regulation, the Environmental Protection and Biodiversity Conservation (EPBC) Act, must be simplified and streamlined; and the overlap between the EPBC Act and state/territory environmental planning and approval processes must be addressed.

'Go Zones': ACCI **supports** establishing 'go zones' for renewable energy projects, greatly decreasing the regulatory burden on project proponents and accelerate the development of renewable energy projects.

Offset Fund: ACCI also **sees value** in establishing an Australian Government offset fund, where the government manages a pool of land with specified environmental values as a bank of offsets, which would make offsetting more efficient and reduce the time and cost for project proponents to identify, set aside and manage offsets.

Businesses often spend millions of dollars and hundreds of hours preparing documentation, only to face an opaque process that can take years, with highly uncertain outcomes. This is not sustainable in a globally competitive environment where timely delivery is critical to unlocking investment and economic growth.

To increase transparency and provide greater certainty to investors, the Department of Environment, or agency undertaking the environmental assessment, should be required to report back to the project proponent regularly on the progress of the environmental assessment through each stage of the process. To prevent lengthy delays in projects gaining (or being denied) environmental approval, statutory time limits for the completion of the environmental assessment process should be set based on complexity, such as 30 days for low-complexity low-risk projects and up to 12 months for high-complexity high-risk projects.

Reform efforts should also include the development of activity-based guidelines to help businesses navigate the environmental assessment and approval process more efficiently. These guidelines should offer a clear, practical set of steps for project proponents to follow, including a detailed checklist of all information and data that must be provided, to ensure compliance with EPBC requirements and improve the likelihood of timely approvals for specific project types.

These reforms to the EPBC Act are urgent. It has been almost 5 years since the final report of the Samuel Review was delivered and the current government has spent over 3 years developing the legislation to implement the reforms. Every effort should be made to finalise the EPBC Act reforms by the end of the year.

ACCI agrees that the proposal to facilitate regional planning, by establishing 'go zones' for renewable energy projects, would greatly decrease the regulatory burden on project proponents and accelerate the development of energy projects. This could follow a similar process to the Regional Forest Agreements that were made between the Commonwealth and the state governments when the EPBC Act was first introduced in the late-1990s – early 2000s. This would involve the environmental values within a dedicated region (i.e. a renewable energy zone) being thoroughly assessed against the requirements of the EPBC Act. Areas within the region determined by the assessment to be of low risk of environmental impact could then be designated as 'go zones' for development of renewable energy projects and not require further environmental assessment or approval through the EPBC Act. Other areas within the region identified as having high environmental value and at high risk of environmental impact would be designated as 'no-go zones' and protected from any development activity. These protected 'no-go zones' could also be used as offset areas for activity in neighbouring areas where development may have an impact on a specified environmental value and offsets need to be found.

ACCI also sees value in establishing an Australian Government offset fund, where the government manages a pool of land with specified environmental values as a bank of offsets. Rather than requiring the project proponent to seek-out and manage the offset themselves, the project proponent could contribute to an offset fund that either allocates offsets based on its existing land bank of offsets with specific environmental values or establishes an offset with the given environmental value on their behalf. This would make offsetting more efficient and reduce the time and cost for project proponents to identify, set aside and manage offsets.

Draft recommendation 2.2 (specialist 'strike team' for priority projects)

ACCI **supports** the concept of a 'strike team' for priority project that can fast-track the environmental assessment and approval process for priority renewable energy projects. However, ACCI does not agree that the strike teams efforts should be solely dedicated to renewable energy projects.

Australia is falling well behind the rate of renewable energy roll-out required to meet the 82 per cent renewable energy by 2030 target. This is due in part to a backlog of renewable energy projects held up in the environmental assessment and approval process. There are an estimated 30,000 project, across a range of industry sectors, currently progressing through the Commonwealth environmental assessment and approval process, many of them having been held up in the process for five years or more. ACCI urge the strike team be tasked to progress all priority projects, particularly those that have been held up in the environmental assessment an approval process for an extended period.

Draft recommendation 2.3 (Coordinator-General for priority projects)

ACCI **sees little value** in establishing an independent Clean Energy Coordinator General for priority renewable energy projects. Infrastructure Australia already undertakes a similar role to what is proposed for the Coordinator-General for major infrastructure projects. Instead, it would be simpler to extend the remit of Infrastructure Australia to cover renewable energy infrastructure and require it to report regularly to the Energy and Climate Ministerial Council.

Draft recommendation 2.4 (amendment to EPBC Act)

ACCI **agrees** that more needs to be done to accelerate the roll-out of renewable energy projects if we are to meet the interim target to 43 per cent below 2005 levels by 2030 and net zero by 2050. However, we do not agree with the recommendation that the EPBC Act should be amended to provide special considerations for renewable energy projects. The EPBC Act should apply a consistent approach to the approval of major infrastructure projects across all industry sectors and not have special arrangements for individual sectors. Yet, ACCI does agree that the final decision for the approval of major energy and infrastructure project should rest with the Minister for the Environment, so that the decision takes into account all relevant considerations – economic, social and environmental.

Addressing Barriers to Private Investment in Adaptation

Draft recommendation 3.1 (climate risk information database for housing)

ACCI **agrees** that there is benefit in establishing a centrally coordinated information database for weather-related risks and impacts.

At a high level, this database could assist government planners and policy makers to better identify risk to infrastructure and better plan new developments. However, we are concerned about how this database would be used at the granular level by planners and insurers. There is a risk that state and local governments may require existing businesses identified to be in high-risk zones to implement risk mitigation measures and/or face increased restrictions on new developments and their current business activities. Businesses identified to be in high-risk zones are also likely to face increased insurance costs or may not be able to obtain insurance at all. The Commonwealth must coordinate with the states and territories to ensure a uniform approach to the data that is collected and that the data is presented in a nationally consistent format.

Draft recommendation 3.2 (nationally consistent climate resilience rating system for housing)

ACCI **partially supports** a climate-risk star rating system for new homes, however, this must be done in a cost-effective way that does not impose additional restrictions on housing constructions and lead to excessive additional cost to the construction of a new home.

ACCI sees some benefit in a climate-risk star rating system for new homes, as it would encourage architects and builders to take into account climate risks in the design and construction, and weather-related hazards in the location, of a new home of a new home. However, this must be done in a cost-effective way that does not impose additional restrictions on housing constructions and lead to excessive additional cost to the construction of a new home.

The shift from a 6-star to a 7-star rating energy efficiency rating system under NatHERS greatly increased the cost of house construction – over $25,000 for a standard sized home, for little benefit in terms of energy efficiency. ACCI is concerned that if a climate-risk star rating system is applied to existing properties, it may lead to a devaluation of the property or greatly increase insurance premiums / prevent the owner from being able to get insurance.

If a climate resilience star rating system were to be introduced, it must align with the National Construction Code and other schemes such as NatHERS. The housing sector is already excessively over-regulated, with research by the HIA showing that over 170 different regulations apply to the construction of a new home. This represents a substantial compliance, as well as cost, burden that weighs heavily on housing affordability. The introduction of any new regulatory system on housing must involve minimal additional administrative and cost burden on the housing sector.

Draft recommendation 3.4 (Giving the Climate Change Authority responsibility for monitoring, evaluation and learning)

ACCI **does see value** in bringing this information together under one agency. While this information should be collected and reported in a nationally consistent way, the national approach should not duplicate work already being undertaken by the states/territories. We recommend instead that the Commonwealth and State/Territory agencies report to the Climate Change Authority on a regular basis (quarterly or annually) with the CCA compiling a consolidated report for the government and to make the information readily available to the public on a website.

The Climate Change Authority's role is to advise the government on climate change policy. It does not have the resources or infrastructure to be undertaking monitoring and evaluation of climate adaptation. Were it to do this, it would be duplicating the efforts of other agencies at the Commonwealth and state/territory levels.

At the Commonwealth level, the government has only recently established the Environmental Information Office, which currently sits within the Department of Environment. EIA collects, evaluates and reports information on the state of the environmental and factors impacting on the environment, including the impacts of climate change. Similarly, the states and territories have agencies, such as Environment Protection Authorities that monitor, evaluate and report on environmental impacts.

About ACCI

The Australian Chamber of Commerce and Industry represents hundreds of thousands of businesses in every state and territory and across all industries. Ranging from small and medium enterprises to the largest companies, our network employs millions of people.

ACCI strives to make Australia the best place in the world to do business – so that Australians have the jobs, living standards and opportunities to which they aspire.

We seek to create an environment in which businesspeople, employees and independent contractors can achieve their potential as part of a dynamic private sector. We encourage entrepreneurship and innovation to achieve prosperity, economic growth, and jobs.

We focus on issues that impact on business, including economics, trade, workplace relations, work health and safety, and employment, education, and training.

We advocate for Australian business in public debate and to policy decision-makers, including ministers, shadow ministers, other members of parliament, ministerial policy advisors, public servants, regulators and other national agencies. We represent Australian business in international forums.

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