



Climate Council of Australia

Submission to: Productivity Commission Inquiry Interim Report -
Investing in cheaper, cleaner energy and the net zero
transformation

Submission from: Climate Council of Australia Ltd
8 Short Street, Surry Hills, NSW 2010
Tel: 02 9356 8528
Email: info@climatecouncil.org.au

First submitted 15 September 2025, Amendments submitted 6 October 2025.

About the Climate Council

Climate Council is Australia's own independent, evidence-based organisation on climate science, impacts and solutions.

We connect decision-makers, the public and the media to catalyse action at scale, elevate climate stories in the news and shape the conversation on climate consequences and action, at home and abroad.

We advocate for climate policies and solutions that can rapidly drive down emissions, based on the most up-to-date climate science and information.

We do this in partnership with our incredible community: thousands of generous, passionate supporters and donors, who have backed us every step of the way since they crowd-funded our beginning as a non-profit organisation in 2013.

To find out more about the Climate Council's work, visit www.climatecouncil.org.au.

Introduction

The Climate Council welcomes the opportunity to provide feedback on the Productivity Commission's [Interim report: Investing in cheaper, cleaner energy and the net zero transformation](#). As an independent, evidence-based organisation, we strongly support action that cuts climate pollution while harnessing the opportunities from clean, efficient technologies to grow Australia's economy and maximise the benefits for businesses, communities and the environment.

Climate change is a major threat to Australia's future economic prosperity. In the first half of 2025 alone, the total insured cost of extreme weather events has now exceeded \$1.8 billion, following Tropical Cyclone Alfred, the North Queensland floods, and recent flooding on the Mid-North Coast and Hunter regions of NSW ([Climate Council 2025](#)). One in 23 Australian homes and businesses, or 652,424 properties (4.4%), across the country are already at high risk today from one or more hazards that have been made more dangerous by climate pollution. At least 1.3 million properties, or nearly 9% of Australian homes and businesses, will become uninsurable by the end of the century ([Climate Council 2025](#)). Unchecked climate change could cost Australia \$4.2 trillion over the 50 years to 2070¹ – a 6% impact on GDP ([Deloitte Access Economics 2020](#)).

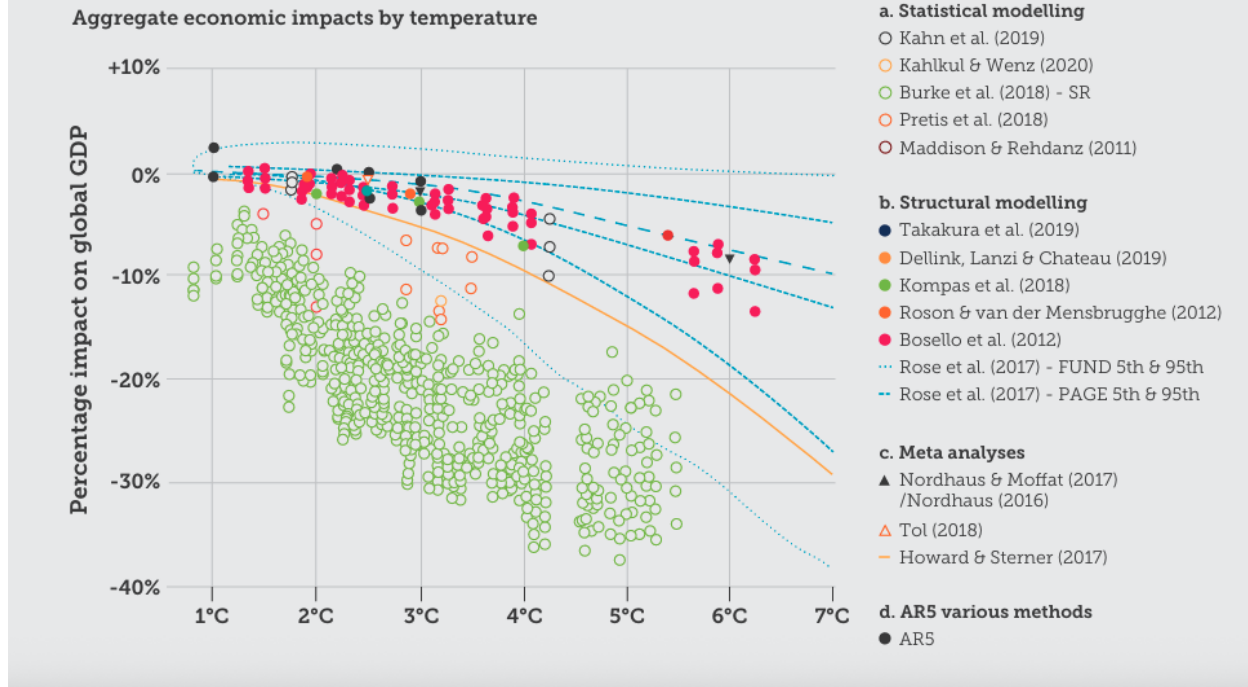
To protect our communities and economy from the worst impacts of climate change, we must make deep, rapid cuts to climate pollution. With strategic action to accelerate the deployment of clean, efficient technologies, we can safeguard our future economic prosperity while also boosting productivity today. Modelling shows that strong action on climate change could unlock \$370 billion in GDP over the next decade - a per capita increase of over \$10,000 ([Deloitte for Business for 75 2025](#)).²

The Climate Council broadly supports the findings and recommendations of the Commission's interim report, in particular the urgent need to fix Australia's environmental laws to enable efficient consideration of project proposals. We urge the Commission – and the Australian Government – to consider additional opportunities to deliver productivity-enhancing reforms this term of government, including strengthening the Safeguard Mechanism and redirecting distortionary fossil fuel incentives to ensure these measures effectively incentivise productivity-enhancing investment in technology and development.

¹ Net present value, 2% social discount rate. Escalated to 2025 values.

² Net present value, 2% social discount rate.

RISES IN GLOBAL TEMPERATURE ARE EXPECTED TO CAUSE SIGNIFICANT ECONOMIC LOSS



In Australia, unchecked climate change could cost the economy \$4.2 trillion by 2070.
Source: Adapted from IPCC (2022)

Summary of recommendations

1. **Ensure the Safeguard Mechanism drives investment in productivity-enhancing upgrades, rather than in offsets**
2. **Redirect the Fuel Tax Credits Scheme to support highly polluting industries to invest in innovative, energy-efficient technologies**
3. **Accelerate the rollout of existing grants, investment and finance, stoking productivity by encouraging new business investment**
4. **Introduce an emissions-reduction incentive for heavy vehicles**
5. **Maintain light vehicle incentives**
6. **Shift both freight and passengers off of roads, reducing pollution and traffic congestion**
7. **Consider both positive and negative climate impacts of projects as part of the approvals process under our national environment law, to streamline approvals while protecting the environment**
8. **Harmonise Australia's national environment law with broader climate policy settings and obligations to provide consistency and certainty**

1. Reducing the cost of meeting emissions targets

The Climate Council welcomes many of the Productivity Commission's draft recommendations to reduce the cost of meeting Australia's emission reduction targets. We make the following comments and recommendations in response to the Commission's proposals to improve incentives in heavy industry and the transport sector.

Improve incentives in heavy industry

1. Ensure the Safeguard Mechanism drives investment in cost-effective and productivity-enhancing on-site abatement, rather than in offsets

In its interim report, the Commission recommends that the Safeguard Mechanism be expanded to cover more industrial facilities, by lowering the threshold from 100,000 tonnes of CO₂-e to 25,000 tonnes. Although the current threshold means the Safeguard Mechanism covers a relatively small number of facilities, these facilities are responsible for a significant proportion – around 30% – of Australia's total emissions ([Climate Council 2023](#)). We suggest that efforts instead be focused on ensuring these highly polluting facilities make genuine cuts to climate pollution. Currently, less than half of the cuts to climate pollution expected under the Safeguard Mechanism by 2030 will come from genuine on-site abatement ([DCCEEW 2024](#)). This represents \$3.7 billion in spending on Australian Carbon Credit Units (ACCUs) and Safeguard Mechanism Credits.

Sharpening incentives to cut on-site abatement can bring-forward business investment in more permanent emissions cuts that also deliver energy productivity improvements. Research has shown that energy efficiency investments have wide-ranging co-benefits for businesses, including an increase in labour productivity ([Kalantis and Niczyporuk 2022](#)). Electrification and energy efficiency measures will also reduce Australia's reliance on volatile fossil fuel supply chains. Decarbonisation of heavy industries will also help create demand for, and encourage new investment in, new green energy and green fuel projects. Despite these benefits, Australian businesses are not investing in decarbonisation upgrades at the rates required, highlighting the need for a strong policy framework ([Investor Group on Climate Change 2025](#)).

Decisions to invest in on-site abatement will ultimately be driven by comparing the cost of an abatement investment against the cost of continuing to purchase carbon credits (ACCUs) or SMCs, which represent a shadow carbon price. However, the price signals within the scheme are currently far too low, increasing the overall cost of achieving Australia's climate targets. Infrastructure Australia has commissioned an estimate of these values, finding that in the central case, the marginal abatement cost is approximately \$70 per tonne of CO₂-e in 2025 ([Centre for International Economics 2023](#)), compared to ACCU prices which have been between \$30-40 in recent years.

The review of the Safeguard Mechanism due in 2026-27 is an important opportunity to ensure Australia's largest polluters take responsibility for their part in the climate crisis while incentivising the shift to more efficient, clean technologies. For the Safeguard Mechanism to contribute effectively to Australia's emission reduction efforts, it should at least incentivise all abatement that is below the marginal cost of abatement for Australia's climate targets. The Mechanism should be strengthened to drive more genuine, onsite cuts to climate pollution by phasing out the use of ACCUs. Limiting facilities to only use Safeguard Mechanism Credits would ensure that credits come from facilities with genuinely lower climate pollution within the industrial sector (and as baselines decline, increasingly reflect on-site abatement). This would also incentivise facilities to keep cutting pollution below their baselines where possible, to take advantage of increased demand for credits created within the scheme.

2. Redirect the Fuel Tax Credits Scheme to support energy and capital intensive industries to adopt , energy-efficient zero-emission technologies

The Fuel Tax Credits Scheme is a significant barrier to innovation as it incentivises the continued use of inefficient fossil fuels, while disincentivising the switch to cleaner, more efficient technologies. The Fuel Tax Credits Scheme will cost the Australian Government more than \$50 billion by 2030 ([Australian Government 2025](#)). The mining industry is by far the biggest beneficiary of the Scheme, receiving \$4.5 billion in credits in 2023-24. Coal mining alone received \$1.3 billion – more than the entire agriculture, forestry and fishing industry, which received \$1.1 billion ([ATO 2025](#)). Analysis by Climate Energy Finance (CEF) has found that fossil fuel use under the Scheme is rising, in direct conflict with the Australian Government's climate goals. From 2022-23 to 2023-24, diesel use among the top claimants rose 440 million litres, and credits increased by \$670 million (+29%) ([CEF 2025](#)).

With energy costs comprising up to 33% of operational costs for the mining industry, electrification can save a mine up to 50% on energy costs, and even more in ongoing maintenance and ventilation costs ([Future Battery Industries CRC 2023](#)). Reducing petrol and diesel use will also reduce reliance on disruption-prone fuel supply chains.

However, the Fuel Tax Credits Scheme acts as a disincentive for industries to switch to efficient, electric technologies. Fortescue analysis shows the Scheme extends payback periods on investments in clean technology ([Fortescue 2025](#)). On top of this, the Scheme may also undermine the efficacy of the Safeguard Mechanism, as the financial benefits from the Scheme outweigh the cost of offsets required if a facility's baseline is exceeded. The effective carbon subsidy from the Scheme of approximately \$190/tCO₂ is more than five times greater than the cost of ACCUs ([Climate Energy Finance 2025](#)).

Redirecting the Scheme is a budget-neutral measure to unlock billions in funding to incentivise the uptake of efficient, low emissions technologies – bringing forward investment in cutting-edge, electrified and low-emissions technologies at zero additional

cost to the government. The funding could be provided to businesses through direct grants, or zero interest financing. The reform should be phased in over time, beginning with the largest fuel users.

Globally, the IMF estimates that if fossil fuel prices were reformed, ensuring prices reflect both the production and environmental costs, this alone would cut global climate pollution to an estimated 43 percent below baseline levels in 2030, raise revenues worth 3.6 percent of global GDP, and prevent 1.6 million local air pollution deaths every year ([IMF 2023](#)).

3. Accelerate the rollout of existing grants, investment and finance, stoking productivity by encouraging new business investment

We welcome the Australian Government's significant funding commitments to support clean technologies and industries through mechanisms such as the Powering the Regions Fund, National Reconstruction Fund (NRF), ARENA and the CEFC. However, much of the committed funding has been slow to deploy. For example, the NRF has deployed less than 5% of its funds since it was established three years ago ([Climate Capital Forum 2025](#)).

Ensuring the right policy settings are in place for funding agencies to expend their allocated funds will help unlock private sector co-investment and enable a faster rollout of clean energy and industries, boosting growth and creating new jobs. There are a range of options to accelerate the deployment of this funding, and actions should be informed by consultation with the relevant funding agencies and the private sector.

Fill gaps and eliminate overlaps in transport

Australia's transport sector is the third largest source of climate pollution, accounting for around 20% of total emissions. The sector's emissions are continuing to climb, and by 2030, it will be Australia's largest source of climate pollution ([Australian Government 2025](#)). Governments at all levels are working to cut climate pollution from light vehicles, however the Commission has rightly identified policy gaps for emissions reduction in heavy transport. Electrification of road vehicles is the most efficient option to cut road freight pollution in-situ (i.e. without mode shift), and the technologies are improving rapidly ([Climate Council 2024](#)).

However, the Climate Council notes that the Commission's discussion of policy overlaps is limited, and calls on the Commission to engage in deeper analysis of the potential complementarity of various policies at market – not transaction – level. While overlapping policies can increase costs, there are also clear cases where overlapping policies lead to lower overall costs – especially under assumptions of uncertainty ([Lecuyer O and Quirion P 2013](#); [Shahnazari et al. 2017](#)).

4. Introduce an emissions-reduction incentive for heavy vehicles

The Climate Council strongly supports the introduction of effective incentives to support Australian heavy vehicle owners to move to zero emissions vehicles. Critically, even in the presence of an emissions-reduction incentive, the supply of low-emissions heavy vehicles is not likely to develop quickly enough without the government requiring original equipment manufacturers to bring more efficient vehicles to Australia. If they can send old, inefficient models, they will. Australia is more than a decade behind European heavy vehicle standards on particulate pollution and we have no standards on carbon pollution. We therefore recommend that the Productivity Commission's recommended incentive structure incorporate a mechanism similar to the New Vehicle Efficiency Standard – as outlined in Option 5 – in addition to user incentives.

Alongside measures to increase supply of lower emissions heavy vehicles, the Climate Council also supports, in-principle, the first three options proposed by the Commission to cut emissions from heavy vehicles. These price-based incentives would incentivise heavy vehicle fleet operators to decarbonise their fleets, without the need for significant government investment:

- Option 1: incorporate a carbon charge into a road user charge on all vehicles. Incorporating a carbon-value into a road user charge is one option to ensure that it does not discourage uptake of light EVs. The light electric vehicle market has stalled at <10% new sales for multiple quarters and a RUC on EVs is likely to have a chilling effect ([Electric Vehicle Index 2025](#)).
- Option 2: make fuel wholesalers responsible for downstream emissions through the Safeguard Mechanism
- Option 3: increase the rate of fuel excise paid by users of heavy vehicles.

By increasing the cost of polluting fuels, these measures would send a strong, consistent market signal across the entire sector, incentivising the switch to cleaner alternatives. This would accelerate the shift to cleaner fuels and technologies such as zero-emissions trucks, hydrogen, and renewable electricity, which are already becoming more viable and cost-competitive. These mechanisms would create a level playing field that rewards fleet operators investing in cleaner fleets while minimising the cost to the government.

We also welcome measures to support the development of a low carbon liquid fuel industry, as outlined in Option 4. Battery-electric trucks require dramatically less renewable electricity than hydrogen or renewable diesel alternatives ([Wallington et al. 2024](#)). Given finite renewable resources and limited sustainable feedstocks for alternative fuels, policy design should encourage electrification where viable, reserving alternative fuels for hard-to-abate sectors like aviation and shipping.

5. Maintain light vehicle incentives

We are very concerned that the Commission's draft recommendation to cease supply-side incentives for passenger electric vehicles is premature and risks decelerating the critical electrification of the transport sector. The Commission characterises EV purchase incentives and the New Vehicle Efficiency Standard (NVES) as "overlapping." However, the Government's NVES Impact Analysis found that "demand-side and supply-side measures need to work together to deliver a real reduction in fuel costs and car emissions" ([Office of Impact Analysis 2024, p. 87](#)). This complementarity reflects different but related market challenges:

- standards ensure manufacturers import efficient vehicles to Australia; while
- incentives help families bridge the upfront cost gap to access long-term savings.

In assessing the value of EV incentives, it's important to consider their full economic value. Today's incentives are also already creating tomorrow's affordable options. The FBT exemption has generated 61,000 second-hand EV sales (+157% growth) since 2022, expanding access for lower-income families ([Magenta Advisory & Pragmatic Policy Group 2024, p. 8](#)).

In addition, Australia requires 36GW of new storage by 2035 for grid stability ([AEMO 2024](#)). Electric vehicles with vehicle-to-grid (V2G) capability could provide 8-16 GW of distributed storage ([ARENA 2025a](#)). This could ease up to \$94 billion in grid infrastructure investment ([enX 2023](#)). We recommend that the Commission, and the Australian Government consider the opportunity to evolve the FBT exemption to require V2G capability from 2027. This would transform a purchase incentive into strategic infrastructure investment, delivering greater value for taxpayers while supporting grid reliability. Crucially, this would incentivise automotive manufacturers to support V2G within car warranties; the absence of this is a significant blocker of uptake.

In summary, the Government should avoid withdrawing light-vehicle incentives prematurely and instead, maintain and better target support until the New Vehicle Efficiency Standard demonstrably delivers supply, price parity and charging equity, especially for low-income and regional households.

6. Shift both freight and passengers off roads, reducing pollution and traffic congestion

By shifting both freight and passengers off Australian roads, governments can cut climate pollution, while also boosting productivity through more efficient and reliable freight and logistics. There are many additional co-benefits of reducing road traffic, such as cutting air pollution and improving the safety and liveability of streets and communities. The Australian Government can harness these benefits by delivering national initiatives to shift freight from road to rail, and shift existing kilometres travelled by private car to shared and active transport. Initiatives could include:

- delivering targeted funding to state and local governments to invest in improving shared and active transport options
- creating ongoing funding streams for community-led active transport initiatives
- increasing the use of rail for packaged freight – 80% of which is currently transported by road ([Climate Council 2024](#)). This could be delivered through implementing carbon charges on heavy vehicles to incentivise alternative modes of transportation as discussed above.

2. Speeding up approvals for new energy infrastructure

We welcome the Commission's acknowledgement of the pressing and overdue need to reform the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act) to speed up approvals of the renewable energy projects Australia urgently needs to provide affordable, reliable, renewable energy to homes and businesses. Damaging fossil fuel projects continue to be approved under the EPBC Act, while it causes significant delays to the construction of new renewable energy infrastructure.

Following the Minister for Environment and Water's recent announcement that amendments to the EPBC Act will be fast-tracked and introduced into Parliament by the end of 2025, the Commission's inquiry is likely to play an important role in guiding the reforms. The Climate Council supports many of the Commissions' recommendations in-principle or in part. For example, we support a focus on regional planning, speeding up approvals in 'go-zones' (so long as there are mechanisms to ensure this will not facilitate streamlined approvals of fossil fuel projects), and establishing a well-resourced 'strike team' to assess priority clean energy projects.

We also welcome the intent of the Commission's recommendation to consider the energy transition as a factor in approvals. However, we recommend the holistic consideration of the climate impacts of proposed projects, both positive and negative, to ensure that the laws do not compromise environmental outcomes. We also recommend that the EPBC Act is harmonised with Australia's other key climate laws and policies to provide consistency and certainty for both decision-makers and proponents.

Consider the energy transition in approval decisions

7. Consider both positive and negative climate impacts of projects as part of the approvals process, to streamline approvals while protecting the environment

Projects that cut climate pollution – like renewable energy and green industry – are currently given no weight under the EPBC Act, despite their critical role in protecting the environment. This is delaying the rollout of essential climate solutions. However, the

Climate Council's view is that considering only energy transition benefits (in effect, cuts to climate pollution), risks embedding the Act's current bias toward development over environmental protection.

Instead, developers should be required to disclose both their direct and downstream climate pollution, and decision-makers should be required to consider these climate impacts – whether positive, or negative – as part of the approval process. This balanced approach can support the energy transition – as the Commission's draft recommendation intends – while reducing the risk of renewable power projects receiving unjust prioritisation, whether real or perceived, over environmental objectives.

The proposed strike team could help streamline the transition to reformed environment laws for urgently-needed renewables projects.

8. Harmonise Australia's national environment law with broader climate policy settings and obligations to provide consistency and certainty

Environmental decisions should be consistent with Australia's broader climate commitments. That means explicitly linking our national environment law to other relevant Australian Government laws and agreements, including the Climate Change Act 2022, Safeguard Mechanism and Paris Agreement, as well as international legal obligations – reinforced by the recent International Court of Justice advice on the obligations of nation states in respect of climate change ([ICJ 2025](#)).

Ensuring alignment between the Safeguard Mechanism and EPBC Act is a particularly important step. For proposed new or expanded facilities that would have annual emissions above the Safeguard Mechanism threshold, an independent assessment of consistency with Australia's legislated climate targets, carbon budgets, domestic policies and international commitments should be undertaken. The outcomes of this assessment should be considered by decision-makers as part of approval processes under the EPBC Act and National Greenhouse and Energy Reporting (NGER) Act (i.e. the Safeguard Mechanism). Increased harmonisation will provide consistency and certainty for both decision-makers and private sector proponents, and help protect the Australian Government from legal, reputational and economic risks. Nominating the Safeguard Mechanism threshold as the initiating factor for assessments would also ensure decision-making timelines for clean, efficient technologies are not affected by this additional assessment requirement, as only highly polluting fossil fuel projects would be captured.

Conclusion

By accelerating the deployment of clean, efficient technologies, we can boost Australia's productivity today, while safeguarding our future economic prosperity from the worst impacts of climate change. We welcome the Commission's interim report, and encourage

the Commission to consider additional measures to drive deeper cuts in climate pollution and unlock investment in clean technologies, as it develops its final report.