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## AI GROUP RESPONSE TO THE 2024 ISSUES PAPER

The Australian Industry Group (Ai Group) welcomes the chance to make a submission on the Authority's 2024 Issues Paper "Targets, Pathways and Progress" (the Paper).

Ai Group is a peak national employer organisation representing traditional, innovative and emerging industry sectors. We have been acting on behalf of businesses across Australia for nearly 150 years. Ai Group is genuinely representative of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, waste services, the defence industry, retail, aged care, civil airlines and ICT.

The decisions confronting Australia in relation to climate ambition are of exceptional importance. A successful global response to climate change is strongly in Australia's national interest. Minimising global temperature increases will minimise the serious economic, social and environmental impacts Australia faces from climate change. Our economic opportunities in a world pursuing net zero emissions are also very substantial if we pursue them effectively, and form a hedge against the likelihood that other countries' transitions will shrink their demand for Australia's fossil exports.

The questions raised by the Authority about the balance between ambition and deliverability are appropriate. Ai Group has supported Australia's interim emissions targets to date as a guide path and glide path to meeting the global Paris Agreement goal to limit further climate change. Targets need to be credible to support investment.

Credible targets are a balance between enough ambition to match our peers and contribute to the Paris goals, and enough grounding to be practically achievable with realistic effort. Targets aren't much good if nobody believes they can be achieved. Undeliverable ambitions would set up medium term disillusion as the cost and speed of change required to meet them became obviously unworkable.

On the other hand unambitious delivery invites long term disaster, whether through extremely high costs to turn emissions down much faster than would have been necessary with steadier effort, or through enduring much high levels of climate change. We are collectively seeking a Goldilocks solution and the stakes are very high if we err in any direction.

So far Australia's emissions goals have all turned out to be easier to meet than was expected when they were initially adopted. But famously, past performance is no guarantee of future returns. Ambition and a practical focus on deliverability must be tightly linked if we are to play our part in global success and forge national advantage in the process.

The range of potential targets that the Authority has indicated it is considering, between 65% and 75% below 2005 levels by 2035, is sobering. These are very big numbers and a substantial step up from the current 43% target for 2030, with just five additional years to achieve them. Strengthened investment would be required across the Australian economy to deliver that step up. Most of that investment would have to be private, albeit accompanied by a range of supportive and facilitative public policies. And those actions would have to

take shape very soon to pay off in the early 2030s. This is a tall order.

On the other hand, the journey to the broadly supported goals of net zero emissions by 2050 and keeping global temperature increases to below 1.5°C will require even more difficult steps. Pushing harder in the medium term on opportunities that, while challenging, are less difficult leaves more time and carbon budget to address the hardest to abate industries. Conversely, delay has many costs that need to be weighed.

At COP28 Australia, and all other Parties to the Paris Agreement, reiterated their determination to pursue temperate increases of no more than 1.5°C. That global goal could once have been met largely through emissions reductions supplemented by relatively low cost biosequestration so as to achieve net zero emissions. Slow progress on reductions means the world now faces two unappetising options.

1. We could continue to simply pursue local and global net zero emissions at the earliest feasible dates. This would almost certainly now mean breaking the carbon budget for 1.5°C, and accepting the serious physical, economic, social and environmental consequences. On the other hand, net zero would stabilise temperatures and every fraction of a degree avoided above 1.5°C matters for the prevention of even worse outcomes. Ambitious abatement and significant biosequestration would be needed.
2. We could acknowledge that the clearest path to a 1.5°C world now lies through 'overshoot' – exceeding the global budget for 1.5°C but then clawing back within the budget through a period of net negative emissions. This would require the same ambitious emissions reductions as Option 1, but over the longer term a much larger volume of negative emissions. This would likely exceed what biosequestration can deliver, requiring more scalable but much more expensive engineered carbon removals such as Bioenergy with Carbon Capture and Storage (BECCS) and Direct Air Capture with CCS (DACCS).

It is not yet clear which way the international community will go. As Australia considers the medium term costs of abatement, we also need to weigh the serious longer term costs either of higher levels of climate change or of an engineered carbon removals sector. The less we are able to achieve now, the more we must deal with later.

As big as the CCA's indicative target range is, it falls short of what would be needed for 1.5°C without overshoot and must entail one of the options above. This is not unreasonable, but serious consideration of and provisioning for net negative emissions and greater climate impact should begin as soon as possible.

Meanwhile, Australia's ability to deliver targets in the CCA's tentative range would be greatly enhanced by nationwide efforts to build our competitiveness, which requires accelerating clean energy developments, which in turn requires prioritising the energy transition.

Competitiveness is central both to maintaining the continuity of our existing economy as it transitions, and building the new industries that can help Australia and the world. As policies such as the Safeguard Mechanism inevitably tighten and broaden to contribute towards national targets, industry needs a level playing field in local and global markets. A fair, pragmatic and trade law-consistent Australian Carbon Border Adjustment Mechanism (CBAM), now under consideration by the Federal Government, could help – as could the adoption of CBAMs in our major export markets.

However, even on a level playing field Australia will not succeed unless we can actually realise the competitive advantage in scalable, clean and cheap electricity that is clearly possible. We have strong clean resource endowments, a stable polity and relatively low cost of capital. But many other nations have claims to energy advantage; and progress on technologies like floating offshore wind, advanced geothermal and advanced nuclear may well provide nations that currently think of themselves as energy-poor with domestic resources that offer security at a mediocre but manageable price. Australia needs to be very focussed on realising our potential energy advantage, or we will have no convincing case to make to our potential customers for clean energy and clean energy-intensive products.

Many factors contribute to competitive energy costs. Greater global deployment of technologies with strong learning rates, like solar photovoltaics, will cut costs for subsequent deployment everywhere. More specific advantage comes from the cost of capital, the cost of development, and prioritisation.

Relatively low costs for capital can be maintained through both the design of energy markets and policy and, as far as possible, their stability. Moderating the overall level of risk and placing it with those in the best position to manage it will reduce finance premiums. Responsible broader economic policies influencing inflation, interest rates and the level and destination of savings are also of great importance.

Planning and development are complex in many advanced economies. Australia can make itself a better place to build at all scales than other jurisdictions through effective system planning; access to strong local and global supply chains and skills; timely, predictable and well-coordinated approvals processes; and a pro-clean-development culture. Australia has intense debates about slowing high-emissions developments; it is important to recognise that this is not at all equivalent to accelerating clean energy developments. Planning and approvals processes need to achieve the latter.

That means prioritising clean energy competitiveness. Policy always faces multiple values and competing demands and while win-win outcomes are possible, trade-offs are real and need to be confronted. Australia should not lightly make choices that compromise competitiveness in clean energy. Conserving the existing local environment is valuable, but that environment would be changed irrevocably by unconstrained climate change. Fostering local supply of clean energy componentry can offer important benefits if done well, but would risk the loss of even larger benefits if it diminished access to international components or raised their costs.

The annexure overleaf responds to many of the questions raised in the Paper. For any questions in relation to this submission, please contact Ai Group Director of Climate Change and Energy Tennant Reed ([tennant.reed@aigroup.com.au](mailto:tennant.reed@aigroup.com.au), 0418 337 930).

Sincerely yours,

**Louise McGrath**  
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# Annexure

## 1. How should the authority take account of climate science and Australia's international obligations in considering possible emissions reductions targets for 2035?

The world has strengthened its formal commitments to pursue efforts to keep warming to no more than 1.5°C in recent years, most recently at COP28, and Australia has been outspoken in support of this. However translating this into specific numbers is complex. Science heavily informs the global carbon budget, though decisions are also needed on the acceptable chance of achieving the goal and the extent of comfort with overshoot scenarios. Dividing the resulting budget up amongst nations including Australia is much more a matter of ethics, economics and politics than of science. The results are inherently contestable.

There is also an interaction between Australia's choices and those of other nations. The Paris Agreement establishes a process of 'coordinated unilateralism' in which nations are urged to commit to their highest possible ambition, and anticipated to raise that ambition over time as their confidence in themselves and each other grows. Australia is a middle power in this global coordination process; our actions are neither determinative nor without influence.

The Paper considers a range from 67% below 2005 levels by 2035 (a translation of the global average reduction called for by COP28, without adjustment for equity or relative capacity to implement) to 77% below 2005 levels by 2035 (a point on a straight line to net zero by 2040, a goal for developed countries advocated by the United Nations Secretary General). Both have some basis in the knowledge assessed by the Intergovernmental Panel on Climate Change. Different judgments could be made; seeking a higher likelihood of hitting the temperature goal would suggest Australia's carbon budget is already fully spent, as would assuming an equal per capita entitlement to emit.

The Paper's approach to the science is nonetheless reasonable in the circumstances (and, in practice, very ambitious). If extrapolated to other major emitters, it does imply either that the 1.5°C goal will be met through overshoot and a period of global net negative emissions, or that temperatures will be stabilised above 1.5°C. Either would require serious consideration and provisioning. Global discussion of overshoot and the distribution of effort towards net negative emissions is likely to intensify over the next few years given the findings of the first Global Stock Take under the Paris Agreement and emissions reductions that still lag the pace needed to avoid overshoot.

## 2. How should the authority weight the goals of ambition and achievability in considering possible emissions reductions targets for 2035?

Ambition and a practical focus on deliverability must be tightly linked if we are to play our part in global success and forge national advantage in the process. The proper purpose of a goal is to stretch us to achieve what we otherwise would not. Neither low-hanging fruit nor unattainable aspirations fulfil that brief.

We can also be certain that the cost and feasibility of different emissions reduction and sequestration options will keep evolving and provide surprises. Past projections failed to anticipate the pace of reductions in costs for solar photovoltaics, wind and batteries, which have made renewables a huge part of the base case for our energy future; or the Global Financial Crisis, which resulted in lower demand for emissions and unexpectedly loose carbon constraints in many economies; or the inflation and interest rate surges of recent years, which have raised construction costs for many technologies, especially wind.

Today's plans will have to be revised in light of experience to ensure we build on success, respond to failure and avoid perverse outcomes. To date, Australia's targets have proved easier to meet than initially expected. The most obvious barrier to our climate and economic ambitions is now social license and approvals processes for major energy infrastructure. If we can streamline approvals and develop a yes-in-my-backyard orientation, our prospects are bright. If we block critical developments like transmission, we will struggle to

decarbonise our domestic economy and lose the chance to host new industries that can help decarbonise the world.

The architecture of the Paris Agreement also matters. The prohibition on backsliding and requirement that future commitments be stronger than past ones is important, though so are the expectation that nationally determined contributions (NDC) represent a nation's highest possible ambition, the scope for revising NDCs up, and the reality that there are no direct consequences under the Agreement for missing a self-defined target. The point of the Paris Agreement is to assist a virtuous circle of commitment, achievement and enhanced commitment so as to drive greater confidence among, and action by, all. The upshot is that Australia should treat potential NDCs seriously, but not conservatively.

Furthermore, the balance of ambition and achievability for the Australian economy as a whole is a very different question to the same calculation for individual economic sectors and subsectors. As the Authority's own analysis makes clear, some sectors have a much easier and earlier path to deep emissions reductions than those where solutions involve less commercial technologies, much larger infrastructure needs, or coordinated industrial hubs.

One way to proceed would be to:

- select a domestic target range that extends from what we believe we can accomplish with serious national effort, to a level that would be practical if technological and market developments are once again more favourable than expected;
- commit internationally to 'at least' the low end of this range;
- regularly consider the state of performance, and whether it is practical to revise commitments upward; and
- design implementing policies ambitiously but with 'safety valves' to contain marginal abatement costs to manageable levels.

### 3. How can Australia further support other countries to decarbonise and develop sustainably?

Australia has many opportunities to support others, especially through economic partnerships. Australian pursuit of 'energy superpower' industries, especially extraction and processing of transition minerals and production of clean energy-intensive materials, offers to help Asian economies in particular to decarbonise at least cost. However the most expansive vision of relocating a substantially greater portion of the iron and steel value chain to Australia would require deeper cooperation with Japan, Korea and, especially, China, the destination for the vast bulk of our iron ore exports today. This will be a delicate exercise. Its success depends on nuanced relationship management; the delivery of Australian advantage in low-cost highly-scalable clean energy; navigation of an early period where either or both very large subsidies for hydrogen, or use of natural gas as a cheaper reductant, will be necessary; commercialisation of technologies that can make green iron from hematite ores; and the emergence of large global demand for clean materials and products that is willing to pay higher costs.

The spread of Carbon Border Adjustment Mechanisms (CBAMs) is one plausible way to grow that demand, so long as they are fully non-discriminatory and in line with World Trade Organization commitments. The larger the share of global demand for iron and steel that is covered by CBAMs, the easier the case for investment in cleaner production of covered goods everywhere. Australia is a small market for most goods, but we can contribute modestly to clean product demand ourselves through the CBAM currently under consideration; and perhaps morseo by encouraging other nations with larger markets to incentivise demand for cleaner products, including through non-discriminatory CBAMs.

The question of international trade in emissions rights and offsets is also important. There are three ways that this might help Australia support international efforts.

- Most familiarly, Australia could import emissions units to both contain its own abatement costs and finance decarbonisation overseas. For many years many economic analyses indicated relatively high abatement costs in developed countries like Australia, and relatively low costs in developing

economies to change their growth paths or sequester carbon in forests and land; this suggested large global gains from trade. However more recent evidence suggests a more nuanced picture. Clean energy has become much cheaper than once expected, especially for economies with a low cost of capital. That suggests relatively lower abatement costs in advanced economies. Meanwhile problems with the additionality of various forms of international unit are leading to a more careful approach incorporating ‘corresponding adjustments’ to international transfers, ensuring that units relied on by one nation are added on to the accounted emissions of the originating nation. Important work continues to operationalize Article 6 of the Paris Agreement, but given changed economics and tighter rules it is not clear that there will be the large developed-developing emissions trade once envisaged.

- Some of the investments in Australia that help other economies reduce their emissions will have significant emissions of their own within Australia. Examples include onshore processing of lithium; production of export hydrogen or ammonia from fossil fuels with carbon capture and storage; production of lower emissions iron using natural gas as the reductant; or export of liquefied natural gas to substitute for coal. Proponents and partners expect that, measured and managed well, these developments reduce global emissions; but they complicate Australia’s own commitments. The Safeguard Mechanism would cover most potentially relevant facilities, incentivizing emissions reduction. An additional guarantee of net global emissions reductions could be for Australia to strike agreements with relevant partner economies under Article 6.2 of the Paris Agreement. These agreements could provide that nations reducing their emissions through key Australian projects either transfer some of those reductions to Australia, or alternately take some of the residual Australian emissions onto their own emissions accounts. Cooperative arrangements accounted for under Article 6.2 must prevent double counting. Such agreements would help ensure that both that overall reductions in global emissions are achieved, and that Australia is not disincentivized from assisting global mitigation.
- While in the medium term Australia will need greater effort to meet its own commitments, in the long term Australia might become an exporter of sequestration services to the rest of the world. The scope of this is highly uncertain, but as the Authority’s previous work has indicated there is large potential supply of and demand for negative emissions, especially in overshoot scenarios. While the supply of such services will need strong oversight to ensure durable sequestration is achieved, this shapes up as an important opportunity to contribute to global efforts alongside domestic emissions reduction, domestically paid sequestration, and provision of resources and products that advance global decarbonization. Ongoing attention will be needed to the adequacy of Australia’s sequestration capacity to meet domestic needs as well as any international demand. The vast bulk of action towards temperature goals will need to be emissions reductions, as sequestration will never be cheap or plentiful enough to obviate the deepest practical mitigation in each sector.

#### 4. What technologies are important for each sector’s pathway to net zero and why?

The critical technologies vary in every sector (and within them – there is substantial diversity within industry, for example) and the Paper broadly does a good job of introducing the major options. We emphasise the tremendous importance of delivering scalable, low-cost and appropriately firmed<sup>1</sup> renewable electricity as a major enabler of decarbonisation in most sectors. Clean energy that was reliable but mediocre in price would suffice for the transition of the low energy intensity portions of our economy. But maintenance of existing output in key materials, and realisation of large new opportunities in those materials, depends on globally low electricity costs. Smart demand-side utilisation, low finance risk premiums, swift and predictable planning processes, a strong and productive construction sector, greater standardisation, experience and access to the most competitive capital equipment will all be vital to that.

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<sup>1</sup> The degree of firming required will vary among end uses. Low energy-intensity activities generate high value per unit of energy consumed and will value continuity highly enough to warrant investment in highly reliable resources (such as the current National Electricity Market reliability standard of no more than 0.002% unserved energy). Very high energy-intensity activities like hydrogen electrolysis need such low electricity prices that they may be willing to trade much higher downtime for the much lower cost of a lightly firmed or unfirmed electricity supply.

We also note that the emissions reduction potential of a given tool varies depending on the context. Natural gas is the business-as-usual source of process heat for many of our members, for example in food processing; it does not of itself reduce emissions in those activities, though investment in efficiency can help. On the other hand our members in the steel industry believe that substitution of natural gas for coking coal could reduce primary steelmaking emissions by 60%, more than estimated by the Paper.

Another aspect of context is isolated adoption versus coordinated hubs. Access to shared infrastructure and a local industrial ecosystem of skills, services and flows of material and energy can make adoption of low- and zero-emissions technologies much more viable for some industries. The 'Net Zero Industrial Precincts' concept has considerable merit, though as with Renewable Energy Zones it will require defter navigation of planning and social license.

While recognising the limited time available for the CCA to make its final recommendations, we encourage you to undertake further bilateral discussions with industry subsectors, particularly those businesses who have made substantial progress in charting their transition options.

## 5. How can governments use mandates, rules, and standards to accelerate Australia's decarbonisation? Is more planning by governments needed? If so, how should this be coordinated and how can this be done while making the transition inclusive, adaptive, and innovative?

Regulatory policies have a place in the toolbox, particularly to cement improved products and practices as standard once they have passed through an initial period of familiarisation and cost reduction through deployment incentives. There is logic in the move 'from handouts to phaseouts', shifting from subsidies to clean products to tighter performance requirements, or exit, for high emissions products. However there are challenges. For example, stakeholders in the heat pump hot water system (HPHWS) industry, including Ai Group members, are broadly enthusiastic about development of a Minimum Energy Performance Standard (MEPS) for HPHWS as soon as possible. But the current MEPS development process takes years to complete, and industry stakeholders generally need a significant notice period for the introduction of new mandatory standards to ensure that they are ready to comply and do not have large volumes of stranded product.

One approach to this is to establish clear expectations on the direction and timing of regulation well in advance. Even if the standards are challenging or expected to be costly, they will be cheaper and easier to comply with if significant notice is given and both regulated parties, their value chains and their end users can prepare.

Reform of regulatory processes also has an important place. Planning and environmental approvals processes need to prioritise and accelerate clean energy and industrial developments, including through clear time limits on processes, regional assessments that enable cheaper faster and easier assessment of individual projects, and potentially ideas like categorical exemptions for the highest-priority asset types or valuing the downstream emissions reductions unlocked by major projects in cost benefit analysis.

## 6. How can governments stimulate private finance needed for the net zero transition – are there innovative instruments that could be deployed or new business models that governments could support? Is there a bigger role for governments to play in coordinating the investment needed to transition the economy?

There are several important ways government can encourage finance to net zero transition.

The most fundamental is to ensure that market rules and supporting policies enable cleaner production to be more profitable than high emissions production, all other things being equal. Private finance is enthusiastic about backing transition, but there is no license to lose money. The pre-policy cost gaps between key industrial technologies like green steel and conventional alternatives will need to be closed, one way or



another, for private finance to flow in the volumes needed. Even public finance generally has a limited risk appetite and a mandate to make positive investment returns.

Governments – and oppositions, and broader policy and political stakeholders – can also help unlock finance by providing a higher degree of policy stability in future. Policy will certainly need to evolve as technology, science, market conditions and geopolitics shift. But directional stability and a strong thread of continuity in policy instruments will be very helpful to reduce investment risks and the premiums they impose. Lower underlying risks should mean cheaper clean energy and more competitive industries.

The sustainable investment taxonomy now under development is a positive initiative for more clearly signalling which activities can most straightforwardly be supported by sustainable investors. However the taxonomy approach is a complement to public policy, not a substitute for it; systemic outcomes cannot easily be arbitrated by investors considering one asset at a time.

Clean industry development policy is an increasing focus for the Australian Government and has great potential to catalyse Australian growth in areas of current and emerging advantage. However industry strategy needs to be strategic. It would be all too easy to dissipate resources and effort on developments with poor prospects or unclear objectives. Prioritisation of objectives is necessary, and while risk taking is essential, so is the willingness to recognise failures and adjust course.

## 7. How can governments better support markets, including carbon markets, to deliver emissions reduction outcomes?

The Safeguard Mechanism has evolved from modest beginnings and has the makings of a useful carbon market and pricing instrument. There is clearly scope for a range of further reforms to be considered when the scheme is reviewed in 2026-27, including possible options to expand coverage through some combination of lower thresholds, upstream coverage of downstream combustion emissions, or meaningful electricity sector coverage; continue dropping the baselines so as to contribute to national emissions targets; and shift from the free allocation of emissions entitlements through baselines to government sale.

Most of these possible changes would exacerbate concerns about the potential loss of competitiveness by covered trade-exposed facilities. Those concerns have been managed for the next few years through the Trade Exposed Baseline Adjusted element of Safeguard, the grants available through the Powering the Regions Fund, and the baselines themselves; but these tools only delay competitiveness concerns and are not permanently sustainable. More durable solutions are needed. The current Carbon Leakage Review has a vital role in airing the options, including a potential Carbon Border Adjustment Mechanism for Australia. A CBAM would be a major and complex reform, and would need to be implemented in a pragmatic and fair manner that respects Australia's international trade commitments. With those provisos, CBAM could be the most feasible, efficient and effective solution over time, supplemented by public financial support for early industry investment in transformative technologies.

## 8. What further actions can be taken by governments (e.g. through public funding), the private sector and households to accelerate emissions reductions, including in relation to the deployment of technologies and access to new opportunities in the transition to net zero? What barriers stand in the way and how could they be overcome?

Public funding can play a very useful role in the implementation of transformative industrial technologies, particularly where they have a significant initial cost premium and a decent learning rate. In the absence of very substantial support, rational investors will not invest as much in these technologies as society needs, because they will be uncompetitive both against existing high emissions production and subsequent cleaner production that benefits from early experience.

Carbon value reflected in selling prices for industrial products can narrow the gap and reduce the amount of public support required, but it is clear from observing Europe that early investments in, for example, green steel cannot be made viable solely through even a substantial carbon price. Substantial public support is being provided in the form of capital grants and/or 20-year agreements to cover the cost gap for hydrogen inputs.



## 9. How should governments decide upon the appropriate allocation of resources towards reducing emissions, removing carbon from the atmosphere, and adapting to climate change impacts?

Australia will certainly need a wedge of negative emissions to reach net zero; and will very likely need a further substantial wedge to achieve net negative emissions given that committed global emissions reductions are unlikely to be rapid enough to achieve temperature goals without it. In any case there will be substantial further climate impacts to deal with – potentially much larger if global action lags. In short we need investment on all three fronts.

It is tempting to say that the allocation of resources should be optimised in line with cost benefit analysis of the options. However cost benefit analysis is a tool with significant limitations in this context. While significant efforts have been made to improve the models, including physical-economic Integrated Assessment Models, which tend to provide the inputs to climate cost benefit analyses, they remain deeply incomplete and must be used with great caution. Australia lacks a deep literature and policy debate about the Social Cost of Carbon, and in jurisdictions like the United States with a much deeper discourse the outputs remain divergent and problematic.

What would make better sense is to increase the visibility in the emissions reduction goal decision process of adaptation and carbon removal costs. The slower emissions reductions are, the greater the later costs associated with negative emissions, adaptation, and loss and damage. Optimisation of these costs is unlikely given imperfect information and models, but greater awareness of them would be a significant advance on past target processes.

Particular focus is needed on engineered negative emissions, which are extremely expensive; very immature; and ever more necessary with slow mitigation. Early investment, at costs well beyond the carbon value in broader policies and markets, will be necessary to make engineered removals a meaningful option later. But engineered removals are likely to always be expensive – financially and in the enormous inputs of biomass or energy needed to achieve meaningful removals. The large future costs of removals under different mitigation pathways should be accounted for explicitly now, comparable to the discipline around financial debt in the Budget process.

## 10. How can governments, businesses and people, including First Nations people, help ensure the benefits and burdens of the net zero transition are equitably shared?

## 11. How can governments better ensure First Nations people are empowered to play a leading role in the development and implementation of climate change policies and actions, including as they relate to the ongoing curation of the Indigenous estate?

## 12. How can Australian governments support the wellbeing of workers, communities and regions as the nation decarbonises, including in relation to cost of living, workforce and industry transition and access to low emissions technologies and services?

These questions all go to aspects of equity and social license in the pursuit of emissions goals. Our first observation is that the primary tools for achieving equity and opportunity lie in the tax and transfer, workplace relations, education and health systems. Specific elements of climate policy can supplement, complement, or avoid harm to these broader equity-shaping policies, but they cannot substitute for them.

Second, there is a strong and damaging perception in many regions where major clean energy infrastructure is proposed that they are bearing the disruption and costs for projects that primarily benefit the major cities. There is an urgent need to make a more persuasive case to these communities, or the infrastructure needed

to achieve net zero and energy advantage will never be built. Part of that case is to increase understanding that the very high costs of failure on deployment would be widely borne in higher energy prices and lower reliability for all, plus lost economic opportunities mostly in the regions. Part is to make reasonable accommodations in route planning in response to consultation. And part must be appropriately generous payments to people, and investment in communities, affected by major energy infrastructure – alongside swifter approval processes.

The Net Zero Economy Authority shapes as an important body in many respects. Ai Group has expressed strong concern over aspects of Part 5 of the NZEA legislation, though we are hopeful these will be addressed in amendments before passage and are supportive of the overall intent of the NZEA to achieve a much fairer and more successful transition for regions and workers affected by energy asset closures. The NZEA's focus on regional development and diversification will be important both to strengthen coordination across all levels of government and to develop credible regional pathways grounded in the needs and inputs of people and businesses on the ground.

### 13. How can governments help Australians prepare for and respond to the impacts of climate change?

The present processes underway to lift Australia's adaptation performance, including the National Climate Risk Assessment and the National Climate Adaptation Strategy (and the many initiatives noted in the latter) are positive. However as we noted in our [submission to the Strategy Issues Paper](#), there is not yet a clear assessment of the match between the scale of adaptation action expected to be achieved under current policy and what would be needed to reduce expected impacts to acceptable levels.

One tool that is likely to make a positive contribution after considerable work is Climate Related Financial Disclosure, currently before the Parliament. CRFD will only cover larger businesses, but is likely to increase the familiarity of a significant swathe of the Australian economy with the business-critical physical risks that they face. There is a substantial process of upskilling ahead as businesses unfamiliar with CRFD come to grips with new concepts and data sources. It will be important for CRFD to attract a strategic focus rather than pure compliance. Ai Group will work with our members as the final forms of the legislation and associated standard become clear.