1st December 2023

Sustainable Finance Unit
Climate and Energy Division
Treasury
Langton Cres
Parkes ACT 2600

To the Sustainable Finance Unit,

Re: Sustainable Finance Strategy

The Australian Hydrogen Council (AHC) commends the Treasurer for the release of the Sustainable Finance Strategy (the Strategy) and the broader commitment to furthering a progressive agenda for sustainable and blended finance.

The AHC is the peak body for the hydrogen industry, with over 100 members from across the hydrogen value chain. Our members are at the forefront of Australia's hydrogen industry, developing the technology, skills and partnerships necessary to ensure that hydrogen plays a meaningful role in decarbonising Australian industry.

We recently developed a comprehensive response to the 2023 National Hydrogen Strategy consultation process,[1] which provides significant context of the policy and funding issues to be addressed and provides significant background and context for those unfamiliar with the industry.

The taxonomy must account for clean molecules

The Strategy has identified four key priorities as critical building blocks for improving transparency:

- Ensuring standardised disclosure of climate and other sustainability-related financial opportunities and risks.
- Developing an Australian sustainable finance taxonomy – to provide consistent, scientifically rigorous criteria for evaluating whether economic activities are aligned with or contribute to climate and other sustainability outcomes.
- Supporting credible climate transition planning and target setting.
- Improving sustainability labelling for investment products.

The need for increased policy and regulatory action to increase the rate of capital reallocation away from fossil fuels and activities incompatible with net zero is well understood. However, despite an apparent consensus on the need for action, the rate of capital flows to new energy projects (relative to capital flows in traditional extractive industries or technology investments) remains too low and too slow.

Feedback from AHC industry members indicates that it is not a shortage of capital that has prevented projects from progressing to FID and construction. Rather, lenders have proven to be risk averse, unwilling to finance projects developing clean molecule supply chains. The chicken and egg issues

[1] AHC (2023) *A fit-for-purpose refreshed National Hydrogen Strategy: next steps for building Australia's hydrogen industry*, August, https://h2council.com.au/ahc-publications/.

bedevilling the global hydrogen and derivatives industry are well known, with much driven by the lack of significant and secure offtake and a resulting inability to otherwise allocate risks and costs sufficiently to proceed.

Within the Strategy, the proposed sustainable finance taxonomy is a significant policy to assist investor due diligence. The AHC understands that Australian Sustainable Finance Institute (ASFI) has been tasked with development of the taxonomy, in partnership with the Commonwealth Treasury and that the initial development phase for the taxonomy will cover climate mitigation criteria for a minimum of three and up to six priority economic sectors:

- electricity generation and supply
- minerals, mining and metals
- construction and the built environment
- manufacturing/ industry
- transport
- agriculture.

The consultation paper also notes that the transitional aspects of the taxonomy will be aligned where possible with sectoral plans developed by the Climate Change Authority (CCA) and across government to maximise consistency with whole-of-government pathways.

It is important that the developers of the taxonomies (CCA, ASFI as well as Commonwealth departments developing the sector decarbonisation strategies) ensure that the supply and value chains associated with clean molecules are a focus for the modelling guiding taxonomy development.

Australia has existing and emerging capabilities in producing, moving, storing and using hydrogen and its derivatives. For these capacities to increase, the requirements for the supply chains need to be explicitly considered and modelled, rather than emerge as implied within the taxonomies.

Consider mandating the use of the taxonomy

The consultation paper proposes that the taxonomy will have no formal regulatory status but notes that Treasury and the CFR will "consider options for embedding the taxonomy in Australia's regulatory architecture, where doing so can promote greater transparency and consistency in sustainability-related disclosures, financial products and markets".

The AHC position on the lack of formal regulatory status of the taxonomy is that, without this framework, the higher order intention of the Strategy to increase the rate and scale of capital allocation may not be met. In the absence of carbon pricing or other measures that appropriately price and value environmental impact, measures such as those proposed as medium-term options should be bought forward and implemented alongside the timing proposed for climate related financial disclosures.

Green bonds are a welcome path to Australia's response to the IRA

The consultation paper proposes four priorities for increasing Australian government engagement on sustainable finance:

- Developing an Australian *sovereign green bonds program* to attract green capital and support further growth of sustainable finance markets.
- Promoting *interoperability of sustainable finance frameworks* to enable cross-border flows of sustainable finance.

- Catalysing growth of key *sustainable finance products and markets*, especially in sectors where rapid scaling up of sustainable investment is a key policy priority.
- Leveraging international engagement on sustainable finance and blended finance commitments to position Australia as a global sustainability leader.

Of key interest for AHC members is the development of the green bonds program. We are heartened by this policy and encourage the Australian Government to utilise the bonds issuance as a mechanism to finance Australia's policy and investment response to the challenge posed by the US Inflation Reduction Act and other announcements from jurisdictions globally.

The remainder of this letter provides responses to specific consultation questions posed in the Strategy. Should you have any queries or wish to discuss any of the elements in this submission, please do not hesitate to contact me.

Yours sincerely,

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Responses to consultation questions

Are there specific areas where the Government or regulators could further contribute to market-wide understanding of systemic sustainability related risks, including climate-related financial risks?

The Strategy consultation paper is silent on the role of insurance companies and actuaries and may benefit from more explicit interaction with modelling undertaken by this industry.

What are the key expectations of the market around issuance of, and reporting against, sovereign green bonds? What lessons can be learned from comparable schemes in other jurisdictions?

As noted above, the AHC welcomes and is supportive of the issuance of sovereign green bonds. Key elements and questions that require additional information include:

- A clear statement of policy focus and intent to ensure investor clarity about the fundraise. To reiterate, the AHC is supportive of the green bonds being used to build and finance a bold, significant Australian policy response to the IRA. A key area of focus should be the development or retrofitting of common use infrastructure such as ports and storage infrastructure
- Clarity of alignment with the government's broader decarbonisation policy and activity – specifically, the CCA decarbonisation strategies and the National Reconstruction Fund.
- Nomination of administering agency for the funds raised. Depending on the policy focus of the bonds, the CEFC and potentially ARENA would be well placed to take on this role given their successful administration and stewardship of significant public investments over the past decade. In addition, the newly formed Net Zero Economy Agency may also be appropriately placed to deliver regionally based investments and programs.
- The Strategy consultation paper did not provide guidance around the size, scale and terms of the proposed bonds issuance, or the amount of private capital the Commonwealth is looking to attract.

What key sustainability data gaps or uncertainties by financial institutions in Australia should be prioritised by the Council of Financial Regulators (CFR)?

The Guarantee of Origin (GO) scheme process currently under development by DCCEEW proposes the establishment of certification for hydrogen and derivatives (either as fuels or in embodied products). There are questions and data gaps remaining regarding verification of supply chain emissions, chains of custody for emissions, verification of reported emissions and verification of mitigation/avoidance activity. The taxonomy development process should also engage with the Clean Energy Regulator (CER) to ensure alignment with investor stewardship responsibilities and obligations under the mandatory climate reporting.

What role can the CEFC play to support scaling up of sustainable investment in Australia, as part of a more comprehensive and ambitious finance agenda?

As noted in the response above, the CEFC (potentially working alongside the NZEA) is well placed to administer the funds raised via the green bonds issuance.

In addition, the CEFC could work closely with the investment committee of the national Reconstruction Fund (NRF) to cornerstone investment in higher risk technology investments, particularly when aligned with decarbonisation of industry emissions.

What are some longer-term international sustainability goals for Australia where sustainable finance can play a role?

The reliance of the Australian economy on continued fuel exports highlights the criticality of planning for and funding supply chains for production, transportation, storage and utilisation of hydrogen and derivatives – both domestically and for international export.

As noted in the responses above, deliberate modelling of the role of hydrogen and derivatives should be part of the taxonomy development process, as well as the preparation of the sector decarbonisation strategies, in order for blended finance strategies to reduce the barrier to private capital investment in clean molecule production.