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RE: DEVELOPMENT OF AUSTRALIA'S SUSTAINABLE FINANCE STRATEGY

Australian Energy Producers welcomes the opportunity to make a submission to the Commonwealth Department of the Treasury's public consultation on the development of Australia's Sustainable Finance Strategy (Strategy).

Ongoing investment in natural gas is required for all net zero pathways in Australia | Natural gas supports the transition away from coal, provides the firm dispatchable energy required to unlock large-scale renewable energy deployment, and powers Australian industries across the economy including those processing the critical minerals necessary for net zero. Recent analysis from Ernst & Young (EY) found that "*Australian natural gas will continue to have an important role powering the economy of Australia and the region to 2050 and beyond and is a crucial tool for the path to net zero*". The analysis established that across all plausible pathways to net zero in Australia, natural gas will be needed to support emissions reductions while keeping energy supplies secure and affordable. Ongoing investment in new gas supply will be required in existing fields and new fields, across all scenarios, to maintain production and meet all levels of projected demand.

The Sustainable Finance Strategy must recognise investment in natural gas as a valid and essential sustainable investment in net zero in Australia | The priority outcomes for the Sustainable Finance Strategy should be to facilitate least-cost energy security and emissions reduction for Australia and the region, and to encourage investment in the optimal portfolio of fuels and technologies that can deliver these outcomes. Should the Sustainable Finance Strategy ignore the role of gas in reaching net zero by pre-determining the balance of fuels and technologies that are considered sustainable, it risks compromising energy security, increasing energy costs and exacerbating cost-of-living pressures, as well as undermining emissions reduction targets in Australia and the region.

Further key inputs and recommendations include:

- Australia has a well-functioning financial system that is well placed to help finance Australia's transition to achieving its net zero emissions target.
- Climate-related investment decisions today are being made in the context of existing and strong compliance-based climate measures.

Australian Energy Producers considers there is a risk of regulatory overreach on both the Strategy and its taxonomy 'tool' which could serve to restrict a firm's or facility's ability to discover, finance, and invest in least-cost abatement solutions.

- Australian Energy Producers recommends delaying work to progress the taxonomy until its foundational elements are finalised.
- A significant barrier to Australia meeting its emissions reduction targets is the existing legislated moratorium on the Clean Energy Finance Corporation's (CEFC) ability to financially support CCUS projects.
- Australian Energy Producers seeks transparent, stable, predictable, and well-functioning carbon and energy markets and financial systems to complement national climate and energy policy frameworks and maintain and enhance the economy.
- The imposition of further regulatory burdens on the industry may negatively impact investment in new gas supplies needed to deliver the energy transition and maintain affordable and secure energy supply to Australian consumers and industry, and our regional partners.

Australian Energy Producers look forward to reviewing the Government's future draft roadmap covering the three pillars of its Strategy (transparency, capabilities, and leadership) and continuing to engage in its development.

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OVERARCHING COMMENTS

Ongoing investment in natural gas supply will be needed for all net zero scenarios in Australia

The Australian oil and gas sector has a central role to play in reaching net zero across Australia and the region | The Australian oil and gas industry is committed to net zero across the economy by 2050. Natural gas supports the transition away from coal, provides the firm dispatchable energy required to unlock large-scale renewable energy deployment, and powers Australian industries across the economy including those processing the critical minerals necessary for net zero. The Australian oil and gas industry is central to delivering key step-change emissions reductions technologies such as carbon capture, utilisation and storage (CCUS) and low-carbon hydrogen – noting natural gas with CCUS is the lowest-cost, most advanced pathway to low-carbon hydrogen today.

Natural gas will be needed for net zero to 2050 and beyond | A range of net zero scenarios – globally from organizations such as the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC), and domestically in studies such as the Net Zero Australia study – show a role for gas in 2050 and thereafter. Globally, the IEA and IPCC present a range of net zero and Paris-aligned scenarios, that see demand for gas in 2050 range from 115 per cent of 2022 levels[1] to 22 per cent.[2,3] At the 22 per cent level, this still represents a global demand for natural gas of over 32,000 PJ in 2050 – compared to around 6,100 PJ produced annually in Australia – representing a significant ongoing opportunity for Australian natural gas exports. Similarly, the Net Zero Australia study[4] – led by the University of Queensland, University of Melbourne and Princeton University in the United States – finds that natural gas will be needed in 2050 across all net zero scenarios for Australia. Further, it finds that if renewable deployment is "*constrained*" gas demand will need to more than double from today's levels to reach net zero in Australia and to deliver net-zero energy (including hydrogen) exports to the region.

Ongoing investment in natural gas is required for all net zero pathways in Australia | Recent analysis from Ernst & Young (EY) found that "*Australian natural gas will continue to have an important role powering the economy of Australia and the region to 2050 and beyond and is a crucial tool for the path to net zero*". The analysis established that across all plausible pathways to net zero, natural gas will be needed to support emissions reductions while keeping energy supplies secure and affordable. Ongoing investment in new gas supply will be required in existing fields and new fields, across all scenarios, to maintain production and meet all levels of projected demand. The analysis found that underinvestment in new gas capacity in Australia risks impacting energy security and increasing the costs of energy and of reaching net zero in Australia and the region.

The EY analysis established three emissions-equivalent net zero scenario for Australia, all of which showed significant demand for Australia gas and the need for investment in new gas supply to 2050 and beyond. The gas demand profile to 2050 for each of the scenarios can be seen in Figure 1.

The Sustainable Finance Strategy must recognise investment in natural gas as a valid and essential sustainable investment in net zero in Australia | The priority outcome for the Sustainable Finance Strategy should be to provide least-cost energy security and emissions reduction for Australia and the region. This means establishing a framework to encourage investment in the optimal portfolio of fuels and technologies that can deliver these outcomes. Should the Sustainable Finance Strategy ignore the role of gas in reaching net zero by pre-selecting the balance of fuels and technologies rather than on the desired outcomes, it risks injecting inefficiencies into the market that will likely result in poorer outcomes for Australians. This means that should the Strategy only consider investment in

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[1] IPCC figures are relative to 2021 gas supply; IEA figures are relative to 2022 gas supply

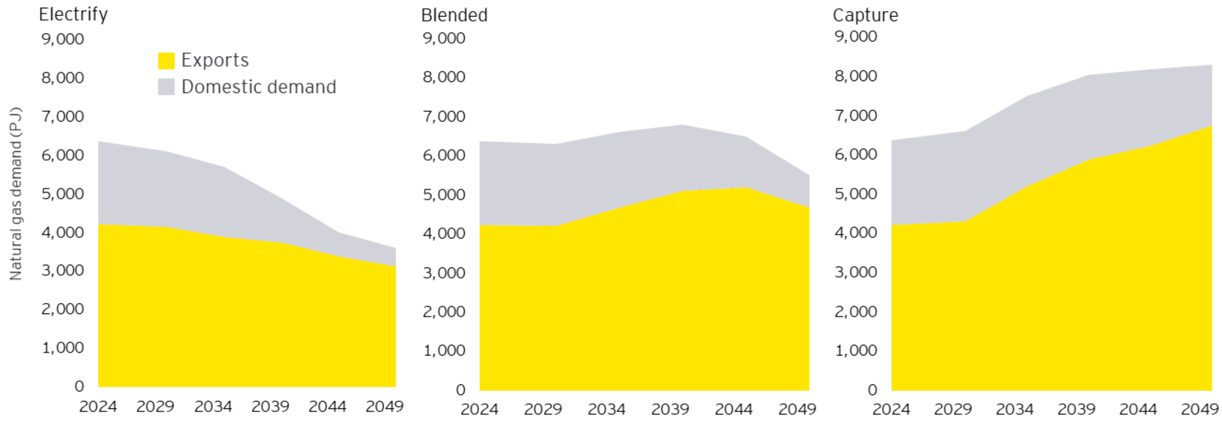
[2] IEA, *World Energy Outlook 2023*, 2023

[3] IPCC, *6th Assessment Report Working Group III Technical Summary*, 2022

[4] Pascale, D. et al, *Net Zero Australia Modelling Summary Report*, April 2023

renewable technologies and its derivatives as being sustainable, it risks compromising energy security, increasing energy costs and exacerbating cost-of-living pressures, as well as undermining emissions reduction targets in Australia and the region.

Figure 1: Natural gas demand to 2050 across three net zero scenarios



Source: EY, *The future role for natural gas in Australia and the Region,* 2023

Australian Energy Producers strongly supports positive climate, sustainability, and nature outcomes

Australian Energy Producers supports Treasury's consultations on common reporting and disclosure standards to better inform the financial system entities (lenders, insurers, asset managers) more deeply on climate risks and opportunities, including the filling of data gaps, addressing information quality (including claims), and conducting credible, comparable, and comprehensive climate scenario analysis. The paper's proposed seven principles are generally supported to underpin the development of this Strategy. Principle 3 (strategy should support emissions reduction plan and transition pathways) could be better expressed in a more technology-neutral manner. Australia's ambition to 'become a renewable energy superpower' can only be achieved if there is a sufficient supply of natural gas. This ambition should be restated as '*Australia maintaining its current role as an energy superpower*' given the net zero emissions target is implicit in the principle.

Australian Energy Producers suggests consideration of an additional principle in support of the Strategy's development: '*Changes to Australia's financial system should only be given effect if they enhance its stability and efficiency to provide firms maximum flexibility to implement their preferred decarbonisation plans*.'

Further, the Government could adopt outcome-focused policies rather pursuing prescriptive regulatory approaches. Appropriate and clear policy signals provide industry with the certainty to invest in and finance the technologies and projects it is willing to bring forward to decarbonise and address environmental challenges.

There are very few connections made in the paper of the Strategy's impacts on other relevant and important climate-related and finance-relevant matters, including taxation and productivity reforms, the role of superannuation funds, cyber resilience, global rules of trade as overseen by the World Trade Organization (WTO), Australia's many free-trade agreements, Article 6 (international emissions trading), and Carbon Border Adjustment Mechanisms (CBAMs) to name a few. The World Bank (WB) defines a stable financial system as being capable of efficiently allocating resources, assessing and managing financial risks, maintaining employment levels close to the economy's natural rate, and eliminating relative price movements of real or financial assets that will affect monetary stability or employment levels. None of these matters are explored in the paper.

The paper fails to clearly articulate how Australia's financial system is failing in terms of either misallocating or allocating insufficient levels of investments for climate and environmental purposes. The Government's own assessment of Australia's financial system, as stated in the paper, is that it is strong and stable and well placed to finance Australia's transition to achieving its net zero emissions target. The Reserve Bank of Australia (RBA) observes most analysis finds limited direct effects of climate risks on the financial system as a whole. It notes that Australia's banking system is resilient, well-capitalised and profitable with strong liquidity coverage, holding levels of capital and liquidity well in excess of Basel III capital requirements to mitigate liquidity risks. The RBA continues to monitor climate-related financial stability risks, including how these risks are priced and who ultimately bears the physical and transition risks arising from climate change. APRA continues to act decisively to manage the associated risks of climate, cyber-security, and rising interest rates and that its prudential framework for banks already exceeds international standards.

Australian Energy Producers supports in-principle appropriate market interventions to address market failures**; this could include data gaps to inform common frameworks for reporting climate risks.** Climate risk disclosures should be consistent and comparable between firms, industries, and countries to allow for the global nature of climate shocks and financial linkages. The Taskforce on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD) have already issued very strong and universally accepted recommendations informing what constitutes best practice disclosures including scenario analysis of risks and opportunities. These are currently informing the International Sustainability Standards Board (ISSB) development of sustainability standards as well as the AASB work in this area on behalf of the Government.

In a recent RBA staff paper, the authors note that they constructed a measure of emissions intensity by sub-industry as a proxy for exposure to climate transition risk. They found that bank lending to industries with a high level of emissions is relatively small, while banks' largest exposures are to industries with relatively low emissions intensity. It also identified areas where more information is needed such as data gaps to inform the financial system (banks, insurers, and asset managers) risk appetites and management approaches in response to growing climate risks. Insurers are very exposed to the impacts of a rapidly changing climate as underwriters of insurance products. Increased risk (actual or perceived) can drive higher increases in premiums to cover expected claims and/or restrict the availability of cover offered.

It is evident that finance is efficiently flowing into lower carbon opportunities arguably in the absence of additional government interventions or the need for regulatory reform; perhaps what is needed is for existing policy settings such as the Safeguard Mechanism (SGM) to send more efficient investment signals.

It is important that these 'climate first' reforms do not result in government overreach **within Australia's financial system; and that future reforms demonstrate prior to adoption a very high degree of economic complementarity with Australia's current climate market-based measures (SGM and ACCU Scheme).** Many of the reforms proposed in the paper are characterised as commencing in a voluntary capacity for guidance purposes, with an intent of making some 'regulatory enforceable' (such as the financial taxonomy). There is also an indication of future sustainability standards going "beyond" international standards.

A critical question remains whether a 'climate first' approach to financial system reforms can be 'fit for purpose' given the vulnerabilities of Australia's relatively small and open, trade-exposed economy to the very real prospects of exogenous global financial events such as pandemics, future global financial crises, and/or recessions.

This Strategy will be shaped by very many public and private sector entities**.** Australian Energy Producers observes that this can serve to blur a clear line of sight on how such complex reforms will be transparently negotiated and with whom, as well as pragmatically harmonised with prevailing climate settings in a predictable, technology neutral, and facilitative manner to encourage economically efficient, economy-wide least-cost responses.

Additional responses to the questions posed by Treasury in the consultation paper can be found in Annex 1.

Australian Energy Producers look forward to reviewing the Government's future draft roadmap covering the three pillars of its Strategy (transparency, capabilities, and leadership) and continuing to engage in its development.

Yours sincerely,

SMcCulloch

Samantha McCulloch
Chief Executive

ANNEX 1: RESPONSES TO TREASURY'S QUESTIONS

Australian Energy Producers considers the following to be the priority questions within those posed in the paper.

What are the most important policy priorities and use cases for an Australian sustainable finance taxonomy?

A financial taxonomy can serve to positively inform lenders, investors, insurers, firms, and asset managers; however, if poorly constructed, it can also serve to irreversibly undermine climate and environmentally friendly investments and Australia's ability to reach net zero emissions by harming economic sectors and firms and negatively impacting on Australia's real economy.

The paper indicates that any future taxonomy will likely start as voluntary for guidance but is expected to evolve into legislatively enforceable settings. Australian Energy Producers notes the paper:

- Does not identify what the market failures in the financial system are and why the embedding of a financial taxonomy in legislation and/or regulations is the preferred way forward – especially when the Government's own assessment is that Australia's financial system is stable and working efficiently and has much to contribute to achieving net zero emissions.
- Does not include any preliminary assessment of the macro- and microeconomic impacts of the proposed reforms including the finance taxonomy. Such analysis should be undertake as soon as possible and publicly shared prior to any decisions on these reforms.

A key reason cited in the paper for developing a financial taxonomy is for governments, regulators, consumers, firms, and financial institutions to consider climate and sustainability as fundamental drivers of investments, and not be peripheral to their decision-making.

Australian Energy Producers notes that governments, regulators, and firms (lenders, insurers, firms, asset managers) are already internalising climate and sustainability as a fundamental driver of risk, returns and good governance. This is due to existing compliance-based measures such as the NGERS, the SGM, as well as the prudential oversight by APRA and ASIC's legal enforcement of corporate disclosure breaches.

This can only get stronger with the imminent mandating of climate-related financial disclosures.

Australian Energy Producers notes that legislation is currently before the Parliament to give the AASB a mandate under the *ASIC Act* to develop and implement sustainability reporting standards in Australia. The proposed sustainability standards will provide general guidance to assist industry prepare systems and processes for eventual transition to mandatory climate-related financial disclosures.

Furthermore, both public and private sector investment decisions continue to be made with full line of sight on:

- Australia's Net Zero 2050 plan which will be overseen by the DCCEEW and supported by the Net Zero Economic Agency (NZEA), and with input from the six Sectoral Net Zero Plans being developed by the relevant departments.
- Climate Change Authority's (CCA) development of six sectoral technology pathways.
- Mandating of climate-related financial disclosures reporting in 2024.
- High potential for future requirements to estimate and report on scope 3 emissions (noting scope 3 emissions fall outside of the legal control of upstream activities and remains especially complex for large, complex, and globally traded supply chains, sectors, and lending and insurance portfolios).
- Development and use of complex climate scenarios to inform mitigation relevant investment

decisions at the firm level and aggregating in impact across economies, sectors, and industries.

To avoid unintended consequences of any future financial taxonomy, Australian Energy Producers recommends delaying its development until its foundational elements are finalised to further inform the tool, including (among others):

- Treasury economic modelling the macro- and microeconomic impacts of the proposed reforms including the taxonomy.
- AASB's development of an Australian sustainability standard (expected mid 2024).
- The Council of Financial Regulator's detailed assessment of options to address key sustainability-related data challenges (expected by end of 2024).
- Consideration and passing through Parliament of an Exposure Draft Legislation on climate-related financial disclosures expected next year.

Australia's ability as an open and globally integrated economy to mobilise private sector investment in support of net zero emissions and other sustainability goals hinges on avoiding creating sovereign risk through overly interventionist approaches to capital allocation decisions. Harnessing market forces rather than establishing new and additional regulations will enhance Australia's ability to tap into globally mobile capital flows and markets.

What are appropriate long-term governance arrangements to ensure that the taxonomy is effectively embedded in Australia's financial and regulatory architecture?

It is not clear why the Government intends to embed the sustainable finance taxonomy in regulations instead of utilising it as a guidance tool. Governance of any future taxonomy seems best placed with Treasury given their responsibility for policy development of the *Corporations Act*. This should be in close collaboration and advice from ASIC as the regulator of the *Corporations Act*. It is critically important however that it be rooted in positive economics to reduce its vulnerability to what is an almost infinite number of normative influences of a diverse range of stakeholders (including the APS, activists, and the private sector).

Australian Energy Producers is of the view that all of Australia's economic activities can co-exist with legislated climate targets and in a nature positive, productive, and sustainable manner given today's best operational and engineering practices and the mitigation potentials of many different technological pathways (including those that are currently available, under development, or to be realised in the future).

Are there related priorities and opportunities for supporting enhanced target setting and transition planning for nature and other sustainability issues?

It is preferred all governments coordinate at the national level by setting harmonised and whole of economy targets, policies, and strategies capable of sending efficient policy and price signals to firms and investors to help facilitate investments in climate friendly and sustainability positive assets. As well as publicly release quality information and datasets that deeply inform risk and opportunity assessments.

This is already being given effect through Australia's legislated emissions reduction targets, market based measures (SGM and ACCU scheme), mandated reporting requirements (NGERS), regulatory considerations (matters of national significance under the *Environment Protection and Biodiversity Conservation Act (EPBC)*, a plethora of Government strategies and statements, and substantial public programmatic funding for firm, technology, and consumer based activities (grants, subsidies) which already serve as 'catalytic investments' as referred to in the paper.

The paper states that Treasury will work with the CFR in 2024 to provide updated recommendations on further steps to enhance firm level transition planning "beyond ISSB-aligned disclosure requirements".

It also states that "transition planning includes setting firm-level emissions targets and developing approaches to manage the physical and transition risks associated with climate change, forming part of effective corporate decision-making and management".

The Government should develop this Strategy and any future financial taxonomy for use at the national level and not devolve or prescribe it at the entity or facility level.

Both the Strategy and taxonomy should guide rather than direct entity or facility level decision making (as indicated in the paper). This includes the Government setting firm and facility level targets beyond the scope of the SGM or intervening to exclude and deny firms access to legitimate technologies they might consider vital for their climate responses, and decarbonisation plans**.**

Australian Energy Producers remains concerned that the characterisation of some proposed reforms in the paper are not technology neutral and therefore not least cost. For example, the paper cites that the labelling reforms, which will likely be influenced by any future taxonomy, will be designed to identify 'certain exposures' such as fossil fuels, while promoting alternate investments including renewable energy.

It is disappointing the paper does not acknowledge the critical role of natural gas in reaching net zero or technologies such as CCUS that will be essential to address emissions from heavy industry and support carbon removal.

Are Australia's existing corporations and financial services laws sufficiently flexible to address greenwashing?

Australian Energy Producers views current legislative settings as generally being sufficient to address misconduct including greenwashing in finance markets. There already exists a very comprehensive portfolio of voluntary and compliance-based reporting guidance and obligations on entities that serve to strongly de-incentivise and penalise so-called 'greenwashing'.

NGERS, SGM, and the Corporate Emissions Reporting Transparency (CERT), in addition to the establishment of international climate-related disclosures standard (IFRS S2) by the ISSB, and for which the AASB is basing its development of an Australian climate disclosure standards, provides a very solid platform for the Government's mandating of climate-related financial disclosures reporting next year.

There also exists a comprehensive national regulatory ecosystem that defines the nature of disclosures and allows for their compliance. The following identifies a few of these noting that also the existence of programmatic rules established by institutions like the CEFC that govern disclosures.

ASIC has issued guidance in relation to voluntary nature-related disclosures. This includes its *Guidance for climate disclosures* (2019) and *How to avoid greenwashing when offering or promoting sustainability-related products* (INFO 271). ASIC's Statement of Expectations and Intent also states "identify and reduce misconduct risk through well-targeted and proportionate supervision, surveillance and enforcement activities". ASIC is currently legally pursuing entities for misinformation, with a landmark $15M penalty in February 2023 issued to an ASX listed company for breaches of market disclosure rules.

In addition to APRA's Statement of Expectations and Intent to promote "sound prudential outcomes to maintain the strength and stability of the financial system", it also leads the CFR's efforts to better understand how climate-related financial risks affect banks, insurers, and superannuation funds. It is tasked to identify and pursue opportunities to contribute to promoting "prudent practices and transparency in relation to climate-related financial risks and the adoption of climate reporting standards by regulated entities."

APRA recently indicated in its 2023-2024 Corporate Plan that it has embedded climate risk in its approach to prudential supervision. For example, under the Financial Sector (Collection of Data) Act

2001 (FSCODA) any corporation that engages in the provision of finance is required to provide APRA with reports regarding their operations on a periodic basis. It shares this information with the RBA and the Australian Bureau of Statistics (ABS) to inform the production of macroeconomic and financial indicators. If a reporting entity is found to have breached requirements (misinformation), APRA can also issue a penalty notice or prosecute.

CFR undertakes an annual Climate Stocktake (2023) of its activities including coordinating "financial regulators to enhance the ability of financial market participants to manage the financial risks and identify the opportunities associated with adapting to climate change"; this includes "improving the understanding of the impact of climate change on the Australian economy and financial system; improving the transparency and consistency of sustainability-related information; contributing to the development of an Australian Sustainable Finance Taxonomy; and continuing Australia's international engagement on sustainable finance."

The Clean Energy Regulator (CER) in overseeing Australia's climate flagship initiatives has significant powers to administer (monitoring and enforcement) the Renewable Energy Target, NGERS, SGM, and ACCU Scheme. Accurate reporting by covered entities is a legally enforceable obligation.

Similarly, the Australian Taxation Office (ATO) is responsible for not only administrative arrangements with reporting entities with disclosure conditions, but is empowered by tax laws and the policies administered under those laws ensure transparency and accuracy. So too does the Australian Consumer and Competition Commission (ACCC) which also has several legal powers to prosecute entities for making false or misleading representations under The Australian Consumer Law. In July 2023 the ACCC published draft guidance for business on Environmental and Sustainability Claims. Among the draft guide's stated objectives is to "decrease instances of 'greenwashing', which is the practice of making false or misleading environmental or sustainability claims".

The Australian Securities Exchange (ASX) also enforces its Listing Rules including continuous disclosure obligations (Listing Rules 3.1, 3.1A and 3.1B) which means that once an entity is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, the entity must immediately tell ASX that information. ASIC is empowered to institute criminal or civil penalty proceedings for breaches.

Recent examples of increased regulatory scrutiny of greenwashing include ASIC issuing in late 2022 four infringement notices to an ASX listed company for climate related disclosure breaches which was required to pay $53K. Also late last year the ACCC undertook sweeps of the internet to identify misleading climate claims covering at least 200 companies; with promises to follow up with compliance, education and enforcement activities.

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?

A central role of governments is to address inherent market failures such as information gaps, while a primary role of regulators is to administer and enforce legislation. Both generate and disseminate public information that serve to inform the decision making of investors.

Government examples include the 2023 Intergenerational Report which includes in-depth analysis of physical impacts of climate change and the transition to net zero, as well as the National Climate Risks Assessments. Regulatory examples include the CERs annual reporting of corporate emissions and energy data under NGERS, and facility reported emissions reporting under the SGM. Non-government examples include best practice guidance including responsible investment approaches as provided by organisations such as Principles for Responsible Investment (PRI) and Responsible Investment Association Australasia (RIAA).

What are the key expectations of the market around issuance of, and reporting against, sovereign green bonds?

Australia already has well-developed financial markets across major products, including money, debt, equities, foreign exchange, and derivatives. Debt securities such as green bonds involve obligations on one party (in this case the Government) to make payment(s) to another party in the future (investors). Generally, bonds have a fixed maturity date on which the debt must be repaid plus interest, which in turn may be fixed or variable.

There is currently about $155B in fixed coupon bonds outstanding in Australia. According to RIAA the portfolio of so-called 'impact investments' in sustainability linked loans (including green bonds) nearly doubled from $30B in 2021 to $59B in 2022.

The Government in issuing debt through green bonds (via the Australian Office of Financial Management) can diversify its current debt instruments to hypothecate funds to climate friendly and sustainability positive assets, while simultaneously empowering the community to also invest as owners of the debt to be repaid.

Many of the States are already issuing green bonds including Victoria, Queensland, New South Wales, and Western Australia. Transparency and disclosure is critical and can be further assured through international guidelines such as the International Capital Market Association's Green Bond Principles.

What other measures can the Government take to support the continued development of green capital markets in Australia?

The CEFC is the Government's financing agent. For each dollar of capital invested it has leveraged an additional $3 in private sector investments for a lifetime total of almost $580M (2021). It supports nascent climate and sustainability friendly innovations by backing innovative products, technologies and financing models and the development of new standards, frameworks, and practices to drive sustainable investing into the mainstream. It also delivers the Government's $20B Rewiring the Nation program.

The existing legislated moratorium on financial support to CCUS projects under Section 62 (prohibited technology) of the *Clean Energy Finance Corporation Act 2012* remains a significant barrier to Australia meeting its legislated emissions reduction targets.

It is in Australia's interest to facilitate the deployment of CCUS at pace and scale. All pathways to net zero will require significant deployment of renewable energy, natural gas, CCUS and low-carbon hydrogen technologies. CCUS can be retrofitted to existing power and industrial plants, allowing for their continued operation. It can tackle emissions in hard-to-abate sectors, particularly heavy industries like cement, steel or chemicals.

The CEFC, if allowed, can contribute to the financing of CCUS through developing governance standards and frameworks that can attract and leverage many other sources of finance.

What are the key priorities for Australia when considering international alignment in sustainable finance?

Capital is internationally mobile and so the Government's core priority should be to oversee a financial system that:

- Provides market participants with the ability to finance their decarbonisation plans according to their own understanding of risks and rewards within a context of localised circumstances.
- Supports long-term financial returns and financial stability.
- Ensures Australian firms can remain competitive in global capital markets.

The principal international driver of global action on climate change is the United Nations Framework on Climate Change (UNFCCC) with 196 nations having ratified the Paris Agreement. Finance considerations under the UNFCCC include a New Collective Quantified Goal on Climate Finance negotiated through its Standing Committee on Finance, with legal decisions made by the Conference of the Parties (COP) serving as the meeting of the Parties to the Paris Agreement (CMA).

Much of the operationalisation of the UNFCCC's programs and climate goals is aligned with the 17 goals of the UN's Sustainable Development Goals (SDGs), as well as the Convention on Biological Biodiversity, which includes the Kunming-Montreal Global Biodiversity Framework (Convention on Biological Diversity).

There exist many international standards setting bodies including the International Standards Organisation (note its Net Zero Guidelines), the International Financial Reporting Standards (IFRS) including its Accounting Taxonomy and the role of its two standard-setting boards including International Accounting Standards Board (IASB) and ISSB.

There are also many global initiatives including the Carbon Disclosure Project (Climate Transition Plans), the Task Force on Climate-related Financial Disclosures (TCFD), the Task Force on Nature-related Financial Disclosures (TNFD), the Glasgow Financial Alliance for Net Zero, G20 (including Sustainable Finance Roadmap, Operational Guidelines for Sustainable Financing, Finance Working Group), Coalition of Finance Ministers for Climate Action, and Global Nature Positive Summit.

Global organisations contributing to this agenda including the Organisation for Economic Cooperation and Development (OECD) (Guidance on Transition Finance), Network of Central Banks and Supervisors for Greening of the Financial System (NGFS), Financial Stability Board (FSB), International Monetary Fund (IMF), Asia-pacific Economic Cooperation (APEC), and the International Organisation of Securities Commissions (IOSCO).

Finally, many countries continue to influence global priorities such as the UK (Transition Plan Taskforce), the EU International Platform on Sustainable Finance (IPSF) and the US (including its Securities and Exchange Commission (SEC) Classifying ESG funds).

What are the key market, regulatory and institutional barriers to increasing private sector engagement in blended financing opportunities?

Blended finance arrangements can help secure philanthropy, public funding, and private sector investors with different risk and return expectations on a single investment opportunity. It can encourage innovative financing arrangements by balancing different propensities for risk (those willing to invest more relative to those willing to invest less) to improve the risk-return profile of 'high-impact' investments.

Investment barriers can be both regulatory and institutional and may include:

- High investor transaction costs.
- Complex regulatory and administrative burdens.
- Information gaps.
- Incoherent or inappropriate policies and regulations (discriminating and/or disadvantage).
- Overly prescriptive rules (constraints) preventing greater resource allocations to projects by institutional and long-term investors such as pension and equity funds.
- High barriers to entry for both domestic and foreign investors.
- Low enforcement of competition laws including anti-competitive behaviour by incumbents.
- Foreign investment facing constraints such as local content requirement.