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Department of the Treasury
Submitted via email to: HydrogenProductionTaxIncentive@treasury.gov.au

To whom it may concern,

Climateworks Centre submission on the Hydrogen Production Tax Incentive

Climateworks Centre welcomes the opportunity to respond to the Department of the Treasury's consultation on the Hydrogen Production Tax Incentive as part of the Future Made in Australia (FMA) agenda. We look forward to seeing more detail in relation to this FMA support in legislation packages.

Climateworks bridges the gap between research and climate action, operating as an independent not-for-profit within Monash University. We develop specialist knowledge to accelerate emissions reduction, in line with the global 1.5 degrees Celsius temperature goal, across Australia, Southeast Asia and the Pacific.

Developing renewable hydrogen markets and capabilities is a foundational element required to to achieve Australia's emissions reduction targets and unlock the benefits of the global shift to a net zero economy. This is especially urgent as the window to limit global warming to 1.5 degrees is still open, but narrowing.

Renewable hydrogen is an important part of Australia's ambition to become a renewable energy superpower

Modelled scenario analysis undertaken by Climateworks and CSIRO for the Australian Industry Energy Transitions Initiative (Australian Industry ETI) found that low-cost, renewable hydrogen could play an important role in decarbonising Australian industry, both as a fuel and chemical feedstock (Climateworks Centre and Climate-KIC Australia 2023). Renewable hydrogen will be especially important in instances where electrification is not technically possible or is cost prohibitive. Renewable hydrogen also has important potential in long-haul and heavy vehicle freight transport.

Climateworks recognises the value of the Hydrogen Production Tax Incentive as one of several mechanisms to attract investment in renewable hydrogen. The recommendations in this submission will enhance the scheme's design and delivery and support the objective of establishing Australia as a renewable energy superpower.

Climateworks will be pleased to provide further analysis or to partake in meetings where additional information is required.

Recommendations on the Hydrogen Production Tax Incentive

Recommendation 1: Prioritise 'net zero industrial precincts' for the Hydrogen Production Tax Incentive to enhance economic efficiency and enable further industrial development

Multiple conditions must be in place for a renewable hydrogen industry to thrive in Australia. These include access to affordable renewable energy and water, skilled workforces, supportive government policy and regulation, increased market demand, reduced production costs, appropriate storage and transportation networks and enhanced technologies, along with the investment that will be stimulated through FMA supports like the Hydrogen Production Tax Incentive.

These conditions will be more achievable, and the Hydrogen Production Tax Incentive more effective, if renewable hydrogen facilities are located proximal to net zero industrial precincts. Precinct-scale planning for industrial and other regions enables the integration and sharing of resources, workforces and clean energy alternatives, including renewable hydrogen. The enhanced coordination and reduced costs resulting from sharing infrastructure and energy resources can improve the financial viability of renewable hydrogen projects and encourage investment.

Going forward, FMA sector assessments could include an appraisal of which regions would represent the best value for money, emissions reduction or technology acceleration. Including this as a criteria as part of decision-making on the distribution of the Hydrogen Production Tax will improve its effectiveness.

Part 3, section 12 of the FMA Act contemplates the making of rules in relation to supports like the Hydrogen Production Tax Incentive. These rules will prescribe requirements that must be complied with in applying for or providing FMA support and could be used to prioritise projects in focus regions or targeted net zero industrial precincts.

Climateworks has undertaken significant analysis on how policy-makers can implement successful net zero industrial precincts, including through the Australian Industry ETI and in our Brief for Policymakers: Renewable Energy Industrial Precincts. We would be pleased to discuss and provide further analysis on how renewable hydrogen can be embedded in a broader net zero industrial precinct approach.

Recommendation 2: Include a review process for the Hydrogen Production Tax Incentive to assess ongoing necessity of support and help avoid perverse outcomes

Governments' role in the transition of industry from fossil fuels to electricity and renewable hydrogen would rightly include subsidies where the market is not incentivising transitions in line with long-term economic and wider social benefits. Making commercially viable green hydrogen at scale will be essential if Australia is to get to net zero and make best use of our comparative advantages in renewable energy. The capital expenditure for producing hydrogen is significant and a Hydrogen Production Tax Incentive can accelerate renewable hydrogen project investment and deployment at the scale needed.

It is essential that governments carefully contemplate incentivising investment. The criticisms of production subsidies – including tax incentives – are that they risk creating dependency among beneficiaries, disproportionately benefit larger and financially affluent companies, create economic distortions and administer financial support for longer than required. Climateworks is not yet convinced that a definitive 2027–28 to 2039–40 period for the provision of the incentive would avoid such outcomes. While project bankability requires confidence about such support in the early years, it is also important for the government to balance the need for support for one sector over another to get the most effective transformation for Australia.

Climateworks recommends Treasury monitor and report payments made under the scheme, as well as the renewable hydrogen capital and production costs over time, to ensure the scope and nature of support continue to align with scheme objectives.

Recommendation 3: Require 'credible transition plans' from recipients as a way to ensure the Net Zero Transformation Stream supports Australia's emissions reduction targets

Climateworks supports the requirement that recipients adhere to the community benefit principles of the Future Made in Australia plan. We also support the emissions intensity limit of 0.6 kg of carbon dioxide equivalent from the well to the production gate for each kilogram of renewable hydrogen produced and acknowledge this is aligned to the 2040 hydrogen carbon intensity threshold under the Climate Bonds Standard for hydrogen, which ensures that investment is consistent with limiting warming to 1.5°C (Climate Bonds Initiative 2022).

We recommend incorporating an additional requirement for recipients to put in place credible climate transition plans. Under emerging international best practice, funding entities will require the disclosure of carbon emissions and a transition plan to net zero emissions, including a plan to address scope 3 emissions. While the development of such plans are being established in Australia there could be a grace-period along with an expectation to explain why a company does not have such a plan - and when it will.

A corporate climate transition plan is a time-bound action plan that sets out a company's strategy to reach its objectives and transform its business model, assets and relationships towards a net zero path aligned with the Paris Agreement.

Requiring corporate credible transition plans and scope 3 emissions reporting for projects to be eligible, would both future proof the projects and enable the production tax incentive to act as a best practice method for future funding. As beneficiaries of the Hydrogen Production Tax Incentive, recipients should be expected to develop credible transition plans as a fair exchange for FMA support.

Thank you for taking the time to consider our submission. We would welcome an opportunity to brief your team to provide further insights from our work.

Yours Sincerely,

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REFERENCES

Climateworks Centre and Climate-KIC Australia (2023) *Pathways to industrial decarbonisation: Positioning Australian industry to prosper in a net zero global economy*, Australian Industry Energy Transitions Initiative, Phase 3, Climateworks Centre, accessed 8 July 2024.

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