

BCA

Business Council of Australia

# Net Zero Fund: proposed design

BCA Submission

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# 1. Overview

The BCA welcomes the opportunity to provide comment on the design of the Australian Government's \$5 billion Net Zero Fund. The BCA represents more than 120 of Australia's leading businesses, employing around 1.1 million people. We are a member led organisation and our submissions reflect engagement with those members and the expertise and practical experience they bring.

Among the most important challenges and opportunities facing our nation is facilitating an orderly domestic transition to net zero — one that best serves our economy and our community. How we transition will have a strong bearing not only on our emissions levels, but on our productivity growth, our competitiveness as a nation and our living standards over the longer term.

The net zero transformation and fragmentation of the global economy mean that the resilience and competitiveness of Australian business — more than ever — is dependent on its ability to be flexible and adaptable to changing circumstances. This requires getting the fundamentals right to make Australia an attractive investment destination through reform of our tax system, easing the burden of regulation, a streamlined project approvals process, a high quality skills and education system, a well managed migration program, a streamlined foreign investment screening regime, and improvements to the workplace relations system.

A recently released BCA report, *Australia 2035 – Maximising Our Potential*<sup>1</sup>, identified a range of challenges along Australia's decarbonisation pathway and correspondingly, six critical key enablers to address these challenges: 1) closing the funding gap 2) streamlined approvals and social licence 3) scaling a skilled workforce 4) securing supply of technology 5) nation building coordination and collaboration 6) improving capital excellence.

In relation to the first of these — closing the funding gap — the business case for many low emission technologies needs significant additional funding support before these technologies can be deployed and adopted at a commercial scale.

The BCA recognises that governments have already made considerable funding commitments toward Australia's transition to net zero, including but not limited to the Australian Government's Powering Australia Plan and Future Made In Australia Agenda, and various jurisdictional government renewable energy funding initiatives. However, mobilising increasing amounts of private sector investment capital needed to 2050 means addressing at least three core challenges.

- Green premium — low emission technologies and products are typically more expensive than conventional high emission alternatives and consumers' willingness to pay this premium remains limited.
- High risks — front loaded capital investments are often subject to volatile cash flows due to higher than average technology, regulatory and market risks, particularly 'first of a kind' investments in Australia.
- Long term incentives — transition investments typically face additional long term uncertainty and instability associated with government policy frameworks.

A well designed \$5 billion Net Zero Fund — drawing on National Reconstruction Fund's existing \$15 billion allocation — is an important part of the suite of existing funding commitments and associated policies.

## 2. Main points

We note that the Net Zero Fund's proposed scope is to provide \$5 billion in funding to support i) large industrial facilities seeking to decarbonise and ii) scale up of manufacturing renewable and low emissions technologies.

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<sup>1</sup> [https://www.bca.com.au/australia\\_2035\\_maximising\\_our\\_potential](https://www.bca.com.au/australia_2035_maximising_our_potential)

We also note that the Net Zero Fund will focus on supporting these facilities and technologies to help ensure that Australia retains industrial capabilities vital to our national interest while working towards our 2035 target.

The BCA offers the following comments on the design of the Net Zero Fund (the fund).

**a) The fund needs to be clear about the market failure it is targeting** — potential investments in facilities and technologies face multiple barriers including very large upfront capital expenditure, a lack of enabling (often shared) infrastructure, high variable costs for inputs such as energy, a green premium or unpriced externality with regard to high emission alternatives (either locally or overseas) and innovation and development spillovers in terms of ‘learning by doing’ benefits which cannot be captured easily by first movers.

- The investment mandate guiding dispatch of the fund needs to be explicit and transparent about the barriers it aims to address, so that investments capable of actually delivering long term abatement outcomes are pulled forward. For example, providing financing support for large, fixed upfront capital investments will not necessarily address the green premium problem, a lack of shared enabling infrastructure or high energy costs, each of which could prevent investments going forward in their own right. In many cases, large project proponents have such access to finance, but are held back by these other barriers.
- Ultimately, the investment mandate should guide the fund’s support toward investments in facilities and technologies capable of becoming viable in the future without the need for ongoing support.

**b) The fund needs to be part of an integrated and coordinated policy effort** — as stated above, potential investments are likely to face multiple barriers, which need to be addressed comprehensively by the broader policy framework. We note that the Government’s recently released Net Zero Plan and Sector Emission Reduction Plans provide a strong foundation for this framework.

- Clearly the fund can’t be relied upon to address all barriers, but its role in a comprehensive policy framework needs to be synchronised so that investments capable of actually delivering long term abatement outcomes are pulled forward. For example, the success of energy market reforms in the electricity and gas sectors in maintaining reliable and affordable supply is crucial to the long term viability of most (if not all) potential investments in low emission facilities and technologies.

**c) The fund should prioritise scale and cost of abatement but be neutral to technology** — least cost abatement outcomes should be at the heart of all funding commitments toward the net zero transition, with a view to capturing the associated productivity growth and international competitiveness benefits for Australia.

- The use of taxpayer funds to support emission reduction outcomes demands a ‘biggest bang for buck’ approach to dispatching limited funds. The scale and cost of abatement of potential projects should be the leading criteria for determining the best value for money for taxpayers and the economy.
- Individual facilities have idiosyncratic abatement pathways and prescriptive, technology limited funding rules risk hindering innovation and locking in suboptimal decarbonisation solutions in what is an evolving technology landscape. For example, carbon capture usage and storage and blue and green hydrogen technology options should be eligible for potential funding along with energy efficiency and electrification technology options, allowing individual facilities to decide which is most efficient for their circumstances.
- We note that this approach would automatically rule in all existing Safeguard Mechanism facilities given that they are large industrial facilities with significant abatement potential under the current eligibility threshold.

**d) The fund should provide support mechanism options that best address specific barriers being targeted** — this is essential to accommodate the diverse needs of projects across different sectors, with different technology maturity levels and risk profiles.

**e) The certainty of the process for dispatching funds needs to be high to incentivise uptake** — to give project proponents the confidence to apply for support in the first place, they need to have certainty that if they meet key criteria, they will be successful in accessing the support.

- It is important to note that getting investment projects to final investment decision stage — which is typically required before applying for government policy support — can cost in the tens of millions of dollars for larger projects. If the process of applying for support is too onerous and uncertain, then the proportion of the fund ultimately dispatched overtime is likely to be low because of the lack of incentive to apply for funding.

**f) The quantum of fund's allocation needs to increase overtime** — once the fund's design parameters have been established and shown to be effective in the initial years, significantly higher allocations (beyond the initial \$5 billion) will be required to support Australia's transition investment requirements to 2050.



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