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Submission to the Australian Government Economic Reform Roundtables

This submission has been prepared by academics from Monash Business School's Green Lab.

Green Lab serves as a hub for interdisciplinary and applied research on sustainability, bringing together academics from economics, finance, law, accounting and management, to contribute applied research to address current sustainability policy challenges. Green Lab's current work focuses on climate change adaptation, corporate sustainability governance and circular economy uptake.

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Priority Reforms

In this submission, we highlight broad areas for priority policy reform, which align with the Government's focus on:

- building economic resilience in the face of global uncertainty, and
- investing in the net zero transformation.

We also address the associated reform areas explored by the Productivity Commission, particularly the need to:

- encourage adaptation by addressing barriers to private investment,
- speed up approvals for new energy infrastructure, and
- reduce the cost of meeting carbon targets.

Our three priority areas for reform are:

1. **Integrated approaches to the interlinked policy challenges of climate change and nature loss (pp 3-6):**
    - Reform environmental approval regimes to address delays and duplication for clean energy infrastructure, but ensure environmental safeguards (no-go zones, constraints on offsets, bioregional planning).
    - Expand sustainable finance reforms to include nature, initially through sustainability reporting standards.
    - Review environmental market settings to better recognise and value co-benefits and incentivise integrated approaches to climate and nature.
2. **Stronger regulatory signals to underpin the net zero transition (pp 6-10):**
    - Mandate corporate net zero transition plans for selected large companies and require these to align with a specific and ambitious temperature goal (1.5°C).
    - Expand and strengthen the Safeguard Mechanism, including through lowering the emissions threshold, removing the facility construct, and introducing the mitigation hierarchy to govern the use of carbon credits (ACCUs).
3. **Governance and financing arrangements for climate change adaptation and resilience (pp 10-13)**
    - Strengthen national leadership on adaptation, creating the opportunity for local leadership, including through a national single focus institution to support locally led risk assessment, planning and access to finance.
    - Stimulate innovation in finance and insurance to attract private sector engagement, including through the establishment of a Community Futures Resilience Fund to provide access to finance for communities for the purposes of climate resilience.

Priority 1 - Integrated approaches to the interlinked policy challenges of climate change and nature loss

Climate change and nature loss are interrelated, compounding crises. For example, climate change is a key driver of nature loss, and simultaneously the destruction of ecosystems exacerbates climate change (e.g. land clearing, deforestation). Loss of ecosystems can increase the exposure and vulnerability of human settlements, infrastructure and economic activity to climate change. While there are some obvious policy synergies between these two policy areas (e.g. nature-based solutions for reducing emissions and building resilience to climate change), some regulatory responses to climate change can lead to further nature loss (e.g. monocultural carbon plantings, renewable energy infrastructure, critical mineral mining).

Considering that Australia has obligations under both the international climate change[1] and biodiversity protection regimes;[2] and that loss of ecosystem services presents far-reaching and significant economic implications for Australian society;[3] it is critical that policy responses to climate change minimise trade-offs and maximise synergies with biodiversity policy responses (and vice versa) as far as possible.

We recommend the Roundtable explicitly consider the potential for integrated approaches to climate change and nature loss wherever possible, including in the following key reform areas:

- **Reform environmental approval regimes for clean energy infrastructure**

  Progressing reforms to national and state level biodiversity protection laws (including the *Environment Protection and Biodiversity Conservation Act 1999* (Cth)) is critical to ensuring that biodiversity is adequately protected in the roll out of clean energy infrastructure. These regimes have been ineffective in stemming nature loss due to a project-by-project assessment approach that ignores cumulative impacts and a heavy reliance on inadequately regulated biodiversity offsets. The lack of clear outcome-focused standards and constraints for decision-making has also led to inefficiencies and duplication.[4]

  As reforms progress, increased attention must be given to ensuring that:
  - the energy transition is not unnecessarily delayed by inefficient and duplicative environmental assessment processes; AND
  - adequate safeguards are established to ensure that the energy transition does not come at the expense of continued nature loss and associated loss of critical ecosystem services.

[1] In Australia's Nationally Determined Contribution, submitted to the Paris Agreement under the United Nations Convention on Climate Change in 2021, Australia commits to reduce its GHG emissions by 43% on 2005 levels by 2030, in line with its net zero by 2050 goal: https://unfccc.int/NDCREG. Australia is due to submit its targets for 2035 and 2040 before the next Conference of the Parties in November 2025.

[2] In Australia's National Biodiversity Strategy and Action Plan, submitted under the Kunming-Montreal Global Biodiversity Framework, Australia commits to a range of biodiversity conservation targets including to protect 30% of terrestrial and marine environments by 2030 and to restore 30% of degraded ecosystems. See, DCCEEW, *Australia's Strategy for Nature 2024–2030* <https://www.dcceew.gov.au/environment/biodiversity/conservation/publications/australias-strategy-for-nature>.

[3] Australian Conservation Foundation, *The Nature-based Economy: How Australia's prosperity depends on nature* (2022, Pollination, Australian Ethical)

[4] See, Australian Government, Department of Agriculture, Water and the Environment (now renamed DCCEEW), Graeme Samuel, *Independent Review of the EPBC Act* (October 2020); Rebecca Nelson, 'Breaking Backs and Boiling Frogs: Warnings From a Dialogue Between Federal Water Law and Environmental Law' (2019) 42(4) *UNSW Law Journal* 1179; Rebecca Nelson, 'Broadening Regulatory Concepts and Responses to Cumulative Impacts: Considering the Trajectory and Future of Groundwater Law and Policy' (2016) *33 Environmental and Planning Law Journal* 356.

Australia's environmental laws must include:

- **clear protections for areas and habitat features that are irreplaceable;**
- **tighter constraints on the use of biodiversity offsets to ensure that all efforts are made to avoid and minimise biodiversity loss before resorting to an offset; and**
- **better provision for strategic bioregional planning to guide development decisions – not only for clean energy infrastructure but also other priority areas such as affordable housing.**

- **Expand sustainable finance reforms to include nature**

In 2024, the Australian Government set out their sustainable finance agenda including new mandatory corporate sustainability reporting standards. The Government indicated that they would take a climate-first approach but would expand reforms over time to encompass other sustainability risk issues, such as nature.[5]

Australian companies across the economy face significant material financial risks from biodiversity loss and the degradation of natural ecosystems; and the management of these risks has serious implications for the stability of the Australian economy.[6] Large institutional investors are increasingly seeking information on the risk exposure of their investments, and evidence that investee companies are taking reasonable and proportionate steps manage nature-related risks.[7]

Australian companies and their directors already have underlying legal duties to identify, manage and disclose nature-related risks when they are material to the company's interests.[8] However, nature risk disclosure and management practices are in their infancy.[9] Past experience with climate-related disclosures has shown that without a mandatory reporting standard and increased regulatory oversight, risk disclosure and management practices will develop slowly and reporting is likely to be of mixed quality and poorly suited to the needs of investors and other stakeholders.[10]

We recommend the prompt introduction of a nature-related financial risk reporting standard to bring Australia into line with leading international jurisdictions,[11] and support companies and investors in their efforts to address these risks alongside the financial risks of climate change.

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[5] Australian Government, Treasury, *Sustainable Finance Roadmap* (June 2024).

[6] Australian Conservation Foundation, Pollination and Australian Ethical, *The Nature-based Economy: How Australia's prosperity depends on nature* (2022). On nature-related financial risks generally, see, Taskforce on Nature-related Financial Disclosures, *Recommendations of the Taskforce on Nature-related Financial Disclosures* (Sept 2023).

[7] See e.g., Nature Action 100, 'Investor Expectations' (Web page) < https://www.natureaction100.org/investor-expectations-for-companies/>.

[8] Sebastian Hartford David and Zoe Bush, *Nature-related risks and Directors' Duties – Joint Memorandum of Opinion* (24 October 2023).

[9] See e.g., Australian Conservation Foundation, *The Future of Food: Are Australian food companies failing nature?* (2024).

[10] TCFD, *2021 Status Report: Taskforce on Climate-Related Financial Disclosures* (2021); Investor Group on Climate Change, CDP and Principles for Responsible Investment, *Confusion to Clarity* (Report, June 2021); Luisa Unda and Anita Foerster, 'Climate Risk Disclosure, Compliance and Regulatory Drivers: A Textual Tone Analysis' (2022) 39 *Company and Securities Law Journal* 47; Anita Foerster and Michael Spencer, 'Corporate Net Zero Pledges: a triumph of private climate regulation or just more greenwash?' 32(1) (2023) *Griffith Law Review* 110-142.

[11] For example, the European Financial Reporting Advisory Group adopted comprehensive sustainability reporting standards in July 2023 which include ESRS E4 (Biodiversity and Ecosystems): *Commission Delegated Regulation (EU) 2023/2772 of 31 July*

Indeed, for many Australian companies, there are likely to be considerable opportunities to address climate and nature-related financial risks in tandem. This might involve constraining business activities which generate greenhouse gas (GHG) emissions and nature loss through deforestation or extensive land use change, or investment in nature-based solutions to heighten business resilience to climate change impacts. Opportunities for integration are certainly recognised in industry frameworks for corporate risk disclosure and management, such as the Taskforce on Nature-related Financial Disclosures (TNFD),[12] and these opportunities are beginning to be acknowledged by some companies in corporate disclosures.[13] However corporate approaches to nature-related financial risk generally, and to integrating climate and nature specifically, are still developing, and only some leading companies are disclosing more concrete strategies to implement integrated risk management.[14]

- **Review environmental market settings to recognise and incentivise integrated approaches**

The Australian Carbon Credit Unit (ACCU) market is now an entrenched part of Australia's response to climate change, and interfaces with the Safeguard Mechanism to provide flexible pathways for companies to meet their emissions reduction obligations (and to meet any voluntary climate targets that they have set). Australia has also recently introduced the Nature Repair Market to attract new investment, including from the private sector, in nature conservation and restoration. Yet, the ACCU Scheme and Nature Repair Market have been designed to operate in parallel, with little attention given to maximising potential synergies and co-benefits.[15]

Where companies are using or proposing to use carbon credits towards compliance obligations under the Safeguard Mechanism, or to offset residual GHG emissions as part of their climate transition strategies, there are opportunities for them to do so in a manner which also addresses nature-related risks and impacts by targeting investment in carbon projects that deliver clear biodiversity co-benefits. Not all carbon credit projects offer positive biodiversity outcomes and indeed some carbon methods (e.g. monocultural plantings) represent missed opportunities for biodiversity gains, and in some cases, can even lead to biodiversity loss. Demand for ACCUs is also likely to be greater than demand for biodiversity certificates, given the ACCU Scheme is linked to a compliance market, unlike the Nature Repair Market. There is a related risk that entities with Safeguard Mechanism obligations will invest in the cheapest carbon outcomes, rather than those with biodiversity co-

2023 Supplementing Directive 2013/34/EU of the European Parliament and of the Council as Regards Sustainability Reporting Standards [2023] OJ L 2023/2772 ('*EU Regulation 2023/2772*'), annex I ('*EU Regulation 2023/2772 Annex*').

[12] See, e.g., TNFD, Guidance on biomes (September 2023) 22; TNFD, *Recommendations of the Taskforce on Nature-related Financial Disclosures* (September 2023) 63, Figure 23: Drivers of nature change – reflecting both negative and positive impacts.

[13] See, e.g. Nature Action 100, *Nature Action 100 Company Benchmark Key Findings 2024* (October 2024) 9. This report noted that some companies 'reference efforts to address deforestation and broader land-use conversion, recognizing that natural landscapes support biodiversity and sequester carbon', or 'highlight how their regenerative agriculture or sustainable forest management practices simultaneously reduce greenhouse gas emissions and protect biodiversity'.

[14] Ibid.

[15] A related issue is that these national-level markets do not interface well with existing state-level regimes. See eg, Ian Chubb et al, *Independent Review of ACCUs* (Final Report, December 2022) 26 ('*ACCU Review*') which found the 'lack of regional co-ordination, planning and consistency between local, state and federal policies impede landholder participation in the scheme'.

benefits.[16] Current regulatory settings do not adequately recognise, value and incentivise biodiversity co-benefits of different types of carbon projects.[17]

We recommend development of measures to better integrate Australia's carbon and nature markets and realise their potential to contribute to both climate change and nature restoration policy goals.

These might include improvements to ACCU methods to recognise, enhance and protect nature; statutory provision for strategic planning for landscape-scale restoration to guide the operation of carbon and biodiversity markets; and institutional reforms to recognise and resource regional natural resource management (NRM) organisations to contribute to strategic planning and provide intermediary support for landholders to engage with environmental markets.[18]

Priority 2 - Stronger regulatory signals to underpin the net zero transition

As the Government moves forward on its net zero transition policy agenda, there are opportunities to improve the alignment of this agenda with the goals of the international Paris Agreement and to strengthen associated regulatory signals for businesses across the Australian economy.

- **Mandate corporate net zero transition plans for large companies**

A net zero transition plan is essentially a corporate strategy to decarbonise and contribute to a net zero economy as well as enhance resilience to the physical impacts of climate change.[19] Transition plans set out a company's climate targets, a forward-looking roadmap of the actions it will pursue to achieve those targets, and associated capital expenditure and investments. This is intended to centre climate change in company strategy and decision-making and provide stakeholders with qualitative information about forward-looking climate risks and impacts.

Many Australian companies have set net zero climate targets (75% of the ASX200). However, these commitments are rarely supported by robust transition strategies that set out Paris-aligned interim targets, capital allocation strategies and accountability measures such as tying executive remuneration to climate performance.[20]

[16] The uncertain demand and long-term outlook for investment in ACCUs that can deliver co-benefits is noted in NRM Regions Australia and Carbon Market Institute, *Carbon for Nature – Leveraging carbon farming investment to deliver additional benefits for nature* (Report, 2025) 8.
[17] NRM Regions Australia and Carbon Market Institute, *Carbon for Nature* (2024); Anita Foerster and Ella Vines, 'Net Zero and Nature Positive – Mapping the regulatory impact and interaction of global environmental goals in Australia' *Monash University Law Review* (forthcoming 2025).
[18] These and other reforms are canvassed in NRM Regions Australia and Carbon Market Institute *Carbon for Nature* (2024) 50-54.
[19] Australian Treasury, *Sustainable Finance Roadmap* (Report, June 2024); Transition Plan Taskforce, *Disclosure Framework* (Report, October 2023); IGCC, *Corporate Climate Transition Plans: A Guide to Investor Expectations* (Report, March 2022); United Nations High Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities, *Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions* (Report, November 2022); CDP, IGCC, and PRI, *Corporate Climate Transition Plans are an Essential Building Block on Global Reporting Baseline* (Investor Statement, September 2023); CDP, *Climate Transition Plan* (Discussion paper, 12 November 2021); Climate Integrity, *Net Zero Integrity: Assessment of Net Zero Pledges of Australian Companies* (Report, February 2024); Ethical Partners Funds Management, *Credible Transition Plan Framework* (Report, March 2024).
[20] Anita Foerster and Michael Spencer, 'Corporate Net Zero Pledges: a triumph of private climate regulation or just more greenwash?' 32(1) (2023) *Griffith Law Review* 110-142.

Institutional investors and other market stakeholders are increasingly seeking the disclosure of corporate net zero transition plans to provide them with additional qualitative information about a companies' preparedness to manage climate risks and the robustness of their commitment to net zero targets.[21]

Australia's Sustainable Finance Roadmap does not propose mandatory disclosure of net zero transition plans. Rather, it foreshadows the development of best practice guidance to support credible transition planning.[22] This will not require transition plans to align with the goals of the Paris Agreement.[23] While the new AASB climate reporting standard does require companies to disclose material information that is relevant to assessing company performance against key climate transition criteria, there is no explicit requirement for companies to:

- disclose GHG emissions targets or climate transition plans in a particular format; or
- to align targets and strategy with the global climate goals set out in the Paris Agreement.[24]

The lack of a requirement to align transition measures with global climate goals, weakens the potential impact of this reform.

The policy approach taken by the Government to date rests on an assumption that institutional investors will have sufficient incentives and resources to steward investee companies to align their climate risk management with Paris Agreement goals. While investors certainly can exert influence over investee companies, stewardship is costly and resource-intensive and changes in individual companies can take many years of sustained pressure. Placing those expectations and associated costs on institutional investors (particularly superannuation funds) does not necessarily align with the best financial interests of their members. Additionally, relying on investor stewardship may limit the ambition of corporate net zero plans. Given the Australian Government has now legislated the temperature goals of the Paris Agreement in the *Climate Change Act 2022* (Cth), it is appropriate that the Government takes steps to ensure corporate entities align to a similar ambition, to maximise the likelihood of achieving Paris Agreement goals.

Mandating the preparation and disclosure of net zero transition plans for selected large companies and requiring these to align with a specific and ambitious temperature goal (1.5°C) would be a more direct and effective way to ensure that the Sustainable Finance Strategy contributes to shifting private capital and resources away from climate-damaging activities in alignment with global climate goals.

- **Expand and strengthen the Safeguard Mechanism**

The Safeguard Mechanism is currently the central means of achieving the GHG emissions reduction targets set in the *Climate Change Act 2022 (Cth)*. Following reforms in 2023, the Safeguard Mechanism now imposes declining emissions reduction obligations (known as baselines) on a selection of Australia's highest emitting industrial facilities. These baselines align with Australia's 2030 and 2050 emissions reduction targets.[25] Facilities that reduce their emissions beyond their baselines generate Safeguard Mechanism Credits (SMCs) which can be sold to other

[21] See e.g., Climate Action 100+, *Net Zero Company Benchmark*, https://www.climateaction100.org/net-zero-company-benchmark/; ACSI, *Promises, Pathways and Performance: Climate Change Disclosure in the ASX200* (2024).
[22] Australian Government, Treasury, *Sustainable Finance Roadmap* (June 2024) 6.
[23] Ibid, 15.
[24] Australian Accounting Standards Board (AASB), *S2 - Climate-related Disclosures.*
[25] *Safeguard Mechanism (Crediting) Amendment Act 2023* (Cth) s 1 which repeals and replaces s 3(2) of the *NGER Act*.

facilities or kept and surrendered to meet future obligations in line with a facility's declining baseline. Facilities can also purchase and surrender carbon credits, generated under the ACCU scheme, to meet their baselines. The only limit on the use of ACCUs is a transparency measure. Where a facility surrenders ACCUs equal to or more than 30 per cent of its baseline, they must also submit a statement to the regulator explaining why more direct carbon abatement was not undertaken and discussing any future carbon abatement opportunities.[26]

There are several opportunities to expand and strengthen the Safeguard Mechanism to achieve greater emissions reductions in an efficient and timely manner:

- **Lower the emissions threshold** - The Safeguard Mechanism applies to a selection of Australia's largest industrial 'facilities' that emit more than 100,000 tonnes of CO2-e in scope 1 emissions per year.[27] There are currently only 219 facilities with safeguard mechanism obligations, across the mining, oil and gas production, manufacturing, transport and waste sectors, covering only approximately 30% of Australian GHG emissions.[28] **This high threshold has the effect of excluding many companies and should be lowered.** Recent research by the Carbon Market Institute estimates that lowering the facility-level compliance threshold could result in an additional 8% GHG emissions covered under the scheme.[29]

- **Expand the sectoral coverage of the mechanism** – The Safeguard Mechanism applies to the largest industrial facilities across the mining, oil and gas production, manufacturing, transport and waste sectors.[30] **Consideration should be given to expanding the Safeguard Mechanism to more sectors.**

- **Reconsider the way that the Safeguard Mechanism applies to the electricity sector** – The Safeguard Mechanism applies to the electricity sector in a different way to other sectors. A single 'sectoral' baseline is applied across all electricity generators connected to one of Australia's main electricity grids. Individual grid-connected electricity generators are not covered if total emissions from grid-connected electricity generators do not exceed the sectoral baseline. The collective baseline figure has been set so high – 198 million tonnes CO2 -e – that it is not likely to be exceeded until 2030,[31] and the individual assessment process has not yet occurred.[32] **Consideration should be given to applying the Safeguard Mechanism to electricity generators in the same way as obligation holders from other sectors.**

[26] National Greenhouse and Energy Reporting (Safeguard Mechanism) Amendment (Reforms) Rules 2023 r 72C(4), r 72C(5)(b)-(d).
[27] *National Greenhouse and Energy Reporting Act* (Cth) ss 9, 22XI ('*NGER Act*').
[28] Australian Government, Clean Energy Regulator, 'Safeguard Mechanism' (Web page) <https://cer.gov.au/schemes/safeguard-mechanism>.
[29] CMI, 'Future opportunities for Australia's Safeguard Mechanism' (media release, 21 July 2025) https://carbonmarketinstitute.org/2025/07/21/future-opportunities-for-australias-safeguard-mechanism/
[30] https://www.dcceew.gov.au/climate-change/emissions-reporting/national-greenhouse-energy-reporting-scheme/safeguard-mechanism.
[31] Sophie Power, 'Australia's climate safeguard mechanism: a quick guide' (Research Paper, Parliamentary Library, Parliament of Australia, 3 December 2018) 4.
[32] According to the Australian Government Clean Energy Regulator, National Greenhouse and Energy Reporting data for the 2022-23 reporting year (reported in February 2024), emissions in the electricity generation sector were 139.2 million tonnes of CO2-e.

- **Reconsider the application of the mechanism at the scale of facility** – Under the current rules, if a company has multiple facilities with emissions that fall below the large facility threshold, these are not aggregated to impose emissions reduction obligations on that company.[33] This may result in only a portion of the emissions of a responsible emitter being covered by a declining baseline, or indeed companies in high emitting sectors with multiple facilities not subject to emissions reduction obligations at all. As well as limiting the overall scope 1 emissions that are subject to the Safeguard Mechanism, the facility construct does not support the most efficient decarbonisation at the company scale. It may also present perverse incentives for companies to restructure in order operate multiple facilities under the threshold. **To address these issues, the facility construct could be removed and the emissions reduction obligations applied at the entity scale.** Recent research by the Carbon Market Institute argues that this could increase the scope 1 emissions covered by the Safeguard Mechanism by up to an estimated 30 per cent.[34]

- **Reconsider flexibility measures for large facilities that operate in 'trade exposed industries':** Trade-exposed industries are afforded tailored treatment under the Safeguard Mechanism.[35] What constitutes 'trade exposed industries' is not defined in legislation, but definitions for two types of facility are set out in a Government position paper.[36] 'Trade-exposed facilities' are eligible to apply for competitive grants through the $600 million Safeguard Transformation Stream within the Powering the Regions Fund. This funding is to 'support on-site decarbonisation activities across the full spectrum of technological maturity on a technology neutral basis'.[37]'Trade-exposed baseline adjusted facilities' are eligible to apply for a lower baseline decline rate.[38]

  Approximately 80 per cent of facilities covered by the Safeguard Mechanism fall into the 'trade-exposed facilities' category,[39] which includes facilities that provide the products or services listed in Schedule 2 of the Safeguard Mechanism Rules. This extensive list includes some of Australia's highest emitting industries like coal, oil and gas, industries that must be phased-down in order to meet global climate goals.[40] **Instead of affording special treatment to the industries that worsen the climate crisis, special measures to support the phase out of fossil fuels and the industries that contribute to climate solutions – for example renewable energy – should be prioritised.**

- **Restrict the use of credits generated outside the scheme –** The Safeguard Mechanism adopts a highly permissive approach to the use of credits generated outside the scheme (ACCUs) raising concerns that it will fail to sufficiently incentivise direct decarbonisation of high emitting industries. This permissive approach is of particular concern given the considerable and ongoing critique of the integrity of the ACCU

[33] *NGER Act* (n 27) ss 9, 22XF, 22XI.
[34] CMI, 'Future opportunities for Australia's Safeguard Mechanism' (media release, 21 July 2025) https://carbonmarketinstitute.org/2025/07/21/future-opportunities-for-australias-safeguard-mechanism/.
[35] Australian Government, Department of Climate Change, Energy, the Environment and Water, Safeguard Mechanism Reforms (Position Paper, January 2023) 41.
[36] Ibid 41-49. 'Trade exposed facilities' are determined at an activity level. A trade exposed activity list is set out in Safeguard Mechanism Rule. 'Trade exposed adjusted baseline facilities' are those assessed as having an elevated risk of carbon leakage.
[37] Ibid 43.
[38] Ibid 44.
[39] Ibid 43.
[40] See, eg, IEA, *Net Zero by 2050, A Roadmap for the Global Energy Sector* (Report 2021).

scheme and particularly of widely used land sector methods such as human-induced regeneration and avoided deforestation. These methods have been heavily criticised for their failure to achieve real, additional and permanent carbon abatement.[41]

Environmental offsetting schemes around the world typically employ the mitigation hierarchy as a core standard to constrain the use of offsets. The hierarchy requires that proponents demonstrate genuine efforts to avoid and reduce harmful impacts, before relying on offsets to compensate residual impacts. While this standard is being adopted in voluntary schemes to guide companies on the use of offsets towards their net zero targets,[42] it is noticeably absent from the regulatory settings in the Safeguard Mechanism.

We recommend the mitigation hierarchy be introduced to the Safeguard Mechanism as a core standard and that specific rules be developed to give effect to this standard in an efficient manner. For example, regulated entities could be required to use any available SMCs (created within the scheme) to meet their baselines, before using ACCUs created outside the scheme. The option of limiting the total number of ACCUs available for purchase to meet Safeguard Mechanism obligations or phasing out the use of ACCUs over time should also be explored.

Priority 3 - Governance and financing arrangements for climate change adaptation and resilience

Building a resilient and climate adaptive Australia is key to a prosperous, harmonious and equitable future. A maladapted Australia is inefficient, inequitable, uncompetitive and vulnerable.

The growing cost of climate impacts for Australia has been documented in the Treasury's Intergenerational Report.[43] The Colvin Review estimated the cost of disasters will rise from $12 billion in 2023-24 to more than $40 billion in 2049-50 while the annual cost to the federal budget will be $9 billion. [44] The cost of slow-moving changes associated with changing weather may double those figures with those costs being born disproportionately by the nation's most vulnerable people.[45]

While disaster costs have been well canvassed, the structural implications for private, corporate and public assets are still poorly understood.[46] Insurance is becoming too costly, creating an insurance gap (underinsurance or no insurance). As a result, risk is being passed on to households that are least able to bear it, and governments are often called upon to fill the gap. This issue compounds when homes and businesses can no longer be used as security because they are uninsured and are denied access to conventional loan funds. Chambers of Commerce across

[41] Andrew Macintosh et al, 'Australian human-induced native forest regeneration carbon offset projects have limited impact on changes in woody vegetation cover and carbon removals' (2024) 5 (149) *Communications Earth & Environment* 1.
[42] Voluntary Carbon Markets Integrity Initiative (VCMI), *Claims Code of Practice – Building integrity in voluntary carbon markets, V2.1* (August 2024).
[43] The Australian Treasury, *2023 Intergenerational Report*, (24 August 2023).
[44] Andrew Colvin, Independent Review of Commonwealth Disaster Funding, Final Report, (30 April 2024).
[45] The costs and distribution of slow-moving impacts are canvassed for example in R. Jisung Park, *Slow Burn; the hidden costs of a warming world* (Princeton University Press, 2024).
[46] For a discussion of the evolving insurance implications for Australian homeowners and small businesses, see Michael Spencer, "How climate change is reshaping real estate and economic geography,' *Monash Lens*, 11 February 2025, https://lens.monash.edu/@michael-spencer/2025/02/11/1387336/climate-change-a-cost-of-living-and-housing-affordability-issue

northern Australia have drawn attention to this problem[47] but it also has implications for homeowners, banks and fiscal stability.[48] An inability to access affordable insurance, and therefore availability of bank finance, will only exacerbate housing affordability challenges.

The way that these impacts play out geographically is cause for further concern. Climate-resilient communities attract new residents due to moderate increases in insurance, driving a rise in property values and economic growth. Other regions face a future of declining property values and economic contraction. Local governments face eroding tax bases just as adaptation needs grow. In the United States, a recent First Street report argues that these forces are not just reshaping housing markets, they're reconfiguring the economic geography of the US, reshaping patterns of development and migration.[49] The report anticipates $1.47 trillion of net property losses over the next 30 years due to climate-related risks. Some communities will approach a climate-driven tipping point.

It is not just small and medium businesses and homeowners that stand to be impacted. S&P recently assessed the exposure of its S&P 1200 to climate impacts. The group collectively owns about 3.5 million assets. The financial implications of those assets' exposure to climate hazards was estimated at US$25 trillion by 2050. Steven Bullock of S&P said the results were 'baked in, irrespective of the climate scenario and without adaptation' and noted that the impacts would be most severe for capital intensive sectors such as utilities and energy. He reinforced the point that even though acute hazards (disasters) were costly, 'the most significant impacts we identified related to chronic hazards such as water stress and extreme heat.'[50]

Two of the biggest obstacles to effective climate change adaptation in Australia are governance and finance. We recommend the Roundtable explore a range of reforms to help address these obstacles, including:

- **Strengthen Adaptation Leadership and Governance**

  Both the Colvin[51] and Glasser reviews[52] highlighted that Australia lacks clear leadership on adaptation.[53] Even at National Cabinet, resilience is included in the brief for two different ministerial councils.[54] In its last term, the Australian Government failed to produce the promised national risk assessment and adaptation plan. Given the scale of the adaptation challenge, national leadership needs to signal the importance the Government attaches to adaptation and promote the involvement of federal and state agencies as well as the private sector. Breakthrough innovation on adaptation will require a coordinated national effort.[55]

[47] Townsville Chamber of Commerce, Submission: Market Failure in Insurance in Northern Australia, 1 February 2025, https://www.townsvillechamber.com.au/insurance-submission/
[48] See Reserve Bank of Australia, *Finance Stability Review* (April 2025), https://www.rba.gov.au/publications/fsr/2025/apr/.
[49] First Street, *High Water, High Stakes: FEMA, Flood Risk, and the NFIP* (3 February, 2025), https://firststreet.org/research-library/property-prices-in-peril.
[50] Building an investment case for adaptation and resilience, discussion facilitated by S&P Global Sustainable and Responsible Investor, 14 July 2025; https://www.responsible-investor.com/building-an-investment-case-for-adaptation-and-resilience/?utm_source=newsletter-daily&utm_medium=email&utm_campaign=ri-daily-bronze&utm_content=15-07-2025.
[51] Andrew Colvin, Independent Review of Commonwealth Disaster Funding, Final Report, (30 April 2024).
[52] Robert Glasser, Independent Review of National Natural Disaster Governance Arrangements (3 Dec 2023).
[53] Climate Change Authority, *Home Safe – National leadership in adapting to a changing climate* (June 2025), https://www.climatechangeauthority.gov.au/sites/default/files/documents/2025-06/HomeSafe-NationalLeadershipinadaptingtoaChangingClimate.pdf.
[54] Adaptation and resilience is the domain of the Energy and Climate Change Ministerial Council, while disaster management and resilience is the remit of the National Emergency Management Ministers' meeting.
[55] See, e.g., The White House, *Resilience Game Changer Assessment*, July 2024, https://bidenwhitehouse.archives.gov/wp-content/uploads/2024/07/Climate-Resilience-Game-Changers-Assessment.pdf.

While national leadership is critical, it is also widely acknowledged that adaptation needs to be locally driven and responsive to local contexts. Yet to lead effectively, local communities require support in accessing and analysing climate science, data, risk assessment, planning, implementation, governance and finance. This will require new forms of local governance to better link municipalities, state agencies, chambers of commerce, traditional owner groups, industry associations, health, ageing and welfare providers as well as community groups.

In California, the state has legislated for Climate Resilience Districts to establish targeted local entities with the authority to establish and act on adaptation and resilience priorities including an ability to access public and private finance to undertake works.[56] This provides a model that could be adapted to the Australian context, a project that Green Lab is currently developing.[57]

There are several institutional arrangements in Australia upon which a climate resilient districts approach could be built such as Joint Organisations in NSW, climate alliances in Victoria, with pilot alliances in Queensland and West Australia and a regional model in Tasmania. The key innovation would be in providing an agency to lead on adaptation, upskilling to undertake systemic risk assessments and plans and linking plans to a broad range of financial opportunities and instruments for implementation.

We recommend the Australian Government consider establishing a single focus institution that has two roles:

- **to provide leadership on adaptation including fostering new ideas, approaches and technologies; and**
- **to support local leadership of adaptation, including in relation to risk assessments, planning and access public and private finance.**

- **Facilitate new approaches to adaptation finance**

Local government and community groups typically rely on funding from higher levels of government. This can distort and disrupt long-term programs as government funding is switched on and off or priorities change. There are also often onerous application and reporting burdens, and funding is highly risk averse.

A key challenge is that Australia does not have a deep and liquid municipal bond market. While local governments can borrow for their needs, local government debt is ultimately considered as a part of state government debt obligations. In an environment where state governments risk credit rating downgrades there is a disincentive to encourage local governments to borrow. This reveals a critical policy limitation—namely, the absence of scalable, non-grant financing mechanisms to fund investments that build community resilience.

New approaches to financing adaptation are needed. Not all funding will come from government. A considerable proportion must come from private funds as either philanthropy, loans, social investment or innovative financial products. In considering these matters, thought needs to be given to the legal entities receiving the funds.

[56] See, e.g., https://rcpa.ca.gov/about-rcpa/climate-resilience-districts/.
[57] Green Lab Monash Business School, *Climate Resilience Districts Pilot Program – bringing together governance, science and finance*, (November 2024). For a summary see, https://lens.monash.edu/@business-economy/2025/07/21/1387711/from-warning-to-action-the-real-cost-of-inaction-on-disaster-resilience.

One important opportunity for innovative financing of climate change adaptation is the issue of sovereign green bonds or specific adaptation bonds - to provide a pool of funds for local adaptation initiatives.

Australia issued its first sovereign green bond in June 2024. Green sovereign bonds are important, not only to raise project funds but also to establish a benchmark for the development of a green finance market. The scale of the adaptation challenge suggests there are opportunities for private investment, but government will need to help overcome concerns over uncertainty and unpredictability as well as the timeframe for returns. This will involve structuring incentives or removing disincentives. Lessons can be learnt from recent experience in the United States, where there is increasing private sector interest and engagement in green bond markets.[58]

A model that could be used for this purpose is House Australia's Housing Bond Aggregator where the Australian Government provides loans to Community Housing Providers (CHPs). Since March 2019, Housing Australia has issued over A$2.8 billion in social bonds and sustainability bonds.

We recommend the Australian Government establish a Community Futures Resilience Fund to provide access to finance for communities for the purposes of climate resilience, based on the Housing Aggregator model.

[58] For further discussion, see Gordon Noble, *Investors have bid against each other to buy Australia's first green bond. Here's why that's a great sign*. (11 June 2024), https://theconversation.com/investors-have-bid-against-each-other-to-buy-australias-first-green-bond-heres-why-thats-a-great-sign-231807.