



Australian
Industry
Greenhouse
Network

AIGN submission

Department of Industry, Science and Resources

Net Zero Fund: proposed design

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Introduction

The Australian Industry Greenhouse Network (AIGN) welcomes the opportunity to provide input on the design of the Net Zero Fund.

The establishment of a \$5 billion Net Zero Fund within the National Reconstruction Fund (NRF) is a promising instrument to unlock investment in industrial decarbonisation, support clean technology manufacturing, and support the competitiveness of strategic industries in Australia.

If well designed, this Fund can play a catalytic role to de-risk first movers, fill financing gaps, and drive scale-up of emissions reduction technologies in heavy industry and adjacent sectors. There is strong alignment between the objectives of the Fund and Australia's national interest in working towards net zero emissions by 2050 and our interim emissions reduction targets.

About AIGN

AIGN is a network of industry associations and corporations that provides a forum for discussion on key climate change issues, as well as information and analysis on national and international climate change policy, and the role industry can play in the transition to net-zero emissions by 2050.

We are committed to supporting cohesive, efficient, and predictable climate policies that align with Australia's Paris Agreement targets. We believe a harmonised approach across federal, state, and territory jurisdictions is essential to achieving our emissions reduction targets while maintaining investment stability and minimising sovereign risk.

The transition to a net-zero economy is complex and ambitious, requiring collaborative management and open dialogue. AIGN corporate members are on the frontlines of this transition; association members are valuable sources of expertise on the specific needs and challenges of their respective industry sectors as they move towards a net-zero future.

AIGN's membership represents both export-facing and import-competing businesses, which face different types of pressures and have different decarbonisation needs. The Net Zero Fund will need to find a balance between the needs of these two broad groups to ensure decarbonisation is encouraged across industrial sub-sectors.

Fund design principles

AIGN notes that the costs of industrial decarbonisation are substantial, with unprecedented global investment required to achieve Paris Agreement goals of reaching net zero emissions by mid-century and keeping global warming to 1.5°C. Technology solutions to address decarbonisation challenges for some sectors will benefit greatly from public co-investment and risk sharing approaches.

The Net Zero Fund should seek to align with and complement existing instruments and bodies, including the Clean Energy Finance Corporation (CEFC), the Australian

Renewable Energy Agency (ARENA), the Capacity Investment Scheme, the National Greenhouse and Energy Reporting Scheme (NGERS) and other NRF sub-programs.

Where overlap exists, the Fund can fill gaps (especially for large, capital-intensive, higher risk decarbonisation projects), avoid duplication and promote transition-aligned investment.

Co-investment partnerships or co-funding frameworks should be explicitly designed to combine strengths across agencies.

In shaping the Fund, we suggest the following guiding principles:

1. Assessment neutrality

The Fund should assess projects in a way that does not take a position on technologies, commodities or emissions sources, but is technology neutral, commodity neutral and emissions-source neutral. This will facilitate funding for projects that best achieve desired abatement outcomes.

2. Additionality & complementarity

The Fund should enable projects that would not otherwise proceed (due to technology risk, capital intensity, long payback periods, etc.), thus stimulating private investment. The projects should demonstrate economic and financial viability with the Fund's support.

It should work in coordination with existing vehicles (e.g. CEFC, ARENA, other NRF sub-funds) to support industrial decarbonisation.

3. Flexibility of financing instruments

A mix of financing instruments will be most likely to successfully incentivise transition-aligned projects (e.g. loans, equity, guarantees, concessional instruments, contracts for difference).

Terms should be calibrated to the risk profile of decarbonisation investments (e.g. long lifecycles, technology adoption risk).

The Fund should consider flexible structures (e.g. hybrid grant/debt) to address investment barriers as needed.

4. Project pipeline and readiness

The Fund should minimise development risk and delays for investment-ready or near-ready projects. The Fund should also assist to stimulate the market to support projects from the inputs supply or outputs demand perspective in a sustained manner.

Pre-development support (through feasibility, engineering, business case development) should be enabled to support the development of the project pipeline.

5. Sectoral and technology scope

The Fund should prioritise “hard to abate” industrial sectors (steel, aluminium, cement, chemicals, refining) as well as enablers (hydrogen, CCUS, low-carbon feedstocks, energy efficiency, electrification).

It should also support scaling domestic manufacturing of clean energy and low emissions technologies (e.g. electrolyser, battery, catalyst, heat pump production).

Priority should be given to projects that are expected to deliver benefits sooner, and that have the highest decarbonisation impact in the long term.

6. Risk sharing and return expectations

The Fund should accept some level of risk to stimulate innovation while ensuring considered use of public capital.

The Fund's return expectations should be positive but realistic given the novelty and upfront cost structures of many new and developing decarbonisation technologies.

7. Governance, transparency and accountability

Strong, clear and independent governance should be supported by public reporting on investment decisions, metrics, and outcomes.

Stakeholder engagement is encouraged (with industry, First Nations, local communities) in setting priorities and oversight.

8. Co-investment and leveraging private capital

The Fund should be structured to encourage and mobilise private capital, which may include matching, co-investment, or anchor investment roles.

The Fund should use guarantees or first-loss layering to reduce private capital investor risk and improve bankability.

9. Dynamic adjustment, iteration and sunset/transition path

The Fund should be adaptable and be able to evolve focus areas or shift emphasis over time as technologies mature or market conditions change.

This may include clear exit or ramp-down mechanisms as technologies become more widely adopted and accessible.

The Fund design should incorporate periodic reviews and independent evaluation to ensure it meets its objectives.

Types of projects or capital expenditure that should be supported

AIGN encourages the Fund to support investment in decarbonisation and low emissions technology projects that may not otherwise be able to compete for capital.

The National Reconstruction Fund Corporation's (NRFC) [Statement of Expectations](#) gives a clear indication that it is in a strong position to consider the long-term value of proposed projects, which includes the types of financing options the Fund could offer (e.g. concessional finance, interest-free debt).

The Fund should support projects that are large, capital intensive, and otherwise unlikely to proceed without public involvement. Supported projects must be aligned with transition goals and contribute toward Australia's t of net zero emissions by 2050. The Climate Change Authorities Targets & Pathways paper (Appendix 3, p45.) includes a

list of potential technologies for different sectors. For example, this may include the following types of projects

Industrial decarbonisation:

- Fuel switching and process electrification (e.g., electric furnaces, boilers, heat pumps, dryers)
- Carbon capture, utilisation and storage (CCUS), including cluster-based shared infrastructure
- Manufacturing and supply of lower carbon materials and fuels (e.g., sustainable aviation fuel, biofuels, hydrogen)
- Energy efficiency upgrades in key industries
- Circular economy projects reducing embodied emissions (e.g., steel and aluminium recycling, raw materials recycling, waste minimisation or utilisation)

Enabling infrastructure:

- Hydrogen production, transport and storage infrastructure
- Transmission, microgrids, and renewable integration for industrial hubs
- Infrastructure upgrades and additions for low carbon materials

Manufacturing capacity:

- Domestic production of critical clean technologies (electrolysers, batteries, critical minerals processing, low-emissions materials)
- Value-added downstream manufacturing for renewable energy supply chains

Pre-development and feasibility:

- Engineering studies, pilot plants, front-end engineering design (FEED)
- Aggregation platforms for smaller projects

Level of investment and funding structures

Large-scale industrial decarbonisation projects that the Fund should prioritise will typically require hundreds of millions to several billion dollars, placing them well beyond conventional private financing appetite without concessional support.

In deploying public finance, the Fund should seek to de-risk the early stages of these projects and unlock private co-investment at financial close.

Financing structures that could assist include:

- Anchor public capital (grants, equity, concessional debt, hybrid funding, guarantees)
- Private debt and equity at commercial terms
- Blended finance combining concessional and commercial sources
- Underpinning potential supplier and customer commercial terms (e.g., prices) to provide sustainable inputs and outputs.

As technologies approach commercial readiness, leverage ratios should begin to improve (i.e., more private capital should become available), with the ratio of public funding lowering as technologies begin to be proven, accessible and more easily deployable.

Existing commercial barriers to investment

Decarbonisation projects can generate strong interest and are genuinely capable of contributing to Australia's emissions reduction goals while supporting economic growth, yet still struggle to attract sufficient investment. Barriers to investment may include:

- High capital intensity with long payback periods.
- Technology and performance risk (unproven at scale).
- Less attractive returns
- Supply chain restrictions (e.g., insufficient infrastructure, supply/feedstock, local expertise and resources)
- Market risk: lack of long-term offtake certainty for low-emissions products.
- Policy/regulatory uncertainty (carbon pricing, demand mandates, infrastructure approvals).
- Limited appetite of financiers to accept first-of-kind risk.
- Competition with lower-cost international jurisdictions with strong subsidy regimes.
- Challenging regulatory environment
- Fast evolving technologies (i.e., a technology might quickly become outdated and less efficient, such as EV low speed technology being replaced by fast chargers)

The Fund should be designed to be able to address some of these barriers to investment and support industrial decarbonisation at scale.

Financing mechanisms

The Fund must be flexible in the kinds of financing mechanisms it deploys, as decarbonisation projects vary greatly and will therefore require a variety of funding models to support them. Funding models may include:

- Loans: Long-term, concessional interest rates to address long paybacks.
- Equity and quasi-equity: To absorb higher technology risk in early projects.
- Guarantees: Credit enhancement to mobilise commercial banks.
- Hybrid structures: Convertible debt/equity, revenue-linked repayment, performance-based grants.
- Ongoing long-term support: subsidies, contracts for difference.
- Staged financing: Release funds as milestones are achieved.

Scope of corporate financing

Corporate financing should be within the scope of the Fund, especially in situations where:

- Equity or convertible instruments can strengthen the balance sheets of manufacturers scaling clean technologies.
- Corporate-level support enables aggregation of multiple decarbonisation projects within a company.

In seeking to include corporate financing in the scope of supported projects, the Fund should ensure appropriate safeguards in the form of clear emissions reduction or manufacturing outcomes tied to the provision of finance.

Parameters of concessional support

The Fund should provide such concessional support as:

- Interest rates that are below commercial benchmarks, especially in early deployment.
- Providing risk tolerance support by being willing to take subordinated or first-loss positions.
- Flexibility in repayment of interest and principal.
- Extended repayment periods (e.g. 15–20 years or 20+ years for large capital projects).
- Reduced loan securitisation.
- Forgiveness clauses based on force majeure or partial, non-routine project underperformance (particularly for new technologies, commercial demonstration projects, etc).
- Equity services such as patient capital with flexible exit options (e.g. buyout by private investors in later stages of a project).

Current barriers within the National Reconstruction Fund

The NRF is already able to invest in large-scale industrial decarbonisation projects, renewables manufacturing and low emissions technologies. Current barriers to such investments being made include:

- Risk appetite calibrated to more traditional sectors, not first-of-kind industrial projects.
- Limited concessionality compared with CEFC or ARENA.
- Constraints around investing in pre-Final Investment Decision (FID) or early-stage development activities.
- Potential duplication across funds without clear coordination.

- No funding option for decarbonisation for facilities that do not fall within the large-scale industrial remit.

The Net Zero Fund presents an opportunity to find solutions to some or all of these barriers. Solutions may include:

- Expanding the Net Zero Fund's concessional mandate beyond the NRF's standard investment criteria to include any facility that triggers the NGERS thresholds or meets the Corporations Act Chapter 2M mandatory climate reporting requirement.
- Allowing project preparation and incubation funding.
- Establishing explicit mechanisms to co-fund with CEFC, ARENA, and state government schemes.

Complementarity with CEFC

AIGN supports the Fund complementing established financing vehicles such as the CEFC.

CEFC has a track record in renewable energy and some industrial decarbonisation finance. To complement these strengths, the Net Zero Fund should focus on large, higher-risk, capital-intensive industrial projects that may be outside the CEFC's appetite.

The CEFC could also complement the activities of the Fund by managing portions of the Fund under delegation, enabling the Fund to leverage the CEFC's project pipeline, due diligence processes, and governance structures.

Joint investment committees or co-investment frameworks would also assist in assuring alignment and avoiding duplication between the Fund and the CEFC.

Leveraging CEFC capabilities for rapid implementation

The capabilities of the CEFC could be meaningfully utilised by the Fund to support the rapid and effective deployment of investible, transition-aligned projects as soon as feasible. The Fund could:

- Utilise the CEFC's existing resources (e.g., deal teams, governance systems) and networks.
- Create shared investment pipelines between CEFC and the Fund to streamline project assessment.
- Allow CEFC to act as an investment manager for targeted portions of the Fund, ensuring quick deployment.
- Share lessons from CEFC's blended finance models to design concessional mechanisms under the Fund.

Conclusion

The Net Zero Fund offers a generational opportunity to enable large-scale industrial decarbonisation and expand domestic low-emissions manufacturing.

Success will depend on a design that is flexible, catalytic, and risk-sharing, working in partnership with existing institutions such as the CEFC and ARENA.

AIGN supports the establishment of the Fund and stands ready to work with Government to co-develop financing policy solutions and bring forward a robust and prioritised pipeline of projects across Australia's industrial base.

AIGN supports a flexible, catalytic, and risk-sharing design for the Net Zero Fund. The Fund should target large-scale industrial decarbonisation and low-emissions manufacturing projects that will not otherwise proceed, complement existing financing vehicles, and leverage Australia's industrial strengths.