

Net Zero Fund Proposed Design Consultation Process

CPD submission to the Department of Industry, Science and Resources

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Cite this paper as: Mara Hammerle and Toby Phillips (2025) *Net Zero Fund Proposed Design Consultation Process: CPD submission to the Department of Industry, Science and Resources*, Centre for Policy Development.

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Summary

CPD welcomes the establishment of the Net Zero Fund to encourage investment by the NRFC in decarbonisation initiatives. The NRF has several objectives, but acting as a catalyst for new low-carbon industries is perhaps the most urgent. This brief makes five recommendations, which collectively call for the use of the Net Zero Fund to invest in innovations in new technologies and business models.

Importantly, CPD makes a distinction between investments in new technologies and business models, versus providing finance to help existing facilities deploy relatively mature technologies. Maintaining a focus on the former will enable the Net Zero Fund to have the greatest economic impact, and the greatest contribution towards Australia's net zero ambitions. This certainly might include supporting some existing large-scale facilities to decarbonise; but it is just as likely to involve providing finance to entirely new facilities.

CPD's specific recommendations are:

1. Funding decisions through the Net Zero Fund should align with the Commonwealth Government's National Interest Framework. The NRFC should prioritise the deployment of new technologies and new business models.
2. The investment mandate and risk appetite for the Net Zero Fund should enable it to aggressively catalyse new economic activity:
 - a. It should target a return of 0-3% above the cost of capital, instead of 2-3%.
 - b. The risk statement for the Fund should refer to an "acceptable but not excessive level of risk in pursuit of catalysing new economic activity".
3. The mandate for the Net Zero Fund should encourage it to pursue concessional lending and innovative financing – framing these as expected and necessary activities, rather than framing any departure from commercial-style lending as a last resort.
4. The Net Zero Fund should make use of profit-sharing mechanisms, to increase the potential for funding continuity and ensure a fair return to society.

What are the types of projects or capital expenditure that should be supported to achieve the Net Zero Fund's objectives?

In the announcement of the Net Zero Fund, its proposed focus is to: (1) support large industrial facilities seeking to decarbonise; and (2) support scale up of manufacturing renewable and low emissions technologies. Both of these focus areas for investment could potentially be valuable; but by themselves they do not guarantee a successful Net Zero Fund. The missing ingredient is a focus on catalysing the development and deployment of new technologies and business models. Importantly, this doesn't necessarily require supporting existing facilities (it could involve establishing new facilities), and it doesn't require supporting the manufacturing of all green technologies (especially not those that are already mature).

The key issue with providing general subsidised finance to decarbonise any existing facility is that many of these projects are likely to happen anyway. The Safeguard Mechanism and other policy frameworks already create significant market incentives to invest in technologies to decarbonise operations, and many of these technologies are relatively mature (eg. building an industrial-scale solar array). These activities may not need concessional finance from the NRF. The NRF's focus should be on decarbonisation efforts that depend on new technologies or novel business models.

Importantly also, technologies do not all have to be manufactured in Australia for the Australian manufacturing industry to benefit. For instance, developing a globally competitive green aluminium industry in Australia requires significant deployment of new technologies (eg. renewable energy generation, energy storage, low-carbon anodes). In this case, the greatest economic benefit comes from accelerating the

deployment of these technologies in the Australian aluminium industry, regardless of where they were manufactured. The ultimate focus would be on the manufacturing of aluminium, which is an example of where Australia can derive a comparative advantage. There may be cases where there is an opportunity, for example, to manufacture low-carbon anodes in Australia. But this should be a positive by-product, rather than a fundamental goal of the Net Zero Fund.

CPD's 2023 report *Green Gold: A strategy to kickstart Australia's renewable industry future* provides ideas around how to ensure public investments convert Australia's competitive strengths into new industries that lay the foundation for prosperity in a future economy.¹ *Green gold* highlights that the economic rationale for subsidy is strongest for projects that meet three criteria:

1. There is clear demand for the output.
2. The low-carbon industry is not competitive today, either because the technologies are still nascent or there are market distortions.
3. There is reason to believe the project will contribute to Australia's long-term comparative advantage.

For the Net Zero Fund, this principally means the NRFC should catalyse funding for projects and activities that would not happen without public sector involvement, where technologies are not yet competitive at scale, and where the new technology or business model could be the basis of long-term Australian industry. For instance, consider the smelting of iron ore. Helping an existing facility (eg. a blast furnace) achieve marginal emissions reduction is certainly valuable, however the economic rationale for

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government investment is not as strong when compared to, say, developing completely new technologies (eg. hydrogen-DRI) to process and manufacture iron.

Ultimately, the Commonwealth's existing National Interest Framework provides suitable guidance around the types of projects that should be supported by the Net Zero Fund. The National Interest Framework, introduced alongside the Future Made in Australia Act, has been designed to provide rigour for significant public investments in industry based on the national interest; and the importance of this focus was highlighted

in a Statement of Expectations to the NRFC earlier this year by Senator Katy Gallagher and Senator Tim Ayres.² Proposals for the Net Zero Fund should be analysed, weighted, and ultimately decided upon based on their alignment with this framework.

Recommendation 1: Funding decisions through the Net Zero Fund should align with the Commonwealth Government's National Interest Framework. The NRFC should prioritise the deployment of new technologies and new business models.

How can the Net Zero Fund complement established financing vehicles such as the Clean Energy Finance Corporation?

The Net Zero Fund should play a catalytic role in supporting the emergence of new industries. Importantly, other funds like the CEFC already exist to support the development of the clean energy industry. The Net Zero Fund's focus on "low-carbon industries" or "green industries" should be distinct and separate from the "clean energy" industries that the CEFC invests in. Sectors like agriculture, metal processing, and transport could all benefit from investments by the Net Zero Fund that catalyse the deployment of new technologies and business models.

Government funding for new industry initiatives to reduce emissions in Australia currently skews towards supporting technologies that are already commercially viable (or most of the way there). In FY2024, only 31% of such funding was spent on R&D and technology scale-up and demonstration (\$1 billion of \$3.18 billion).³ At the same time, government financing vehicles that focus on

the commercialisation of new technologies typically take relatively low levels of risk and limit their use of concessionality. The CEFC, for example, has provided \$101 million in concessionality over its lifetime, while its investment mandate would have allowed it to provide \$3.6 billion in concessionality.⁴

In order to complement these existing funding mechanisms, the investment mandate for the Net Zero Fund should be designed to aggressively support new economic activity, rather than generating close-to-commercial returns on finance. The Commonwealth should encourage creative financing at the margins of commercial viability and explicitly encourage concessional lending when useful.

Specifically, the Net Zero Fund should only be required to cover the government's cost of capital plus its own operating costs, rather than being required to generate a 2-3% profit, as is currently the case for the general NRF portfolio.

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In the section above we discussed the importance of focussing on new technologies and business models. If the Net Zero Fund nonetheless chooses to provide finance to established facilities to deploy mature technologies, this should be done at commercial rates in order to offset and further subsidise more aggressive risk-taking in other areas.

The Commonwealth Government should explicitly encourage higher levels of risk-taking by the Net Zero Fund including in determining the level of risk it should take in the NRF's investment mandate. Its risk level should encourage it to take an "acceptable but not excessive level of risk in pursuit of catalysing new economic activity". This

makes it clear that the Fund should take the risks necessary to achieve its policy objectives.

Recommendation 2: The investment mandate for the Net Zero Fund should enable it to aggressively catalyse new economic activity:

- It should target a return of 0-3% above the cost of capital, instead of 2-3%.
- The risk statement for the Fund should refer to an "acceptable but not excessive level of risk *in pursuit of catalysing new economic activity*".

What financing mechanisms are best suited for these investments, based on the mechanisms available to the National Reconstruction Fund e.g. loans, equity, guarantees?

Financing mechanisms through the Net Zero Fund should be focused on what is needed to assist projects to cross the "valley of death" between R&D and commercialisation. Investment in these types of projects has been quite low for structures like the CEFC and NRF, which are mainly focused on commercialisation. Their mandates largely focus on providing loans at close to commercial rates for a range of reasons: investment vehicles that lend at commercial rates can largely exist "off budget", riskier investments will likely involve more public failures, and lending at commercial rates provides opportunities for capital recycling without needing fiscal "top ups" from government.

The Net Zero Fund should be designed to invest in projects crossing the "valley of death" in a way that attempts to achieve some of the benefits of financing vehicles focused on commercialisation. To ensure the

public shares in the benefits of publicly-subsidised industries, and to increase opportunities for capital recycling, the Net Zero Fund should include profit-sharing mechanisms in their financing mechanisms. One of the simplest ways for the government (and therefore the general public) to share in the profits of new developments would be for the Net Zero Fund to provide more early-stage equity and venture finance. While governments are involved in less than 3% of all venture capital deals in Australia, this contrasts with well over 20% in countries such as Belgium, Ireland and Sweden.⁵ These types of investments provide finance to make projects more viable and the general public benefits from growth in the value of the underlying assets and by receiving a share in the dividends. Alongside equity financing, assisting early-stage projects on the cusp of viability will also require the Net Zero Fund to aggressively use concessional

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loans and subsidies to catalyse nascent industries.

Profit-sharing mechanisms should be designed based on the stage of development of the new technology. The European Innovation Council Accelerator program provides mainly equity investments and convertible loans to scale-up innovations that have the possibility of creating or disrupting new markets. For projects that require more deeply concessional funding from the government, assistance could be provided in the form of grants with the requirement that companies pay back (part of) the money if the company hits a certain profit or sales threshold, goes public, or is bought out by a large company. New Zealand's Deep Tech Incubators program and the NSW Pumped Hydro Recoverable Grants Program are examples of this type of financing.

Contrastingly, when providing funding for projects that deploy relatively mature technologies, like solar arrays or batteries, the Net Zero Fund should provide minimal concessions and subsidies and there should be a cap on the amount of funding, i.e. the

percent of the \$5 billion that should be directed to these projects. Otherwise, the incentive for those working at the NRFC is likely to be to focus on providing loans for decarbonisation projects that would occur anyway without any intervention.

Recommendation 3: The mandate for the Net Zero Fund should encourage it to pursue concessional lending and innovative financing – framing these as expected and necessary activities, rather than framing any departure from commercial-style lending as a last resort.

Recommendation 4: The Net Zero Fund should make use of profit-sharing mechanisms, to increase the potential for funding continuity and ensure a fair return to society.

Endnotes

¹ T Phillips, [*Green gold: A strategy to kickstart Australia's renewable industry future*](#), CPD, 2023.

² [*Statement of expectations for the National Reconstruction Fund Corporation*](#), Katy Gallagher and Tim Ayres, 2025.

³ M Hammerle, T Phillips and A Dibley, [*Ideas to industries: How to get the most out of public money for industrial development*](#), CPD, 2024.

⁴ CEFC annual reports and CPD analysis.

⁵ M Berger, A Dechezleprêtre and M Fadic, [*What is the role of government venture capital for innovation-driven entrepreneurship?*](#), OECD, 2024.

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