

Circular Australia

Response to Australian Government Sustainable Finance Strategy Consultation Submission

Addressed to

Treasury

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About Circular Australia

Circular Australia is an independent, national body working to transition Australians, governments and businesses to a circular economy by 2030. Our expertise, programs and partnerships drive change, measure impact and accelerate the circular economy transition.

Circular Economy definition

The circular economy decouples economic growth from the consumption of finite resources, designing waste out of the system. It is based on three principles:

1. Design out waste and pollution at every stage of production, use and end-of-life.
2. Keep products and materials in use at their highest possible value.
3. Regenerate natural systems and enhance biodiversity including water, food, organics recycling, the removal of toxic waste and tree planting

We support an Australian circular economy that matches environmental goals with social ambitions.

Summary

Circular Australia (CA) thanks the Treasurer for the opportunity to respond to the Australian Sustainable Finance Strategy (Strategy). CA also welcomes the government's leadership and commitment to establish a circular economy by 2030.

Our advice is outlined in 3 recommendations on page 6, with more detailed reasoning in the responses to individual questions throughout the submission. Our advice reflects:

- Work by our Circular Australia Finance & Investment Taskforce whose members include key Australian Banks, investment firms.
- Collaboration with the Australian Sustainable Finance Institute (ASFI)
- Feedback from Mercer
- Findings from our Australian Circular Economy Forum 2023 held in June where taskforce members and attendees identified priorities and made recommendations to the CE Ministerial Advisory Group
- Input from CA CEO Lisa McLean who is a Member of the CE Ministerial Advisory Group advising Hon. Minister Tanya Plibersek on a national framework for circularity that is critical and cost-effective in achieving Net Zero by 2050.

Productivity & Circular Economy

There is strong evidence that building a circular economy will improve productivity and drive more sustainable economic growth for Australia. Analysis by Circular Australia (formerly NSW Circular) shows circular economy initiatives can improve productivity and be part of the solution to more cost-effective living in the long run¹ and this builds on national and international evidence:

- A 2020 KPMG study estimates that implementing circular economy initiatives in the Food, Transport and Built Environment sectors alone will lead to an economic benefit of \$23 billion to Australia's GDP by 2025, and \$210 billion to GDP by 2048. Most of these benefits come from more energy efficient buildings, followed by reduced food waste and better use of space in new buildings, and more efficient use of water.²
- A 2015 McKinsey study on the impacts of circular economy initiatives in Europe estimates that undertaking circular economy initiatives in the transport, food and building sectors alone can drive down average household mobility costs 60-80%, food costs by 25-40%, and housing costs by 25-35% percent by 2050.
- Implementing targeted circular economy levers and reducing waste at the household level brings real cost savings. In 2017-18, NSW households paid \$1.3 billion in municipal

¹<https://circularaustralia.com.au/wp-content/uploads/2020/11/the-circular-economy-opportunity-in-NSW.pdf>

²<https://kpmg.com/au/en/home/insights/2020/05/potential-economic-pay-off-circular-economy-australia.html#:~:text=billion%20GDP%20boost,-KPMG%20estimates%20that%20a%20circular%20economy%20could,a%20%2423%20billion%20GDP%20boost.&text=The%20transition%20to%20a%20circular,high%2Dresource%2Defficiency%20future>

waste charges. The average NSW household pays \$391 in annual council waste charges, and these costs are estimated to reach \$642 by 2035–36, totalling \$2.5 billion statewide.

- Research commissioned by Green Industries SA indicates that adoption of a circular economy in South Australia could create up to 25,700 jobs by 2030 (21,000 jobs through materials efficiency initiatives, and 4,700 jobs through energy efficiency and renewable energy initiatives) and reduce greenhouse gases by 27%, equivalent to 7.7m tonnes of CO₂.

Material consumption in Australia has more than doubled over the past 40 years. In 2018-19, Australia generated over 75 million tonnes of waste and it has the 4th lowest rate of material productivity in OECD. Australians consume the equivalent of 4.6 planets.

Improving resource efficiency generates jobs - the European Commission estimates each percentage point increase in resource efficiency in the EU can generate between 100,000 and 200,000 additional jobs.³ Circular economy provides a successful economic framework to improve resource efficiency by designing out waste and pollution and enhancing manufacturing, repair and recycling.

The events of the past few years have highlighted the immense value of the local manufacturing sector, as global shocks to economic activity, border controls and logistics have led to massive supply chain disruptions globally. But supply chain resilience relies not just on the best local manufacturing facilities with the best technologies. What happens when the flow of input materials — such as critical metals, plastics and other petrochemicals – is disrupted or lost to landfill? The circular economy can be the key to not only building up Australia's manufacturing self-sufficiency, but our materials sufficiency. For example:

- Fifty percent of Australia's exported waste is metal. Each year, we send over \$2 billion worth of metal waste offshore for recycling. This includes scrap heavy metals and discarded wiring and e-waste, for example. In 2019-20 alone, Australia exported over \$350 million worth of waste copper, \$150 million of waste gold and platinum, and \$15 million of waste nickel.⁴
- These are critical minerals and high-tech metals are essential to Australia and the world's renewable energy transition: batteries, solar power systems.
- Thriving local recycling industries in critical materials can potentially offer more secure and sustainable access to input materials. This is particularly important where finite — and valuable – raw materials are involved, such as copper, nickel and lithium. With sufficient critical mass, recycling materials can not only mitigate the economic and environmental costs of mining virgin materials, but also increase the productive lifecycles of materials already in circulation.

³Resource Productivity and the Circular Economy: The opportunities for the UK economy. 2018.

⁴<https://circularaustralia.com.au/key-sectors-that-will-catalyse-the-australian-circular-economy/>

The federal government's \$15B National Reconstruction Fund (NRF) with its requirements on circular economy, sustainability, regional development and national security⁵, is a welcome critical step for Australia in building circular economy capabilities and systems. The NRF will unlock circular economy infrastructure and solutions to drive new products and resources from otherwise landfilled, incinerated or exported waste streams.

The NRF will be essential to facilitate landmark circular economy financing. Without clear circular definitions and metrics embedded in the Sustainable Finance Strategy - financing and investment will struggle to qualify as circular.

CA is recommending circular economy definitions and metrics be developed for this Strategy and that they can be adopted by funds such as the Clean Energy Finance Corporation (CEFC) and the National Reconstruction Fund (NRF) across its seven priority areas of the Australian economy.

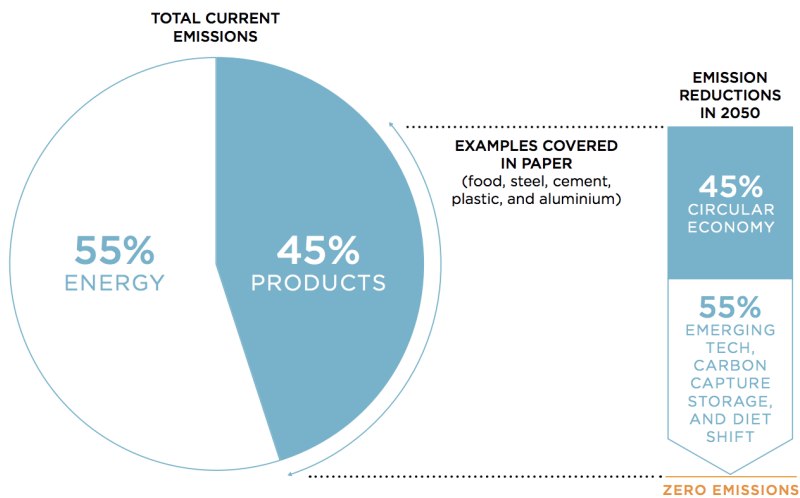
Net Zero & Circular Economy

Circular economy is essential to Australia achieving Net Zero. CA commends the government for embedding circular economy requirements in the sectoral decarbonisation plans - recognising the powerful role of circularity in achieving Net Zero.

Even in a fully renewable energy system, ongoing high consumption, a lack of circular design, engineering, recycling and manufacturing will still drive high emissions. Forty-five percent of all emissions are associated with the way we make and use products, materials and food see Graphic 1 below. These overlooked emissions represent almost half of the Net Zero challenge and require circular solutions.

Graphic 1. Completing the Picture: How the Circular Economy Tackles Climate Change, Ellen MacArthur Foundation

⁵<https://www.minister.industry.gov.au/ministers/husic/media-releases/15bn-national-reconstruction-fund-open-business>



Embodied carbon emissions of materials used in Australia account for 10-15% of GHG emissions or 30-50 million tonnes of CO₂ per year. Food waste alone in Australia represents 3% of our annual GHG emissions.

Banned materials — glass, plastics, tyres, paper & cardboard - represented 32 percent, or 1.5 million tonnes, of the total 4 million tonnes of waste going to landfill every year. This has ignited momentum for investment in recycling infrastructure. However the export bans only touch the surface of the Australian opportunity. Looking beyond our exported waste, there is an even more significant onshore opportunity for materials recovery and emissions reduction five times the size of the waste export market - in the 20 million tonnes of materials that go to landfill every year in Australia.⁶

Without the circular economy, Australians' consumption will continue to increase and with it fossil fuel dependency.

Recommendations

Circular Australia believes the following actions will strengthen the focus of the Strategy:

1. Expand the scope of the Strategy to include circular economy in the taxonomy, disclosures and sustainable bonds -including the development of Sovereign Bonds with Circularity targets

⁶ <https://circularaustralia.com.au/key-sectors-that-will-catalyse-the-australian-circular-economy/>

2. Ensure circular economy definitions and metrics are able to be adopted by the Clean Energy Finance Corporation (CEFC) and the National Reconstruction Fund (NRF) across its seven priority areas of the Australian economy.
3. Reference circularity (sustainable consumption and production) throughout the Strategy in relation to climate mitigation and productivity.

Conclusion

The finance and investment sector has an important role to play in enabling the transition from the current “take-make-waste” linear economy to circular economy, which is key to addressing sustainability challenges such as climate change, biodiversity loss, pollution and waste. Finance for circular business models, projects, products and services are needed to achieve the Federal government’s target of a Circular Economy by 2030 as well as other sustainability goals and to secure associated social, economic and environmental benefits.

The scale of finance and investment required to transition the Australian economy in line with this vision is well beyond what the Government can deploy alone, especially under tight fiscal conditions. Unlocking private finance and investment will be critical to achieving the Government’s agenda for this term and beyond. A research paper by Chatham House found: *“Circular economy initiatives face a significant gap in the availability of finance. Annual worldwide circular economy spending by the corporate sector is estimated at around \$850 billion, compared with \$35 trillion spent on the existing ‘linear’ economic model.”*⁷

Adopting the above recommendations in this Strategy will ensure Australia does not miss out on the estimated \$1.9 trillion in economic benefits of the circular economy over the next 20 years⁸. It will ensure finance leveraged from critical funds such as the CEFC and NRF for circular projects are measurable, credible and prevent greenwashing - while still catalysing Australia’s new circular economy.

⁷ <https://www.chathamhouse.org/2023/06/making-sustainable-finance-taxonomies-work-circular-economy>

⁸ <https://www.pwc.com.au/media/2021/circular-economy-to-grow-australian-gdp.html>

Responses

1. Establish a framework for sustainability-related financial disclosures

What are the opportunities for Government, regulators and industry to support companies to develop the required skills, resources and capabilities to make climate disclosures under the proposed new obligations? How should the Government, regulators and industry prepare for global developments in sustainability-related financial disclosure frameworks and standards, including the TNFD?

Mandating disclosure standards for circular economy is very important to tackle greenwashing and provide clear best practice to enhance understanding of circular economy in organisations. This can also streamline reporting and remove uncertainties for investment vehicles and finance organisations. Both mandatory and voluntary disclosure are welcome levers to catalyse the emerging circular economy in Australia.

There is strong evidence that larger companies with a higher degree of financial leverage and profitability, provide more circular economy information in their sustainability reports⁹.

2. Develop a Sustainable Finance Taxonomy

What are the most important policy priorities and use cases for an Australian sustainable finance taxonomy? What are the key insights from international experience to date? What are priorities for expanding taxonomy coverage after the initial focus on climate mitigation objectives in key sectors? What are appropriate long-term governance arrangements to ensure that the taxonomy is effectively embedded in Australia's financial and regulatory architecture?

Awareness of the circular economy among investors and in the financial sector generally is still low, and there is a lack of tools available with which to define and measure those activities that substantially contribute to the circular economy transition, as well as the investment opportunities and risks associated with those activities. A common definition, common criteria, and common metrics for circular economy will tackle the many barriers to the circular economy transition.

In 2022, UTS Institute for Sustainable Futures (UTS) and UNSW Business School (UNSW) were appointed by Circular Australia to co-lead the Finance and Investment Rapid Review research to address the challenge of identification and measurement of circular assets and risks relevant to the finance and investment sector in the transition to a circular economy¹⁰:

SCOPE: The scope of the research was to undertake a rapid review of both academic and grey (non-academic) literature in three areas: i) global initiatives to identify and measure circular assets (led by UTS); ii) linear risks and circular economy as a de-risking strategy (led by UTS); and iii) a sector focus on the built environment, given its large contribution to emissions and waste as well as its importance to the finance and investment sector in Australia (led by UNSW).

⁹ <https://www.mdpi.com/2071-1050/15/3/2200>

¹⁰ <https://circularaustralia.com.au/wp-content/uploads/2022/03/NSW-Circular-Finance-Investment-Rapid-Review-2022.pdf>

FINDINGS: Finance & Investment Rapid Review: Identification and measurement of circular assets and risks for the finance and investment sector in the transition to a circular economy

- ❖ The finance and investment sector globally has begun to consider how circular economy principles can be incorporated into existing frameworks used by the sector.
- ❖ These initiatives are currently being led by the EU, through the EU Taxonomy, which is being used to drive investments to support the EU Green Deal and includes the transition to a circular economy as one of six environmental objectives (European Commission, 2020b).
- ❖ The International Capital Market Association (ICMA), who set voluntary standards for the globally recognised Green Bond Principles (GBP) and other debt capital market products, have also developed impact reporting metrics for circular economy projects (International Capital Market Association, 2021).
- ❖ UNEP FI provided guidance under the Principles for Responsible Banking (PRB) for signatory banks to consider circular economy target setting, including identifying activities that they finance that contribute to the circular economy (UNEP FI, 2021).
- ❖ In December 2022, World Bank released its paper “Squaring the Circle” in which it states “A potential game changer is the inclusion of the CE in the EU taxonomy for sustainable activities, which could substantially ease access to finance for Circular Business Models (CBMs).
- ❖ These efforts will not be successful without the simultaneous development of a comprehensive and consistent policy framework supporting circular and disincentivizing linear activities.
- ❖ Finance requires more than a green tag, needing a business case at an acceptable risk level. If policies and incentives continue to discriminate against circularity, finance may well foster the emergence of niche markets and products, but these will be inadequate to decouple welfare creation from material consumption.

Many countries, regions and financial services groups have established or are in the process of establishing sustainable finance taxonomies, including all of Australia’s key strategic, investment and trade partners. Globally, there are currently 12 taxonomies in place and at least a further 15 under development.

The development of an Australian sustainable finance taxonomy—currently underway with a focus on climate mitigation (outlined below) —will deliver significant benefits for the growth and credibility of sustainable finance in Australia. The taxonomy will provide clear and consistent definitions of sustainable activities to drive Australia’s commitment to net zero emissions by 2050.

Most jurisdictions’ taxonomies are designed in a way that can enable the identification of activities and assets, across several economic sectors, that will drive multiple sustainability objectives: including climate mitigation and adaptation, environmental protection, and the transition to a circular economy.

However, few taxonomies have developed criteria for activities that transition to a circular economy, with many leading jurisdictions like Australia, Singapore, UK and ASEAN adopting a “climate first approach” while others like Canada are adopting a “climate only” approach. The

European Union (EU) is a frontrunner in the development of sustainable finance taxonomies and has recently adopted new criteria for activities that transition to a circular economy.

The EU circularity criteria is based on a range of published strategies and targets, including the European Commission's commitment to develop indicators on resources encompassing consumption and material footprints. However, there are no legally binding agreements on the circular economy, material and resource efficiency or consumption reduction targets at the EU or multilateral levels. As a result there remain unique usability challenges particularly around robust measurable criteria. These usability challenges are exacerbated by the key design features of the EU taxonomy architecture.

The fact that the EU taxonomy technical criteria for circularity across different economic sectors is underpinned by EU policy and practices, means it will not be easily transferable to Australia or other jurisdictions. Therefore, unlike taxonomy climate criteria, for the transition to a circular economy, Australia would need to first undertake significant scoping and analysis to validate circularity goals, targets and metrics drawing on international best practice, before technical criteria for circularity could be developed for the Australian taxonomy.

A taxonomy that defines activities that make a significant contribution to the transition to a circular economy is necessary to drive the transition both from the perspective of non-financial institutions but also to encourage investment into the circular economy. Circular economy criteria in the Australian sustainable finance taxonomy would set definitions and descriptions specific to economic activities, outline criteria, and set metrics and thresholds. This will help guide the allocation of private capital toward these activities and accelerate the transition to circularity.

As Australia embarks on the development of its sustainable finance taxonomy (outlined below), we have an opportunity to build on the lessons learned in the EU and accelerate the development of circularity at the beginning of the taxonomy design process so that Australia can embed and incentivise the adoption of waste hierarchy principles, measurable thresholds, and requirements and mechanisms that foster wider supply-chain collaboration with a focus on the underlying objective qualitative criteria that is necessary for the taxonomy to be used by financial institutions in the construction of new financial products and investments.

3. Support credible net zero transition planning

What are key gaps in Australian capability and practice, including relative to 'gold standard' approaches to transition planning developed through the TPT and other frameworks? To what extent will ISSB-aligned corporate disclosure requirements improve the transparency and credibility of corporate transition planning? What additional transition disclosure requirements or guidance would be most useful in the medium-term? Are there related priorities and opportunities for supporting enhanced target setting and transition planning for nature and other sustainability issues?

Scientifically sound definitions and taxonomies that are globally comparable and harmonised will be critical in driving effective growth of circular finance to enable the transition to a more circular economy.

Standardisation of circular economy definitions, metrics and practices for the finance sector are critically important to prevent "greenwashing" and ensure that appropriate circular

business models and projects are financed. Incorporating circular measurement into corporate reporting and accounting frameworks, like International Sustainability Standards Board (ISSB), is also critical to drive the transition to the circular economy in Australia and globally. Gold standard approaches are essential if Australian organisations are to make meaningful progress to a sustainable economy. ISSB is driving credibility and transparency and importantly assisting companies to both avoid climate-related risks and leverage opportunities.

Circular Australia member organisations have expressed their willingness for regulation to derisk and standardised approaches to circular economy. IFRS S1 and S2 would provide a welcome standardised disclosure approach for Australian investment vehicles and help accelerate circular understanding, projects and investment.

Yes there are opportunities to support enhanced target setting and transition planning for nature and other sustainability issues. The circular economy decouples economic growth from the consumption of finite resources, designing waste out of the system. It is based on three principles:

1. Design out waste and pollution at every stage of production, use and end-of-life.
2. Keep products and materials in use at their highest possible value.
3. Regenerate natural systems for example through water, food, organics recycling, the removal of toxic waste, tree planting.

This economic framework is proving useful in tackling key climate and climate related challenges - biodiversity loss, consumption, climate and nature. CA supports the adoption of the circular economy framework and the application of its principles in the transition planning for Net Zero. nature and resource use.

4. Investment Labelling

What should be the key considerations for the design of a sustainable investment product labelling regime? How can an Australian model build off existing domestic approaches and reflect key developments in other markets?

There are multiple institutional private markets strategies that would benefit from a sustainable investment product labelling regime - with specific reference to circular economy. Many existing strategies have an explicit circular economy focus for their idea generation /alpha sourcing differentiator. The number of these types of funds are growing for example: Closed Loop Partners, Circularity Capital, Candriam, and Lombard Odier, together with listed equity strategies e.g. BlackRock. Some of those are targeting multiple industry sectors and others have more narrow focus areas such as Lombard Odier's Plastic Circularity Strategy. There are also many broader sustainability themed strategies across public and private markets that include circular economy elements. This presents an excellent opportunity to apply a specific sustainable investment product labelling regime capable of making a wide ranging impact. There is also now an increase in nature-positive strategies being proposed for example: New Forests. It will also be important to capture this element of circular economy when referencing examples as well as reinforcing a materials and recycling economy.

An Australian labelling model can build off these existing approaches which reflect key developments in other markets as well as Australia. Ability to measure and categorise the impact of sustainable objectives or adherence to circularity principles in assessment for investment management decisions are critical to driving circular economy investment. Investment in metrics and a taxonomy on circular economy principles would help drive this investment, opening up additional opportunities for sustainable funds to assets that are circular in nature. Circularity principles for inclusion in sustainable asset classes should be ambitious and evidence based.

Incorporating circular economy principles as an important solution contributor to the climate change and nature/biodiversity challenges as part of the Sustainable Finance Taxonomy development. Circular economy should not be a separate topic to be considered in order after climate mitigation etc. – the systemic risks are connected, circular economy aims to address common root causes, and the Taxonomy is an important opportunity to realise this in a timely way. Please refer to the Australian Sustainable Finance Institute (ASFI) for more and the Taxonomy engagement undertaken with Minister Plibersek's office and different department representatives in August.

The Investor Group on Climate Change discussion paper for investors from June 2022¹¹ and the PRI closing the loop paper from October 2022¹² provide further investor perspective locally and globally.

6. Identifying and responding to potential systemic financial risks

Are there specific areas where the Government or regulators could further contribute to market-wide understanding of systemic sustainability related risks, including climate-related financial risks?

Government and regulators can further contribute to marketwide understanding of systemic sustainability related risks by expanding the focus to linear versus circular economic frameworks. In a linear 'take make waste' model, consumption outstrips the ability to curb emissions, resources needed for the renewable energy transition are wasted and dependence on fossil fuels is exacerbated.

By broadening the focus to include a circular economy, government can improve their understanding of systemic risks - many of which are caused by the linear economic approach. CA research¹³ demonstrates the importance of understanding linear risks and identifies five typologies of risks including market, operational, business, legal and reputational risks:

- ❖ Linear risks are the risks a business is exposed to as a consequence of following the conventional 'take-make-waste' linear economic model and not moving towards a circular economy. Ignoring these external risks could have severe implications on business models which could be value destroying, and current approaches to risk management often overlook risks associated with linear business models.

¹¹ <https://igcc.org.au/regenerate-restore-circular-economy-discussion-paper-for-investors-released-today/>

¹² <https://www.unpri.org/sustainability-issues/environmental-social-and-governance-issues/environmental-issues/circular-economy?adredir=1>

¹³ <https://circularaustralia.com.au/wp-content/uploads/2022/03/NSW-Circular-Finance-Investment-Rapid-Review-2022.pdf>

- ❖ Five typologies of risks have been identified in the literature which include market, operational, business, legal and reputational risks. These include risks from future resource shortages and associated impacts on prices, restricted access to supply chains due to geopolitics and trade wars and their impact on market dynamics.
- ❖ Investors and lenders are exposed to linear risks through the businesses in their portfolio that continue to operate using linear business practices. These risks may negatively impact business assets, and subsequently devalue the investment and/or loan. They run the risk of stranded assets, i.e. assets that have suffered from unanticipated or premature write-downs or devaluations.
- ❖ Businesses, and thus by extension their banks and investors can insulate themselves against linear risks by adopting circular approaches. This can be a business opportunity for the finance and investment sector, however they need to embed circularity in their operational and strategic processes. Assessing and measuring linear risks in financial decision making is important for de-risking finance for circular approaches
- ❖ A few organisations have developed approaches and matrices to help businesses and financiers to identify and assess linear risks. These function as guides to understand risk across business practices or value chains.
- ❖ However, most conventional risk assessment and disclosures do not comprehensively address linear risks. Additionally, there are no metrics to quantify these risks.
- ❖ Challenges in correctly evaluating linear risks include the lack of historic track records to value them into business models, unpriced externalities both negative ones like linear risks and positive ones like the benefits of circular propositions, unfamiliarity with circular knowledge, lack of metrics particularly for non-financial impacts and the lack of a common language to inform stakeholders. Linear risk can be mitigated by adopting a proactive approach to stimulating circular business practices
- ❖ Financiers and businesses are increasingly recognising the value circular solutions bring. Research shows that circular strategies can curb investment risk and drive superior risk-adjusted returns. Primarily European banks and pension funds have already recognised the importance of the circular economy and started embedding it in their planning processes.
- ❖ The finance and investment sector can manage linear risks by improving their risk assessment frameworks to better balance linear and circular risks and opportunities as well as focus on the longer term. They can also support businesses they invest in or lend to in the transition to a circular economy with appropriate financial structures and technical advice.
- ❖ They also play an important role in raising awareness through dialogue with clients, helping them identify linear risks and transition to more circular solutions. They can require greater transparency through reporting and disclosure of linear risks from businesses they invest in or lend to. This will encourage businesses to build capacity, understanding and skill to ensure that linear risks within their portfolios or operations are appropriately identified, evaluated and addressed.

Government has an important role to drive understanding of the systemic risks associated with exposure to legacy linear risk assets by supporting research and development into both metrics to measure circularity, as well as research into alternative technologies and systems that promote circular business practices.

7. Addressing Data and Analytical Challenges

What are the priorities for ensuring that data-related initiatives already underway are tailored to meet the needs of firms and investors? What key sustainability data gaps or uncertainties faced by financial institutions in Australia should be prioritised by the CFR?

A key priority to ensure data-related initiatives underway are tailored to meet the needs of firms and investors - is the development and application of circular economy metrics. Metrics, like taxonomy, are fundamental to create a common language and method to identify sustainable business practices.

The federal Government through the Minister for the Environment Hon. Tanya Plibersek and her Circular Economy Ministerial Advisory Group (CEMAG) are developing a framework for circular economy to achieve the 2030 target with business. This framework will require metrics and indicators to enable the setting of targets and measuring outcomes.

CA has developed Australian Circularity Metrics¹⁴ including a user-friendly Circular Economy Metrics Guide developed in partnership with State and local governments, industry and researchers to understand the best metrics for Australia.

Measuring the circular economy in the Australian context is essential to enabling a safe and speedy transition to the new zero carbon zero waste future by 2030. The development of an Australian circular economy metrics guide is urgently required to assist governments, organisations and businesses set targets and measure progress towards a circular economy.

Australia can learn from other jurisdictions which have already developed strong metrics to measure progress to a circular economy, without reinventing the wheel. Research by Circular Australia demonstrates there are many established and relatively new metrics that can be used to measure the transition to a circular economy. These metrics have applications at different scales and can reflect different goals and perspectives, with various strengths and weaknesses which warrant exploration. Metrics help make it possible to measure job creation, develop new business cases for circular solutions, and monitor the gaps that need to be closed as we progress to a circular economy by 2030.

Funding the development of this research into a Guide in consultation with State and Territory governments, researchers, government and industry should be a key priority to fill this sustainability data gap. The guide will allow organisations and governments to set circular economy ambitions and measure progress while also inspiring action to design out waste and GHG emissions. Importantly, a Circular Economy Guide will catalyse action and commitment to achieve Australia's 2030 circular economy target.

In addition to helping make visible new opportunities for investment, this work would identify key policy, technology, and data gaps, and lay the groundwork for accelerated development of technical criteria for circular economy objectives in the Australian taxonomy as it becomes a priority in the development of the taxonomy.

9. Issuing Australian sovereign green bonds

¹⁴ <https://circularaustralia.com.au/circular-economy-metrics-creating-a-national-dialogue/>

What are the key expectations of the market around issuance of, and reporting against, sovereign green bonds? What lessons can be learned from comparable schemes in other jurisdictions? What other measures can the Government take to support the continued development of green capital markets in Australia?

Recommendation 1: Expand the scope of the Strategy to include circular economy in the taxonomy, disclosures and sustainable bonds including Sovereign Bonds with Circularity Targets

The development of Sovereign Bonds with Circularity targets would be an important step in leading the global market on circular economy finance. Government is well-placed to lead in developing this exciting new financial instrument leveraging the successful model used to catalyse the Green Bond market in Australia in 2004.

Development of these bonds will provide a template for other circular economy based bond issuance and provide Government with additional levers to issue bonds with sustainability targets. This will significantly open up sustainable funding opportunities for Treasury sending a powerful message to the market on circular economy. This will be well received by CA members.

10. Catalysing sustainable finance flows and markets

What role can the CEFC play to support scaling up of sustainable investment in Australia, as part of a more comprehensive and ambitious sustainable finance agenda? What are the key barriers and opportunities for the CEFC to support financing and market development in areas with significant climate co-benefits, including nature and biodiversity?

Recommendation 2: Ensure circular economy definitions and metrics are able to be adopted by the Clean Energy Finance Corporation (CEFC) and the National Reconstruction Fund (NRF) across its seven priority areas of the Australian economy.

In the same way the NRF is supporting the scaling up of sustainable investment in Australia, CEFC also has a pivotal role. It can provide catalytic funding to sponsor landmark transactions in the move to a Circular Economy. In particular, CEFC managed funds such as Australian Recycling Investment Funds can establish core investments in circular infrastructure and projects, and similar to carbon projects in the past, would stimulate wider financing by other financial institutions of structures, assets and business practices that promote circular economy.

The Dutch Roadmap Circular Finance 2030 (February 2022) identifies the these type of landmark deals as pivotal in paving the way for driving Circular Economy Finance.

“Gaining experience by closing landmark deals and fine-tuning circular propositions for financing a company that explicitly pursues circularity and applies at least one new element of circular finance constitutes a landmark deal. Insights gained from the experience—like how best to measure circularity, how to weigh risks and opportunities and how financiers can structurally use this information—can be shared with the sector. This will produce standard and publicly available documentation to spur future deals.”¹⁵

The success of the CEFC and NRF in landmark circular economy deals like this for example, is conditional on the development of circular economy taxonomy and metrics. Available data and metrics to identify and measure circularity of assets and projects are essential. They provide knowledge of impact of circularity on carbon and other climate co-benefits including nature and biodiversity. Not having this is a key barrier.

11. International Alignment

What are the key priorities for Australia when considering international alignment in sustainable finance?

12. Position Australia as Global Sustainability Leader

What are other key near-term opportunities for Australia to position itself as a global leader in sustainable finance and global climate mitigation and adaptation? What are some longer-term international sustainability goals for Australia where sustainable finance can play a role? What are the key market, regulatory and institutional barriers to increasing private sector engagement in blended financing opportunities? How can these barriers be overcome? What are other means to mobilise private sector finance toward sustainability solutions in the Indo-Pacific region?

Australia needs to align with global finance initiatives already underway in the circular economy. Globally, there are currently 12 taxonomies in place and at least a further 15 under development, including:

- The EU Sustainable Finance Taxonomy lists circular economy as the the fourth of six environment objectives.- this was introduced Q1 2023.
- The UK Sustainable Finance Taxonomy reflects the same six EU sustainability objectives of which circular economy is fourth¹⁶
- South Africa’s Sustainable Finance Taxonomy has adopted the same six EU sustainability objectives of which circular economy is fourth¹⁷
- More than 300 signatory banks representing almost half of the global banking industry have signed the Six Principles for Sustainable banking
- Both the EU and the International Capital Market Association (ICMA - who set voluntary standards for the Green Bond Principles (GBP) and have been guided by the work of the EU) released working papers in 2021 focussed on screening criteria and reporting metrics for circular projects.

The circular economy framework also directly enables eight Sustainable Development Goals.

¹⁵ <https://www.dnb.nl/media/in5jlebg/20220202-pdf-finance-roadmap-digest-en.pdf>

¹⁶ https://www.treasury.gov.za/comm_media/press/2022/SA%20Green%20Finance%20Taxonomy%20-%201st%20Edition.pdf

¹⁷ https://www.treasury.gov.za/comm_media/press/2022/SA%20Green%20Finance%20Taxonomy%20-%201st%20Edition.pdf

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| <p>Circular Economy directly enables 8 SDGs:</p> <ul style="list-style-type: none"> • 6 Clean Water & Sanitations • 7 Affordable & Clean Energy • 9. Industry, Innovation & Infrastructure • 11. Sustainable Cities & Communities • 12 Responsible Consumption and Production • 13. Climate Action • 14 Life Below Water • 15 Life on Land | <p>Circular Economy indirectly enables 2 SDGs:</p> <ul style="list-style-type: none"> • 1. No Poverty • 2. No Hungry |
|--|--|

Graphic 2: Sustainable Development Goals



The circular economy is a near & long-term goal for the Australian economy globally and in the region. Australia is behind the EU, Japan, China and Canada in activating a circular economy. There are substantial opportunities for Australia to be a world player developing new solutions and supporting our local neighbouring economies as well as participating in the global economy. In fact Australia can leapfrog solutions for example, green hydrogen, steel, aluminium, sequestration, critical minerals from waste streams, circular solar panels, and batteries. The circular economy is a framework that not only tackles carbon reduction and resource depletion but it also supports the regeneration of the natural environment including biodiversity loss, water supply and security.

Circular economy relies on designing out waste and pollution and designing in resource efficiency across the system. It is a systems transition that requires a whole of government

response. Treasury's adoption of circular economy principles within this Strategy is critical to the circular transition to 2030 in AuStralia.

Recommendation 3: Reference circularity (sustainable consumption and production) throughout the Strategy in relation to climate mitigation and productivity.

There is strong evidence that building a circular economy will improve productivity and drive more sustainable economic growth for Australia. Analysis by Circular Australia (formerly NSW Circular) shows circular economy initiatives can improve productivity and be part of the solution to more cost-effective living in the long run¹⁸ and this builds on national and international evidence:

Material consumption in Australia has more than doubled over the past 40 years. In 2018-19, Australia generated over 75 million tonnes of waste and it has the 4th lowest rate of material productivity in OECD. Australians consume the equivalent of 4.6 planets. Improving resource efficiency generates jobs. Circular economy also provides a successful economic framework to improve resource efficiency by designing out waste and pollution and enhancing manufacturing, repair and recycling.

Circular economy is essential to Australia achieving Net Zero. CA commends the government for embedding circular economy requirements in the sectoral decarbonisation plans - recognising the powerful role of circularity in achieving Net Zero.

Even in a fully renewable energy system, ongoing high consumption, a lack of circular design, engineering, recycling and manufacturing will still drive high emissions. Forty-five percent of all emissions are associated with the way we make and use products, materials and food. These overlooked emissions represent almost half of the Net Zero challenge and require circular solutions.

¹⁸<https://circularaustralia.com.au/wp-content/uploads/2020/11/the-circular-economy-opportunity-in-NSW.pdf>