4.3 CLIMATE-RELATED TRANSITION RISKS

Nationally Determined Contributions of Australia's top five trading partners

Important notice
This unit is part of a package of learning materials designed to support understanding of foundational concepts relating to climate-related financial disclosures. These learning materials do not constitute application or regulatory guidance for the preparation of climate-related financial disclosures and are not intended to represent legal or professional advice. We encourage you to seek your own professional advice to find out how the *Corporations Act 2001* (Corporations Act) and other relevant laws may apply to you and your circumstances, as it is your responsibility to determine your obligations and comply with them.

Key topics

- Nationally Determined Contributions of Australia's top five trading partners
- International climate targets and emissions reduction commitments
- Implications for Australian entities

Relevance for climate-related disclosures

For Australian entities engaged in global supply chains or export markets, changes in climate policy, carbon pricing or regulatory standards in other jurisdictions can give rise to transition risk. Understanding the Nationally Determined Contributions (NDCs) of Australia's major trading partners can help reporting entities anticipate potential policy changes, assess supplier and customer exposure and prepare for flow-on impacts across the value chain.

This unit provides a summary of the current NDCs of Australia's top 5 trading partners by export and import value, using Australian Bureau of Statistics (ABS) International Trade Data. For each country, the headline target and main domestic policies or programs settings are summarised and additional context is provided for how this could influence transition risk exposure for Australian entities.

Overview

Australia's trading relationships connect Australian entities to global efforts to reduce emissions. Under the Paris Agreement, all signatory countries are required to submit NDCs, which can be understood as national climate action plans that set out greenhouse gas emissions targets and related policy commitments, as well as how the country plans to adapt to the physical impacts of climate change.

What are the NDCs of Australia's top five trading partners?

Based on 2024 calendar year trade data from the ABS (released April 2025), Australia's top five two-way trading partners (by total value of goods and services traded)[1] are: China, the United States, Japan, South Korea, and India.

Of the five countries, China, the United States (US), Japan and South Korea have submitted a formal second NDC including a 2035 emissions reduction target, although the US submission is effectively annulled by its 2025 withdrawal from the Paris Agreement.[2] The information below is current as of December 2025.

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China

NDC targets: peak carbon dioxide (CO_2) emissions before 2030, reduce CO_2 emissions per unit of GDP to 65% below 2005 levels by 2030, achieve carbon neutrality before 2060. In China's latest NDC, it set 2035 targets for: reducing economy-wide net greenhouse gas emissions by 7-10% from peak levels, increasing the share of non-fossil fuels in total energy consumption to over 30%, expanding installed capacity of wind and solar to over six times 2020 levels (bringing the total to 3,600 GW), scaling up total forest stock volume to over 24 billion cubic metres.

Illustrative policies:

- National emissions trading system (ETS) covering power generation, steel, aluminium and cement – now covers 60% of national emissions and there are plans to further expand coverage.[3]
- Renewable energy expansion targets, including reaching 1,200 GW of installed solar and wind power by 2030.

Illustrative context for value chain risk: Australian exporters of iron ore, coal and energy-intensive materials may face reduced demand or increased scrutiny as Chinese buyers decarbonise, while importers of manufactured goods may need to consider embedded emissions which are the emissions created across a product's entire lifecycle, from raw materials to disposal processes, as product standards change.

United States

NDC targets: The US has withdrawn from the Paris Agreement.

Illustrative policies:

- Following passage of the *One Big Beautiful Bill Act* in July 2025, existing Federal Government clean energy and greenhouse gas emissions reductions programs and measures are being revised. Impacted entities should monitor developments in the US because the regulatory setting is changing.
- Individual states are proceeding with subnational actions; for example, California plans to achieve net zero emissions by 2045, has an ETS covering 80% of the state's emissions, and policies and programs covering renewable energy, industry, transport and the built environment.

Illustrative context for value chain risk: Australian entities supplying critical minerals, energy technologies, and manufactured goods to the United States may face transition risks or opportunities related to regulatory changes. For example, entities supplying manufactured goods to California may be affected by policies, such as product emissions standards or procurement requirements that favour low-emissions manufacturing processes.

Japan

NDC targets: reduce greenhouse gas emissions by 46% by 2030, 60% by 2035 and 73% by 2040 (from 2013 levels) and aim for net zero by 2050.

Illustrative policies:

- Act on Promotion of Global Warming Countermeasures (1998) – provides the overarching legal framework for Japan's climate action; revised several times, most recently to embed the 2050 net-zero target and updated through the 2025 Plan for Global Warming Countermeasures in February 2025.
- Japan's broader GX (Green Transformation) agenda that seeks to transform its entire economic and social system.

- Core mitigation and energy policies – including the 7th Strategic Energy Plan (2025), the GX 2040 Vision (2025), and the Act on Rationalizing Energy Use and Shift to Non-fossil Energy (2023), which together guide energy mix, efficiency, and transition pathways.
- Carbon pricing – a national carbon tax (Tax for Climate Change Mitigation, in place since 2012); a voluntary GX-ETS launched in 2023 transitioning to a mandatory scheme in FY2026 subject to business operators that emit carbon dioxide above a certain scale; and expansion of current subnational ETS programs operating in Tokyo Metropolis and Saitama prefecture to national scale.
- Renewable energy procurement – governed by the Renewable Energy Special Measures Act, introducing the Feed-in Tariff (FIT) in 2012 and transitioning to a Feed-in Premium (FIP) scheme since 2022.
- GX technology pillars – policy support for renewable energy (wind, solar and geothermal energy), secondary batteries (including EV), but also for next-generation nuclear reactors, carbon capture and storage (CCS/CCUS), and the use of hydrogen and ammonia co-/mono-firing in the power sector.

Illustrative context for value chain risk: Japan is a major market for Australian liquefied natural gas (LNG) and coal exports. Decarbonisation in Japan may shift energy import patterns and impact the demand for fossil fuels, clean energy exports or carbon intensity reporting from Australian suppliers.

South Korea

NDC targets: reduce emissions by 40% by 2030 (from 2018 levels), 53-61% by 2035 (from 2018 levels) and net zero by 2050.

Illustrative policies:

- The Korea ETS (K-ETS) functions as Korea's main carbon pricing instrument and has been in force since 2015 (covering the power, industrial, buildings and transport sectors, as well as the maritime, waste, and domestic aviation sectors).
- The Green New Deal, launched in 2020 as part of the broader Korean New Deal, channels public investment into green infrastructure, renewable energy, and sustainable industry.
- The target to phase out the sale of new internal combustion vehicles by 2035 is often cited, though appears primarily in modelling and proposals than in legislation.
- The Framework Act on Carbon Neutrality and Green Growth (2021) legally establishes the 2050 carbon neutrality goal, governance structures, climate budgeting, adaptation obligations, and just transition principles.
- The National Basic Plan for Carbon Neutrality and Green Growth (2023–2042) maps out sectoral emission targets and policy measures over multi-decadal horizons.
- Korea has committed its public sector operations to net-zero (in bound scopes) to lead by example.
- In the electricity/energy mix domain, the recent 10th Basic Electricity Plan tilts more toward nuclear as part of decarbonisation.

Illustrative context for value chain risk: South Korea's manufacturing-heavy economy is linked to Australian metal, fuel and agricultural exports. Supply chain partners may face new due diligence or emissions reporting requirements. Korean buyers may seek lifecycle emissions data.

India

NDC targets: reduce emissions intensity of GDP by 45% by 2030 (from 2005 levels), achieve 50% cumulative electric power capacity from non-fossil sources by 2030 (conditional on international support), create an additional carbon sink through additional forest and tree cover. Net zero by 2070. As of November 2025, India had not yet submitted its 2035 NDC to the UNFCCC but intends to by December 2025.[4]

Illustrative policies:

- National Action Plan on Climate Change (NAPCC, 2008) – India's overarching climate policy framework, built around eight 'National Missions' including solar energy, enhanced energy efficiency, sustainable habitat, and water conservation.
- Energy Conservation Act (2001, amended) – legal foundation for India's energy efficiency regime and the Perform, Achieve and Trade (PAT) scheme, which sets mandatory energy efficiency targets for large industrial consumers.
- Expansion of non-fossil fuel energy – India targets 500 GW of non-fossil fuel–based power capacity by 2030, consistent with its NDC and long-term net-zero commitment for 2070.
- National Green Hydrogen Mission (2023) – aims to make India a global hub for green hydrogen production, targeting 5 MMT annual output by 2030 and decarbonising hard-to-abate sectors.
- Indian Carbon Market (ICM), an emissions intensity-based carbon market under development, consolidating existing instruments such as PAT; intended to evolve into a national ETS.
- Voluntary carbon market and green finance mechanisms – includes the Green Credit Programme (2023) and India's Sovereign Green Bonds framework, promoting investment in low-carbon and nature-based projects.
- National Electricity Plan (2023) – sets out generation mix and capacity expansion strategies consistent with India's climate and energy targets, including growing roles for renewables and storage.
- State Action Plans on Climate Change (SAPCCs) – state-level plans that operationalise the NAPCC missions at subnational scale.

Illustrative context for value chain risk: India's transition may influence demand for Australian thermal coal, potentially reducing export volumes while creating opportunities for collaboration on clean energy technologies.

What are some potential implications for Australian entities?

Entities involved in cross-border trade, investment or sourcing may face transition risk as global climate commitments and policies are implemented. This may include:

- shifting demand for high- or low-emissions goods and services
- changing investment patterns or due diligence standards
- increased compliance or data requirements (e.g. carbon border adjustment mechanisms, product labelling, emissions verification)

However, there are also opportunities for entities to adapt to and capture new markets, such as green iron and green energy.

Key takeaways

- Climate-related transition risks can emerge through international value chains.
- Most of Australia's top five trading partners (China, Japan, South Korea and India) have formal NDCs under the Paris Agreement, with varying emissions targets and timelines, and policies and programs to achieve them.
- Policy developments in these and other countries can indirectly create climate-related transition risks for Australian entities through supply chain, customer or regulatory exposure.

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Sources and explanatory notes

[1] Australian Bureau of Statistics (2025) *International Trade: Supplementary Information, Calendar Year*
[2] For details, see the NDC registry on the UNFCCC website
[3] International Carbon Action Partnership (2025) *China officially expands national ETS to cement, steel and aluminum sectors*
[4] Business Standard (2025) *India to publish revised NDC for 2035 by Dec: Environment minister at COP30*