



Australian
Industry
Greenhouse
Network

AIGN submission

Climate Change Authority 2026 Annual Progress Advice & Safeguard Mechanism Review Consultation Paper

August 2026

1 Summary

AIGN supports Australia's obligations under the Paris Agreement to help limit global warming and raise climate ambition over time, so the world reaches net zero emissions by mid-century. Australia's path to net zero must strike a balance between ambition, investment, and competitiveness, ensuring that all sectors contribute to these goals.

Assessing, informing and improving policy

The Annual Progress Advice plays a valuable role in providing an objective, evidence-based assessment of Australia's decarbonisation progress across the whole economy, and can help identify opportunities to efficiently decarbonise across the economy, supported by a transparent and durable policy framework. **Supporting investment in decarbonisation**

Australia's transition requires significant investment in emissions reduction across the economy. Removing barriers to investment, ensuring stable, technology-neutral policies and improving policy coherence will support the accelerated deployment of commercially viable and efficient decarbonisation pathways.

Role of Safeguard Mechanism

The Government's Safeguard Mechanism Review should build on the success of the reformed Safeguard Mechanism and ensure it can continue to support efficient industrial decarbonisation, including by supporting ongoing investment in emissions reductions.

Supporting emissions-intensive trade-exposed industries

The competitiveness and carbon leakage challenges facing emissions-intensive, trade-exposed industries remain significant. Measures to support these industries should focus on maintaining international competitiveness and minimising carbon leakage, while also supporting Australia's strategic, energy security and Future Made in Australia objectives.

Onsite abatement and market flexibility

The Safeguard Mechanism should continue to encourage onsite emissions reductions while retaining the flexibility needed to deliver least-cost abatement across diverse sectors (both within and outside the Safeguard Mechanism). These objectives are complementary and support ongoing decarbonisation.

High-integrity carbon markets

Maintaining confidence in Australian Carbon Credit Units (ACCUs) and Safeguard Mechanism Credits (SMCs) will support efficient emissions reductions, investment in decarbonisation and the long-term integrity of Australia's climate policy framework.

2 Introduction

The Australian Industry Greenhouse Network (AIGN) welcomes the opportunity to comment on the Climate Change Authority's (CCA) consultation paper for its 2026 Annual Progress Advice, including advice on the 2026 – 27 Safeguard Mechanism review.

AIGN is a network of industry associations and businesses representing a broad cross-section of the Australian economy, including many of the nation's largest energy producers, energy users, manufacturers, resources companies and exporters. Many AIGN corporate members are directly subject to the National Greenhouse and Energy Reporting Scheme (NGERS) and the Safeguard Mechanism, and are actively investing in decarbonisation across industrial, manufacturing and resource operations.

AIGN supports Australia's commitment to the Paris Agreement and climate policy settings that are effective, evidence-based, economically efficient and equitable. Our long-standing policy principles emphasise transparent policy development, broad coverage and equitable sharing of emissions reduction responsibility, support for investment certainty, and the importance of maintaining Australia's trade and investment competitiveness as the economy transitions to align with a net-zero future.

The Annual Progress Advice provides an important opportunity to assess Australia's progress towards its emissions reduction objectives and to consider how the policy framework should continue to evolve. This includes consideration of the sequencing of different activities on the pathway to net zero, as well as whether changes in regulatory, technology and market conditions could accelerate our rate of decarbonisation.

AIGN supports an evidence-based approach and ongoing engagement with stakeholders to ensure Australia's climate policy architecture remains effective, supporting transition-aligned investment and decarbonisation alongside economic growth in line with the Government's Future Made in Australia plan.

3 Annual Progress Advice role in promoting ongoing decarbonisation

Australia has established several key elements of its climate policy architecture to support the transition to net zero by 2050. These include NGERS, the Safeguard Mechanism, the Australian Carbon Credit Unit (ACCU) Scheme, and other targeted sectoral policies. This was reinforced in both the Commonwealth's Net Zero Plan and Treasury's advice on Australia's Net Zero Transformation.

It is important that Australia's climate policy framework operates coherently and supports sustained emissions reductions across the economy, investment and efficient decarbonisation over the coming decades – which may include optimising policies to operate as intended, and identifying gaps in a whole-of-economy approach to reducing emissions.

AIGN corporate members are among the industrial entities that have identified and implemented readily deployable, relatively lower-cost abatement options. Future emissions reductions will increasingly depend on major capital investment, enabling infrastructure, technological innovation, streamlining planning and approvals processes, and the commercial deployment of emerging low-emissions technologies. Ongoing progress toward Australia's net-zero goals will be shaped by investment decisions, infrastructure delivery and technology development, as well as by the policy landscape.

As Australia moves towards its 2035 target and beyond, policy settings should enable investment, support innovation, accelerate delivery, and improve the coherence of Australia's broader climate policy framework. The interactions between the Safeguard Mechanism, the Net Zero Plan, electricity market reforms, carbon markets, carbon leakage measures, sustainable finance initiatives, Future Made in Australia initiatives and other relevant programs will increasingly influence emissions outcomes and investment decisions. These policies must operate cohesively to deliver efficient and durable emissions reductions.

The CCA's Annual Progress Advice has an important role in supporting this next phase of the transition. It can assess Australia's decarbonisation progress, whether the current policy architecture is capable of sustaining progress over time, where policies might require optimisation, and whether the policy suite is delivering emissions reductions across the whole economy. It should complement these reforms in other policy areas and help refine nation-wide emissions reduction policies.

AIGN supports evidence-based analysis and a structured framework for assessing Australia's transition. As decarbonisation becomes increasingly dependent on long-term investment decisions, transparent and consistent assessment will be essential to maintaining confidence among governments, investors and industry. Robust evidence should inform policy development and help distinguish between short-term fluctuations and structural changes in Australia's emissions trajectory.

The performance of individual policies, such as the Safeguard Mechanism, should be assessed as part of the economy-wide decarbonisation effort, because achieving net-zero by 2050 will require coordinated action across the economy. Progress should be evaluated against the overall trajectory of Australia's transition, acknowledging that an efficient transition will see different sectors decarbonise at different rates, reflecting technology availability, capital replacement cycles, infrastructure requirements and exposure to international competition.

AIGN supports the Annual Progress Advice as an objective assessment of Australia's progress to net-zero by 2050. This important work will help identify emerging risks and opportunities, and facilitate considered, evidence-based future policy decisions.

4 Reference pathways

AIGN notes the proposal to use reference pathways to track progress. If adopted, they should function as a transparent analytical tool to assess whether Australia is progressing towards its emissions reduction targets.

AIGN agrees that there are multiple pathways to achieving national targets, that progress will rarely be linear, and that individual metrics should be interpreted as signals for closer examination rather than definitive evidence that Australia is on or off track. The proposed approach is also appropriately framed as generally indicative rather than prescriptive.

That distinction must remain central as the framework develops. Reference pathways could help explain progress, identify emerging constraints and support informed policy discussion. They should not become de facto sectoral targets or be used to prescribe a particular technology mix.

Progress tracking should align with the pathways defined in the Net Zero Plan, the Government's Nationally Determined Contributions under the Paris Agreement, and previous CCA advice on the 2035 target and sector pathways, to support a clear and consistent analysis of Australia's climate policies. This could also be achieved by tracking progress directly against the Government's sector plans.

Australia's decarbonisation pathway will continue to evolve as technologies develop and mature, infrastructure is delivered, markets change and new information becomes available. Progress tracking should therefore remain adaptive, transparent and capable of accommodating credible alternatives that deliver equivalent or better emissions outcomes.

Consistent with national policy frameworks, the CCA should anchor its assessment in net emissions outcomes. Measures of technology deployment, infrastructure development and policy activity can provide useful leading or contextual indicators but cannot by themselves show whether emissions are falling. AIGN has previously recommended that the Evidence Platform distinguish clearly between outcome metrics, leading indicators and activity metrics, and avoid privileging visible technology adoption over other forms of abatement such as fuel switching, process redesign, operational optimisation, energy efficiency and carbon capture, utilisation and storage (CCUS).

This is particularly important where the proposed economic transformation metrics reflect only a subset of available technologies. The CCA's draft metrics include renewable electricity, battery storage, and household electrification including electric vehicle uptake. These are relevant indicators (and identified as priorities to 2030 in the Net Zero Plan), but progress cannot be assessed solely through the uptake of nominated technologies, or through a focus on electricity as the sole decarbonisation

pathway. For example, switching to a lower carbon molecular form of energy (e.g., low carbon liquid or gaseous fuels) should also be seen as an indicator of decarbonisation efforts.

The framework should remain capable of recognising diverse abatement pathways across sectors and should assess technologies by reference to their contribution to emissions reduction, system reliability, affordability and the broader transition. It should also be capable of reflecting the need to undertake preparatory activities to enable later priorities, such as the development of a renewable gas sector for sectors or processes that cannot be easily electrified.

AIGN supports sectoral analysis where it helps explain national emissions trends and identify practical barriers to abatement. However, reference pathways should not be used to allocate the national emissions reduction task between sectors without a separate and transparent assessment which includes appraisals of equity and equality, economic efficiency, technology availability and competitiveness.

The CCA's proposed pathways already illustrate the importance of recognising sector-specific circumstances. The draft pathways apply different trajectories and assumptions across electricity and energy, transport, agriculture, industry and waste, resources, the built environment, land and engineered removals. Electricity and transport use non-linear pathways, while most other sectors are modelled linearly.

The CCA should consider adopting non-linear pathways for other sectors where technological constraints, investment cycles and the expected timing of commercially viable abatement options mean that a linear emissions-reduction trajectory is not realistic. This would result in a more consistent treatment of uncertainty and underpinning assumptions.

The electricity pathway relies substantially on the Australian Energy Market Operator's Integrated System Plan (ISP) Step Change scenario. AIGN recognises the value of using established planning scenarios, however the Step Change scenario is not a forecast but the energy sector's advice on the optimal development pathway at that point in time in the National Electricity Market (NEM). Electricity sector outcomes will depend on the timely delivery of generation, transmission, storage, firming and essential system services – not only in the NEM but across all electricity grids. Delays or cost increases in these enabling investments will directly affect the pace and cost of decarbonisation in industrial, transport and built-environment sectors. The ISP is updated every two years to account for these and other factors.

The NEM should not be the sole focus of electricity sector decarbonisation and electrification, or of tracking progress toward emissions reduction goals. Extending electricity sector analysis beyond the NEM would be extremely beneficial to inform priorities to promote further decarbonisation within the electricity sector, and in other sectors (e.g. via electrification).

The CCA should test the sensitivity of its pathways to alternative electricity-system assumptions and clearly distinguish between an aspirational planning scenario and observed delivery. This work should complement the material effort across governments, regulators and industry to improve incentives for investment through the implementation of the NEM Review recommendations. Furthermore, the CCA could advise that further analysis beyond the NEM is required to deliver on the abatement potential of the sector.

The transport pathway also warrants further exploration. The consultation paper assumes a non-linear trajectory based on fleet transition and sustainable aviation fuel uptake and identifies further policy as necessary to electrify the heavy vehicle fleet. The objective should be framed more broadly as transport decarbonisation. Electrification will play an important role, particularly in light vehicles and some freight applications, but heavy transport, aviation and other uses may also require low-carbon liquid fuels, hydrogen, vehicle and route efficiency improvements and other technologies. The pathway should reflect realistic vehicle turnover, infrastructure requirements and technology availability. It must also consider the development of LCLF and other alternative fuels.

Similarly, the relatively modest reduction assumed for agriculture highlights the need for transparency in economy-wide burden sharing. Factors such as distinct measurement challenges, biological emissions and limited near-term abatement options may support a different policy approach, but they should not result in other sectors of the economy being expected to compensate for slower progress elsewhere. The CCA's analysis should make clear how sectoral pathways collectively align with the national target and what principles govern any adjustment between sectors. This is consistent with AIGN's position that all sectors should contribute proportionally to the national abatement effort, while recognising differences in technology pathways, timing and costs.

The proposed reference pathway framework should be used as an initial analytical tool, subject to several safeguards. The pathways should remain indicative, emissions-outcome focused, technology neutral and regularly reviewed. Their assumptions, limitations and sensitivities should be transparent. Most importantly, they should inform policy analysis without becoming prescriptive sectoral obligations or an indirect means of reallocating Australia's emissions reduction task.

5 Priority policy opportunities to accelerate the transition

AIGN welcomes the CCA's focus on identifying policy opportunities that can accelerate Australia's transition while supporting long-term economic prosperity. As Australia's climate policy framework matures, improving the effectiveness, coordination and implementation of existing measures will be important. Additional policies may be appropriate particularly in sparsely regulated sectors (e.g. heavy transport, the SME sector).

The transition to net zero will increasingly depend on enabling investment across multiple sectors simultaneously. Climate policy should therefore continue to focus on removing barriers to investment, improving policy coherence and supporting the accelerated deployment of commercially viable emissions reduction technologies. Achieving Australia's emissions reduction objectives will require coordinated action across energy, industry, transport, buildings, agriculture and land use, supported by infrastructure, skilled workforces, planning reform and efficient regulatory processes.

5.1 Enabling sectors

5.1.1 Electricity

The electricity sector is central to Australia's transition. The IEA and other international experts advise that electrification alone can reduce emissions, even while electricity is still in the process of decarbonising, as it is a more efficient energy source.¹

Additionally, continued decarbonisation of electricity generation is a crucial enabler of further emissions reduction across significant parts of the economy through industrial electrification, transport, buildings and emerging technologies – both within the NEM and outside it.

The pace of decarbonisation in electricity should continue to be assessed alongside broader system outcomes, including affordability, reliability and security. These considerations are not competing objectives but complementary requirements of a successful transition. As the NEM Review Expert Panel advised, this means that bulk renewable generation must be complemented by appropriate investment in shaping and firming services, as well as essential system services.

The ability of other sectors to electrify efficiently will depend on the availability of reliable, competitively priced low-emissions electricity delivered through timely investment in generation, transmission, storage and supporting infrastructure. The electricity sector will also be required to reduce their emissions to achieve net zero by 2050.

5.1.2 Gas

Many industrial processes require high-temperature heat, continuous energy supply or chemical feedstocks that cannot currently be provided economically through electrification alone. The Future Gas Strategy confirms that gas will continue to play an important, albeit smaller, role in 2050. This position is reiterated in the Net Zero Plan and in the Government's response to the senate inquiry into the Future Made in Australia Act.

¹ <https://www.iea.org/reports/net-zero-by-2050>;
<https://www.sciencedirect.com/science/article/pii/S0306261926004125>

Policy and investment frameworks should recognise the role of gas in supporting a successful transition. For many regional manufacturing, mining and processing operations, natural gas will remain an essential energy source while lower-emissions alternatives are not available.

The transition also presents significant opportunities for renewable and lower-emissions gaseous fuels, which have the potential to reduce emissions while making productive use of existing infrastructure and industrial equipment, including in applications where direct electrification remains challenging. Supporting the development of renewable gases is consistent with a technology-neutral approach that encourages innovation and allows businesses to adopt the emissions reduction pathway best suited to their operational circumstances.

5.2 Supporting all viable technology pathways

AIGN supports a technology-neutral approach to decarbonisation that allows businesses to pursue the most efficient emissions reduction opportunities available to them. Different sectors will adopt different combinations of electrification, renewable fuels, hydrogen, energy efficiency, process innovation CCUS, circular economy approaches and operational improvements depending on their individual circumstances.

The broad climate policy architecture should continue to prioritise emissions outcomes while facilitating access to all viable decarbonisation options. This will support innovation, encourage competition between technologies, and ensure decarbonisation is an equitably shared national responsibility.

The CCA's discussion of transport illustrates this point. Electrification is expected to play a vital role in reducing transport emissions from light vehicles. However, heavy vehicles, aviation, mining equipment, shipping and other difficult-to-electrify applications are likely to require low-carbon liquid fuels and other emerging technologies (as outlined in the sector plans). Additionally, Treasury's analysis shows these sectors will continue to require access to offsets in 2050, as it is not possible to achieve zero gross emissions. The policy objective should therefore be decarbonisation of transport rather than electrification.

5.3 Industrial decarbonisation and investment cycles

Industrial decarbonisation will largely occur through investment decisions made over many years. Many industrial facilities operate with long-lived assets that are replaced or substantially upgraded at particular points in their operating lives. This is why it is so important for the policy framework to recognise that emissions reductions will often occur in step changes associated with major capital investments when abatement options become more viable, rather than through smooth annual improvements.

Companies do not generally pursue investment in abatement in isolation of broader investment and operational decisions. Commonwealth policies, such as the mandatory climate related financial disclosures, also encourage businesses to integrate abatement activities into their strategies, including through consideration of the potential value of emissions reductions implied through various policy mechanisms, including ACCU markets.

This reinforces the importance of providing clear, durable and predictable policy settings, and taking a longer-term perspective of the efficacy of policy instruments. It is likewise necessary to consider how the broader system operates to support investment and operational decisions across the nation. Investment decisions made today will influence Australia's emissions profile for decades; policy stability promotes investments that contribute to national emissions reduction objectives – which may be delayed or redirected in an environment of policy uncertainty.

5.4 Ensuring efficient whole-of-economy decarbonisation

The consultation paper identifies opportunities to reduce emissions from households through electrification, rooftop solar and battery deployment. These initiatives have made an important contribution to Australia's emissions reduction effort and are likely to continue doing so. AIGN notes that the Government has recently announced an expansion of the Small-Scale Renewable Energy Scheme (SRES) to incentivise the uptake of these technologies in the small and medium enterprise (SME) sector and accelerate national emissions reductions.

Heavy transport should be more explicitly covered in the policy architecture, with the aim of ensuring efficiency across the economy, sharing the costs of decarbonisation, ensuring least cost options are identified, and supporting the competitiveness of the economy to achieve emissions reductions and economic prosperity. While light vehicles can contribute to reducing emissions now, it will take time and effort to develop, prove and scale the technologies required for the heavy transport sector.

As Australia's transition progresses, policy attention should continue to be guided by economy-wide outcomes. The CCA's identification of priority opportunities provides a useful basis for assessing where additional policy effort may be warranted, provided they are assessed against common principles, including environmental effectiveness, economic efficiency, equity, investment certainty and Australia's international competitiveness. The sequencing of activities required to ensure future ambitions, such as the development of LCLF markets, should also be considered.

Sectors facing greater technological or commercial challenges should continue to be supported through policy settings that facilitate innovation and investment while preserving sovereign capability and incentives to reduce emissions over time.

6 Safeguard Mechanism Review

The statutory review of the Safeguard Mechanism this financial year is an important opportunity to assess its role as the transition to net-zero accelerates. The Safeguard Mechanism is Australia's principal policy instrument to reduce emissions from the country's largest industrial facilities, and is a crucial component of the broader climate policy architecture. We welcome the CCA's acknowledgement that the Safeguard Mechanism has reduced both net and gross emissions, and has therefore been delivering on the legislated objectives introduced in the 2023 reforms.

AIGN notes that the CCA's role is focused on the Scheme's contribution to Australia's 2035 emissions reduction target and the extent to which the reformed Scheme is driving onsite abatement. These are important and related issues that cannot be considered in complete isolation from other key elements of the policy, and the review. While other elements of the review are not in the CCA's remit, they all work together to determine the level of emissions reduction drawn from the scheme, where those emissions reductions occur, and how the costs of achieving them are distributed. AIGN supports the CCA clearly acknowledging these interactions in its advice.

6.1 Supporting emissions-intensive trade-exposed industries through the transition

AIGN members continue to consider that a core objective of the Government's climate policy suite must be to maintain the international competitiveness and investability of Australian trade-exposed industries due to their economic and strategic importance.

The issues addressed in the consultation paper raise a broader policy question that applies to the design of the Safeguard Mechanism, and beyond it: how Australia should support emissions-intensive, trade-exposed (EITE) industries as emissions reduction ambition increases towards 2035.

Carbon leakage is a particular risk for internationally traded, emissions-intensive commodities where producers have constrained capacity to pass through carbon costs. AIGN notes that existing Trade-Exposed Baseline-Adjusted (TEBA) arrangements provide important but limited assistance to facilities that meet specific requirements. The final report of the Carbon Leakage Review found that TEBA is unlikely to effectively address carbon leakage in the medium to long term. The challenges facing EITE industries have not fundamentally changed since the Safeguard Mechanism reforms were introduced. Many facilities (for example, coal, oil and gas, steel, cement and aluminium facilities) continue to face uneven access to commercially available abatement technologies, long-lived and capital-intensive assets, infrequent investment cycles, dependence on enabling infrastructure that is still developing, and exposure to international competitors that do not face equivalent carbon costs. As Australia's emissions

reduction targets become more ambitious, these constraints will increasingly shape the pace and cost of industrial decarbonisation.

These industries are also strategically important to Australia. They underpin fuel security, international trade in energy and the energy security needs of our major trading partners, critical minerals processing, manufacturing capability, regional economies and the Government's Future Made in Australia agenda. Supporting their successful transition is therefore not solely a climate policy objective, but an important component of Australia's industrial, international engagement, energy and economic strategy. Maintaining Australia's attractiveness as a destination for investment in industrial decarbonisation and as a secure and reliable trading partner is essential both to Australia's long-term competitiveness and to reducing the risk of carbon leakage.

Australia's EITE industries operate as a connected system. Many sectors are linked through complex domestic supply chains, with the outputs of one industry providing essential feedstocks, fuels or intermediate products for others. Policy settings that adversely affect the competitiveness or viability of one strategically important industry can therefore have flow-on impacts across multiple sectors, increasing costs, reducing investment and weakening the resilience of Australia's broader industrial base.

The competitiveness challenges faced by EITE industries warrant careful consideration as part of the Safeguard Mechanism Review. If carbon leakage is not adequately addressed, differences in carbon constraints risk domestic production being displaced by overseas supply (which could be more emissions-intensive), resulting in no reduction in global emissions. Measures to address carbon leakage should support Australia's climate and broader industrial objectives without increasing the decarbonisation burden placed on Safeguard-covered facilities.

The Government has implemented several initiatives which, alongside pursuing other objectives, support EITE industries. Access to initiatives through ARENA funding, CEFC concessional finance, Powering the Regions Fund, and Production Tax Incentives can help support a more affordable emissions reduction pathway for EITE industries.

AIGN has consistently maintained that the most efficient way to achieve Australia's emissions-reduction targets is to apply an equivalent marginal abatement cost across the economy. AIGN also supports policy stability and careful implementation of the Safeguard Mechanism to ensure its effectiveness, provide investment confidence, and deliver least cost and timely abatement.

While Australia does not have a carbon price across the whole economy, the Safeguard Mechanism was established under a framework of proportional contribution from covered facilities which allows market signals to find lowest cost abatement. This approach is also reflected in the Explanatory Memorandum to the Safeguard Mechanism (Crediting) Amendment Bill 2022 – it is intended for “the reforms... [to] provide a supportive policy framework for industry... with the right signals to drive

investments in emissions reductions, and flexibility so that businesses find the lowest cost abatement, wherever it occurs.”²

6.1.1 Measures to support EITE industries

The consultation paper seeks views on whether decline rates should remain broadly uniform or become more differentiated across facilities or sectors. The competitiveness challenges faced by EITE industries are genuine and warrant careful consideration as part of the Safeguard Mechanism Review. Measures to address them should support Australia’s climate and broader industrial objectives without increasing the decarbonisation burden placed on Safeguard-covered facilities.

The challenges and opportunities associated with decarbonisation in each industry are covered in the submissions of AIGN association and corporate members. We encourage the CCA to continue to foster deep engagement and understanding with subject matter experts on these issues, including AIGN members.

6.2 Approach to determining share of 2035 target

The consultation paper provides a useful basis for considering the Safeguard Mechanism’s contribution to Australia’s 2035 emissions reduction target. The central policy question is not simply how much abatement should be expected from Safeguard-covered facilities, but how to meet the target in an economically efficient and achievable manner that is consistent with Australia’s broader industrial and climate policy objectives.

Australia’s emissions reduction targets are economy-wide commitments, delivered through a range of complementary policy measures across electricity, transport, buildings, agriculture, land use and industry. The Safeguard Mechanism is a key component of that framework, but it should not be expected to deliver an increasing share of Australia’s emissions reduction effort simply because it is an established regulatory mechanism

Australia’s approach to emissions reduction should continue to be considered on a whole-of-economy basis, recognising that climate policy is one of several complementary policy frameworks shaping Australia’s long-term economic transition. Decisions regarding the Safeguard Mechanism’s contribution to national emissions reduction targets should therefore be considered alongside broader Government objectives, including maintaining fuel security, international trade in energy and the energy security needs of our major trading partners, supporting critical minerals and other strategically important industries, strengthening sovereign manufacturing capability, and reducing carbon leakage. Addressing these objectives through a coherent policy framework will be essential to ensuring Australia’s transition is

² [ParlInfo - Safeguard Mechanism \(Crediting\) Amendment Bill 2023](#)

environmentally effective, economically efficient and supports long-term industrial competitiveness.

AIGN supports an approach that provides stable and predictable expectations for industry while avoiding unnecessary changes that increase investment uncertainty. The extent to which the Safeguard Mechanism contributes to future emissions reduction targets should be supported by transparent analysis demonstrating that the required emissions reductions are achievable and that complementary policies are in place to facilitate the necessary investment and technology deployment.

Should the Government decide to alter the coverage of the Safeguard Mechanism as part of the broader review, the methodology used to determine its contribution should remain transparent, predictable, based on clear principles, and taking a no-more-than-proportional-share approach to emissions reduction. An alternative approach should only be considered if there is compelling evidence that it would deliver superior environmental, economic and equity outcomes. That evidence should be made publicly available (in line with confidentiality requirements) to support transparent policy development. This will be critical to supporting investment in industrial decarbonisation.

6.3 Post-2030 decline rate

The CCA's preliminary analysis suggests that maintaining the current proportional share approach would imply a post-2030 decline rate of somewhere between approximately 4.5 and 7 percent per annum, depending on the level of Australia's 2035 target.

The current 4.9 percent annual decline rate is structured to align with Australia's legislated target of net-zero emissions by 2050. Currently, the legislation provides an indicative 3.285 percent per annum decline rate to 2050 (noting the actual decline rate is finalised in five-year blocks to align with NDCs), which implies that it should not be necessary to aggressively accelerate the decline rate to reach *net* zero. This would contribute to a more predictable investment environment given the long lead times on major investments, including decarbonisation projects.

The reformed Safeguard Mechanism commenced operation relatively recently, and there is not yet sufficient evidence to assess its longer-term impacts on investment behaviour, technology deployment or emissions outcomes. It was subsequently complemented by broader mechanisms to inform private investment and operational decisions, such as the climate related financial disclosure framework.

Decisions regarding post-2030 settings should be informed by comprehensive analysis that considers Australia's emissions targets alongside the availability of abatement technologies, infrastructure constraints, investment lead times, carbon leakage risks and interactions with other climate and industry policies.

If changes to post-2030 decline rates are proposed, this must be based on transparent modelling and evidence, supported by appropriate consultation and sufficient implementation lead times to preserve investment confidence. Changes should also be considered against the decline rates implied by the Net Zero Plan, Treasury modelling and Australia's NDC, which determine the current policy framework.

AIGN urges both the CCA and the Government to make any modelling work on this matter publicly available.

6.4 Measuring onsite abatement

The Safeguard Mechanism is designed as a market mechanism that provides liable entities with options to meet their obligations in a variety of ways, including facilitating abatement elsewhere if that is more efficient than onsite abatement. This design feature reinforces the principle of carbon dioxide equivalency. Onsite abatement, while supported, is not inherently superior to abatement achieved either by other covered entities (via SMCs) or in sectors not covered by the Safeguard Mechanism (through ACCUs).

AIGN agrees that measuring the extent to which the Safeguard Mechanism is driving onsite abatement is inherently challenging. The CCA's proposal to assess onsite abatement using multiple sources of evidence rather than relying on a single metric is sensible. Gross emissions, emissions intensity, facility-level information and case studies can each contribute to understanding how the scheme is influencing investment decisions, provided their limitations are recognised.

Emphasis should be placed on evidence demonstrating actual investment in emissions reduction projects, including projects that are part of broader investment and operational strategies. For example, a facility may invest in efficiency improvements to reduce both costs and emissions. The most meaningful measure of the scheme's effectiveness is whether it is changing investment decisions that lead to sustained reductions in emissions intensity over time. This should include projects that have been completed, are under construction or have reached final investment decision, recognising the long lead times associated with major industrial decarbonisation projects.

The analysis should also recognise that industrial decarbonisation is often uneven. Major emissions reductions commonly occur when facilities undertake substantial capital upgrades or replace long-lived assets, rather than through smooth annual improvements. Short-term trends should be interpreted in this light, particularly during the early years of the reformed Scheme.

6.5 Onsite abatement and complementary flexibility

The consultation paper raises the possibility of introducing additional incentives for onsite abatement, including limiting or discounting the use of ACCUs above specified thresholds. Such proposals should be approached cautiously. The relationship between onsite abatement and compliance flexibility should not be characterised as a binary choice.

As noted in section 6.4 above, the Safeguard Mechanism was intentionally designed to reduce emissions at least cost by allowing facilities to combine onsite abatement with access to high-integrity carbon units. This flexibility recognises that all abatement is equal from the perspective of atmospheric greenhouse gas concentrations, and that economically viable onsite abatement opportunities vary significantly between facilities and over time.

Facilities facing limited near-term abatement opportunities should continue to have access to credible market mechanisms while technologies mature and enabling infrastructure becomes available.

Restricting access to flexibility mechanisms may increase the cost of compliance without necessarily accelerating the deployment of technologies that remain technically or commercially unavailable. Higher compliance costs will not automatically translate into greater emissions reductions where abatement remains constrained by technological, infrastructure or economic barriers.

Australia's emissions accounting systems, including NGERS and the ACCU Scheme, are based on a carbon dioxide equivalency (CO₂-e) framework that is internationally recognised and applied. Both policies are regularly updated to ensure integrity. This is a credible policy approach to a complex task. Administratively, one cannot expect to perfectly reflect reality.

Introducing additional restrictions on ACCU use would not change the availability of onsite abatement for industries where these are inherently limited, nor overcome the technological, infrastructure and economic barriers preventing onsite abatement. Access to ACCUs will be crucial for industries with residual emissions in 2050, to enable them to meet net zero obligations while maintaining viability and pursuing further efforts to reduce emissions.

It will also increase compliance costs for facilities with fewer commercially available abatement options and could reduce liquidity in the carbon market. As the CCA itself notes, tighter restrictions may create pressure for offsetting changes elsewhere in the Scheme, including less stringent decline rates or additional flexibility mechanisms.

Moreover, any proposal to discount ACCUs raises broader questions regarding the operation and integrity of Australia's carbon market. The ACCU Scheme is founded on the principle that each issued ACCU represents one verified tonne of emissions

reduction or removal. Introducing differentiated treatment for compliance purposes risks undermining the fungibility that supports efficient market operation and could reduce market liquidity, increase administrative complexity and weaken investment signals for emissions reduction projects.

For these reasons, AIGN continues to support the principle that a verified tonne of emissions reduction should be recognised consistently across Australia's carbon market. Maintaining confidence in the environmental integrity and fungibility of ACCUs supports efficient trading, encourages investment in emissions reduction projects and reinforces the least-cost principles underpinning the Safeguard Mechanism.

The Government can also support abatement by removing barriers to investment in abatement across the whole economy. This approach has the potential to bring down the costs of abatement in several sectors, including beyond the Safeguard Mechanism, and would better facilitate accelerated decarbonisation than raising the cost of delivering the abatement that is currently accessible.

6.5.1 Credible carbon markets

The continued development of a credible and liquid Australian carbon market should be recognised as a policy objective in its own right. High-integrity carbon markets facilitate least-cost emissions reduction across the economy, support investment in land-based and industrial abatement projects, and provide an important mechanism for managing transitional costs while Australia's industrial and energy systems continue to decarbonise. Policies that unnecessarily reduce market liquidity or create uncertainty regarding the treatment of ACCUs may have consequences extending well beyond the Safeguard Mechanism itself.

The principle of least-cost emissions reductions holds true in the international context. AIGN supports linking to credible, high-integrity international carbon markets, with the appropriate safeguards to ensure any international units used for domestic compliance applications preserve market integrity and support efficient and durable emissions reductions.

7 Conclusion

AIGN appreciates the opportunity to contribute to the CCA's 2026 Annual Progress Advice and its advice to Government on the forthcoming review of the Safeguard Mechanism.

AIGN looks forward to continuing to work constructively with the CCA and the Australian Government as this work progresses.