

Climate Change Authority (CCA)

Via online portal

7 August 2026

Re: 2026 Annual Progress Advice consultation paper

Thank you for the opportunity to provide a submission on the *2026 Annual Progress Advice consultation paper*.

The Energy Efficiency Council (EEC) is the peak membership association for organisations that are unlocking the power of efficiency, electrification and energy flexibility to deliver a prosperous, net zero Australia. Our members include technology suppliers, energy service providers, major energy users, governments, education providers and NGOs.

The EEC has focused its response on those aspects of the consultation paper most relevant to its members, many of whom have a direct interest in the operation and future effectiveness of the Safeguard Mechanism (SGM), which will play a critical role in determining the pace and scale of industrial decarbonisation over coming decades.

While the consultation paper covers a range of issues, the EEC's comments focus principally on the SGM's contribution to national emissions targets and its effectiveness in driving genuine on-site abatement.

Question 6A

The Safeguard Mechanism's current baseline decline rate is calibrated so the scheme delivers a proportional share of Australia's 2030 emissions reduction target.

- **What are the advantages and disadvantages of continuing this approach beyond 2030?**
- **If the proportional share approach should be maintained, how should it take account of Australia's 2035 target range?**

The current proportional share approach has the advantage of providing a relatively predictable and transparent framework for industry. It links the SGM's trajectory to Australia's broader climate objectives and provides a clear rationale for baseline decline rates. It also offers investment certainty by signalling a long-term decarbonisation pathway.

However, the proportional share approach has limitations.

Most importantly, it focuses on the quantity of abatement attributed to the SGM rather than the quality of that abatement. If a growing proportion of compliance is achieved through offsets rather than onsite emissions reductions, the SGM may appear to be contributing its proportional share of national emissions reductions while not delivering direct abatement in

SGM-covered sectors. Furthermore, where compliance relies heavily on offset methodologies that have been subject to sustained integrity concerns, there is a risk the SGM is incentivising emissions reductions that are not genuinely *additional*, or at minimum, reductions that may not be permanent.

The EEC is concerned that continuing a proportional share approach beyond 2030 without addressing these underlying issues could create a situation where Australia's targets are being achieved on paper through the surrender of units that do not correspond to real, additional and permanent emissions reductions – particularly reductions in the industrial sector.

If the proportional share approach is retained, it should not simply be recalibrated against Australia's 2035 target range. Any future calibration should also account for:

- the expected balance between onsite abatement and offsets;
- the demonstrated integrity of offset supply;
- the availability of decarbonisation technologies across covered sectors;
- whether emissions reductions are occurring in covered facilities rather than being predominantly outsourced through credit purchases.

Progress toward national targets should be assessed against real emissions reductions rather than compliance outcomes alone.

Question 6B

If a different approach to setting the baseline decline rate should be used (instead of the proportional share approach), what should it be and why?

There is merit in moving beyond a purely proportional-share framework toward an approach that prioritises genuine emissions reductions within covered sectors.

Rather than asking solely what share of national emissions reductions should be delivered by the SGM, the framework should ask what level of onsite industrial decarbonisation is required to place covered sectors on a credible pathway toward net zero.

This approach would place greater emphasis on:

- actual emissions performance at covered facilities;
- deploying on-site emissions reduction technology and process improvements;
- reducing reliance on offsets over time as technologies mature.

A revised framework could maintain declining baselines but incorporate stronger expectations regarding the proportion of compliance achieved through direct emissions reductions. This would improve confidence that emissions reductions attributed to the SGM are contributing meaningfully to Australia's long-term climate objectives, and genuinely decarbonising industry.

The Government and CCA undertook detailed modelling of the industrial sector as part of the 2035 target-setting process. This modelling could be used to derive relatively accurate estimates of the on-site emissions abatement that the SGM could deliver, taking into account the current and projected costs and availability of abatement technologies.

Question 7

Should decline rates differ across facilities or sectors beyond existing arrangements for TEBA facilities? What evidence would support differentiation, and what principles should guide how any differentiation is applied?

The EEC is cautiously supportive of introducing additional sector-specific or facility-specific decline rates beyond existing arrangements.

The case for introducing greater differentiation within the SGM is that facilities and sectors face different abatement opportunities, costs and constraints, which may justify different treatment. Carefully designed differentiation can therefore improve economic efficiency and support investment in genuine emissions reductions. However, any differentiation should be balanced against the need to maintain scheme integrity, avoid creating loopholes, and preserve strong incentives for abatement.

In the past, sector-specific concessions have weakened the operation and perceived credibility of the scheme. For example, several sectors have benefited from arrangements that reduce the practical impact of the SGM, including delayed transitions to industry-average baselines or baseline settings that are unlikely ever to bind.

To the extent that further differentiation is introduced, it should be designed to avoid creating similar outcomes, guided by the following principles:

- evidence-based assessment of genuine technical abatement constraints;
- transparency and simplicity;
- maintenance of environmental integrity;
- consistency with Australia's long-term emissions reduction objectives;
- avoidance of windfall gains or reduced incentives to decarbonise.

Question 8

How should we assess the extent to which the Safeguard Mechanism is driving onsite abatement? What metrics, data sources or methods should we use, and how should we account for changes in production, operational conditions and emissions variability?

The most important measure of success is whether the SGM is driving genuine emissions reductions at covered facilities.

Assessment of onsite abatement should include:

1. Absolute emissions

Total emissions from covered facilities should remain the core metric. Emissions intensity changes should not mask increases in overall emissions and should always be assessed alongside production data to show whether genuine operational or technological improvements are occurring.

2. Compliance pathways

Government should regularly report:

- emissions reduced through onsite abatement;
- emissions reduced through offsets;
- volumes and types of ACCUs surrendered;
- use of Safeguard Mechanism Credits (SMCs); and
- the reasons facilities provide for relying on offsets rather than onsite abatement, including clearer information on economic, technical, and operational constraints.

This transparency would show whether facilities are genuinely decarbonising or primarily purchasing compliance and help identify where additional policy support is needed to overcome barriers to onsite abatement.

3. Technology deployment

Assessment should track the rollout of key decarbonisation measures, including electrification, renewable energy integration, methane reduction, fuel switching, effective carbon capture, and process efficiency upgrades.

4. Facility-level reporting

More detailed public reporting would clarify which facilities are achieving real emissions reductions and which remain reliant on offsets. Production changes should be considered but not used to obscure actual emissions outcomes.

Question 9

What evidence is available on onsite abatement activities at Safeguard facilities, including for activities planned, underway or completed since the reforms commenced? Where possible, please provide information on emissions impacts, timing, costs and barriers.

Available evidence suggests that onsite abatement under the SGM remains relatively modest compared with the growing use of offsets.

According to recent Safeguard data, aggregate onsite emissions from covered facilities fell by approximately 2.3% in 2024–25, while offset use increased significantly, increasing by

approximately 45% from the previous year.¹ This suggests that while some facilities are pursuing emissions reduction activities, the current framework continues to permit substantial reliance on offsets as a compliance pathway.

The EEC is aware of examples of operational improvements, electrification initiatives, methane reduction projects and energy efficiency improvements occurring across industry.

However, the current public reporting framework makes it difficult to comprehensively assess:

- the scale of emissions reductions achieved;
- the costs of implementation;
- comparative effectiveness against offset purchases;
- future abatement pipelines.

This lack of transparency reinforces the need for stronger reporting of actual onsite abatement outcomes.

A more comprehensive evidence base should be developed to determine whether observed emissions reductions are being driven by technological change and operational improvements, rather than fluctuations in production, market conditions or offset use.

Question 10

Should the Safeguard Mechanism play a stronger role in encouraging onsite abatement, relative to allowing flexibility through ACCU use?

- **What objectives should guide this assessment?**
- **Are additional incentives or constraints warranted?**
- **If so, what options should be considered and why?**

Yes - the EEC considers the SGM should play a stronger role in encouraging onsite abatement relative to reliance on ACCUs.

Objectives to guide assessment

The assessment should be guided by the following objectives:

- achieving genuine emissions reductions;
- maintaining the integrity of the scheme;
- supporting industrial decarbonisation;
- ensuring compliance outcomes correspond to real climate outcomes;
- promoting investment in low-emissions technologies.

¹ Clean Energy Regulator, [2024–25 Safeguard Mechanism data insights](#).

Additional incentives for onsite abatement

The evidence to date suggests the current settings continue to favour offset use over direct emissions reductions.

This is particularly concerning given ongoing integrity concerns regarding several of the most commonly surrendered ACCU methodologies, including Human-Induced Regeneration, Landfill Gas and Avoided Deforestation credits.

If offsets become the dominant compliance pathway, the SGM risks becoming an offset procurement scheme rather than an industrial decarbonisation framework.

To that end, additional incentives to promote on-site abatement are warranted. Incentives should reduce risk, lower capital costs, or improve the business case for emissions reduction projects. Examples could include grants, low-cost finance, tax incentives, and enhanced crediting arrangements that improve the economics of on-site abatement investments while preserving the integrity of the SGM. Where grants are provided, they should be targeted towards projects that place facilities on the most direct and durable pathway to net zero. Funding should avoid supporting projects that deliver short-term emissions reductions but risk locking in higher-emitting technologies or delaying deeper abatement over the longer term. For example, some fuel-switching projects may reduce emissions in the near term while slowing the transition to zero-emissions alternatives.

Potential reform options

The EEC considers the following reforms worthy of consideration:

- stronger incentives for electrification, fuel switching, and other emissions-reduction technologies;
- limiting access to offsets unless facilities can demonstrate practical steps and/or investments underway to genuinely reduce emissions;
- stronger integrity requirements for ACCUs used for compliance;
- adjustments to the Industrial and Commercial Emissions Reduction (ICER) method to better support industry and encourage ACCU generation from genuine onsite abatement;
- reforms to SMC arrangements to better align credit creation with additionality principles;
- regular reviews to assess whether offset use is displacing economically and technically feasible onsite emissions reductions.

Concluding remarks

The SGM is the centrepiece of Australia's industrial decarbonisation framework. If it fails to drive meaningful onsite abatement - and compliance increasingly relies on offset methodologies whose integrity remains contested and often sits outside the industrial sector - the Scheme risks imposing significant cost and regulatory complexity on businesses without delivering the industrial decarbonisation it was designed to achieve.

For this reason, the EEC considers that strengthening the integrity, transparency and effectiveness of the existing framework should be the priority before expanding coverage, lowering thresholds, or extending the Scheme to additional facilities or sectors.

Future review and reform should focus on ensuring the SGM delivers genuine industrial decarbonisation, with a much stronger emphasis on onsite emissions reduction, supported only by credible, transparent, high-integrity offsets where they are genuinely required.

Ultimately, the success of the Scheme should be measured not by the volume of credits surrendered or compliance achieved on paper, but by whether it delivers real, durable emissions reductions that meaningfully contribute to Australia's climate commitments, support the transition to net zero, and decarbonise Australia's largest industrial facilities - the very purpose for which the Scheme was established.

If you would like to discuss the matters raised in this submission, please email me at Jeremy.Sung@eec.org.au.

Sincerely,

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