

Department of Climate Change, Energy,
The Environment and Water
Via online portal

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Re: 2026-27 Safeguard Mechanism Review

Thank you for the opportunity to provide a submission on the *2026-27 Safeguard Mechanism Review*.

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.

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Introduction

The Safeguard Mechanism (SGM) is the centrepiece of Australia's industrial decarbonisation framework. However, compliance increasingly relies on the use of offsets, particularly from land sector-based methodologies. As a result, the Scheme may not be fully realising its potential to drive emissions reductions or improvements in energy management within covered facilities, nor the wider sector.

At a high level, SGM reform should:

- **Support a globally competitive, low-emissions industrial sector**, including through proactive measures to address carbon leakage risks and maintain the competitiveness of Australia's trade-exposed industries.
- **Drive a stronger emissions reduction trajectory**, consistent with achieving *at least* the upper end of Australia's proposed 2035 emissions reduction target of 62-70%.
- **Prioritise genuine emissions abatement**, strengthening incentives for on-site decarbonisation, technology deployment and investment in low-emissions production.
- **Align with Australia's broader industrial and economic priorities**, including Future Made in Australia and the objectives of the Net Zero Economy Authority, to position Australian industries to capture opportunities from global decarbonisation.
- **Balance immediate improvements with long-term reform**, ensuring the SGM remains fit for purpose in a rapidly evolving economic, technological and policy environment.
- **Be underpinned by robust modelling, scenario analysis and transparent evidence**, to strengthen policy credibility, inform decision-making and support constructive stakeholder engagement.

General comment

EEC members are broadly supportive of the role of the Scheme in providing a long-term signal for emissions reduction investment and recognise that it has become an increasingly important consideration in business decarbonisation planning.

At the same time, ongoing policy refinement will be required to ensure the SGM continues to drive investment in practical decarbonisation opportunities, particularly industrial electrification, energy efficiency and other emissions reduction activities within covered facilities, as well as the broader industrial ecosystem.

EEC member discussions identified several opportunities to strengthen the Scheme's effectiveness and ensure it remains aligned with Australia's broader decarbonisation objectives.

Meeting the 2035 target

The EEC is on record as having supported a 2035 emissions reduction target of 75% below 2005 levels, a stronger target than the Australian Government's target of 62-70%. This is based on analysis of a target that would be more consistent with Australia playing its 'fair share' to help limit global temperature rises to less than 2° Celsius and ideally 1.5° Celsius.

We therefore support calibrating the SGM to meet covered facilities' share of emissions reductions consistent with achieving economy-wide reductions of *at least* 70% below 2005 levels.

On-site abatement and use of offsets

Emissions reductions within covered facilities should remain the priority outcome wherever practical. Industrial electrification, energy efficiency and fuel switching will be among the most significant drivers of long-term emissions reduction across many sectors of the economy, and the SGM should continue to support investment in these activities.

Offsets will continue to play an important role in achieving net zero by 2050 and beyond, particularly where emissions are technically difficult or uneconomic to eliminate. However, greater policy clarity is needed regarding the role of offsets within Australia's long-term decarbonisation pathway and the relationship between offset use and direct emissions reduction within facilities covered by the Scheme.

Much of the current abatement supported through offset markets occurs outside the industrial sector. There would be value in strengthening incentives for emissions reduction activities within Australian industrial facilities, including through industrial energy efficiency, electrification and other forms of industrial decarbonisation. Greater alignment between carbon market outcomes and Australia's industrial decarbonisation objectives could help maximise economy-wide emissions reductions while supporting the transition of Australia's industrial base.

Additional support may also be needed to help businesses identify, implement and verify emissions reduction opportunities. Many businesses face barriers relating to information, capability, financing and project complexity, even where cost-effective abatement opportunities exist. Addressing these barriers would improve the Scheme's ability to drive genuine emissions reductions.

Carbon market integrity must remain a priority. Emissions reductions should be achieved at the lowest reasonable cost while maintaining high levels of environmental integrity, transparency and confidence in the system.

BOX 1: Unlocking industrial decarbonisation through existing ACCU frameworks

There is scope to improve the competitiveness of industrial energy efficiency and electrification projects within the ACCU scheme. The Industrial and commercial emissions reduction (ICER) method could be refined to help unlock significantly greater emissions reductions from Australian industry. Potential opportunities include:

Rethink additionality for industrial projects

Current additionality requirements do not always reflect how businesses make investment decisions, where ACCUs are typically one of several factors supporting a project. Alternative approaches, such as industrial-specific additionality tests or technology deployment benchmarks, could better recognise genuine emissions reduction opportunities while reducing administrative burden and improving participation by industrial projects.

Make industrial energy efficiency and electrification more competitive

Better outcomes could be achieved through recognising fuel-switching projects using forward-looking electricity emissions factors, better aligning ACCU incentives with existing government funding programs, and exploring mechanisms that provide greater revenue certainty where carbon market demand is insufficient.

Support larger and longer-lasting industrial projects

Longer-term "master project" structures could allow new activities and participants to be added over time, aggregating smaller projects into opportunities of sufficient scale to participate in carbon markets. Similar concepts already exist within parts of the ACCU scheme, meaning this would build on established mechanisms rather than create entirely new frameworks.

Improve method development and continuity

Greater certainty and continuity in ACCU method development would improve investor confidence and support long-term decarbonisation projects. Streamlining the development of new methods and reducing gaps between expiring and replacement methods would help maintain momentum for industrial emissions reduction activities.

Together, these relatively modest changes could increase the attractiveness of industrial energy efficiency, electrification and fuel-switching projects within the ACCU scheme. Importantly, many of the required levers already exist. Targeted refinements could deliver more genuine industrial decarbonisation through both the ACCU scheme and the SGM without requiring fundamental policy or regulatory reform.

Differentiated decline rates

The EEC recognises that industries face different technical and economic pathways to decarbonisation. The availability, cost and maturity of abatement technologies vary considerably between sectors, and some facilities face greater barriers to reducing emissions than others.

Any move towards differentiated decline rates would need a clear policy rationale and careful assessment to avoid unnecessary complexity, unintended consequences or distorted investment decisions.

At the same time, there may be a case for stronger obligations for sectors closely associated with ongoing fossil fuel production, particularly in the context of Australia's broader climate commitments. This should be considered as part of a wider assessment of whether the Scheme appropriately reflects differences in each sector's role, emissions profile and capacity to decarbonise.

Whatever the setting and application, differentiated decline rates are not a substitute for the complementary policies needed to overcome sector-specific barriers and enable investment in electrification, energy efficiency and other forms of industrial abatement. The SGM should retain sufficient flexibility to accommodate genuine differences between sectors, while ensuring all covered facilities make a fair and meaningful contribution to Australia's emissions reduction objectives.

Complementary measures

The SGM is only one component of Australia's broader industrial decarbonisation framework, and its effectiveness will be heavily influenced by the policy, regulatory and infrastructure settings that surround it. While the Scheme can create a strong incentive to reduce emissions, many decarbonisation opportunities are currently constrained by barriers elsewhere in the system.

Network connection

Electricity network connection processes, transmission and distribution capacity, planning requirements and broader regulatory approvals remain significant challenges for industrial electrification projects. Even where strong business cases for emissions reduction exist, project delivery can be delayed by infrastructure and regulatory constraints that sit outside the scope of the SGM. Ensuring these barriers are addressed will be critical to enabling businesses to respond to the signals created by the Scheme.

Administrative ease

There is also a need for greater coordination across climate-related policy and reporting processes, including climate-related financial disclosures, emissions reporting frameworks, transition planning requirements, accounting standards and offset policies. Better alignment between these processes would reduce administrative burden, improve consistency and support more efficient decision-making, while allowing businesses to focus resources on delivering emissions reductions rather than navigating overlapping compliance requirements.

Businesses can also face challenges navigating multiple support programs, funding mechanisms and policy initiatives across different levels of government. Clearer, more

integrated policy settings and simplified access to support measures would improve uptake, strengthen investment confidence and help accelerate the deployment of emissions reduction projects.

Ultimately, the effectiveness of the SGM will depend not only on its design, but also on the extent to which it is supported by coordinated infrastructure, regulatory and investment frameworks that enable businesses to pursue practical and cost-effective decarbonisation opportunities.

Industrial decarbonisation through the ACCU market The SGM can play an important role in addressing broader policy challenges across Australia's decarbonisation landscape.

One challenge is the long-term sustainability of Australia's reliance on land-sector abatement.

DCCEEW has highlighted the importance of preserving land-sector abatement capacity to help deliver the "net" component of net zero emissions by 2050. Yet a significant share of the ACCUs currently used for Safeguard compliance are generated through land-sector activities. Over time, continued reliance on these offsets may become increasingly constrained.

A second challenge is the "missing middle" of industrial decarbonisation. Small and medium-sized enterprises (SMEs) account for a substantial share of Australia's economic activity and emissions but often struggle to access decarbonisation support. These businesses are frequently too small to participate in major funding programs and face significant barriers to developing emissions reduction projects at a scale that is commercially viable. Despite this, achieving net zero will not be possible without meaningful emissions reductions from this segment of the economy.

Both challenges could be addressed, at least in part, through targeted reforms to the ACCU framework. As outlined in Box 1, changes to the ICER method could enable project aggregation through master project arrangements, allowing smaller industrial facilities to participate in the ACCU market and unlock additional decarbonisation opportunities.

Increasing the supply of ACCUs generated from industrial decarbonisation projects would preserve compliance flexibility for Safeguard entities while strengthening the link between the scheme and real-world emissions reductions in industry. It would also gradually reduce pressure on land-sector offsets, improving the long-term resilience and sustainability of Australia's carbon market.

Trade exposed industries and carbon leakage

The EEC does not have a preferred approach to managing trade exposure. The following principles should guide an approach to policy design:

- measures that maintain the competitiveness of genuinely trade-exposed industries have a role in the design of the SGM;
- carbon leakage protections should not weaken incentives for energy efficiency, electrification and process improvement;
- assistance should be linked to credible transition planning and deployment of commercially available abatement; and
- competitiveness support should complement, not replace, investment in industrial decarbonisation.

The role of the electricity sector

The EEC does not have a settled position on a greater role for the electricity sector within the SGM. However, any future consideration of such reforms should be informed by detailed analysis of policy interactions, market design implications, implementation challenges and likely emissions reduction outcomes.

Any such change would require careful consideration of its interaction with existing electricity market arrangements and the substantial body of reform already underway across the National Electricity Market (NEM). Given the scale and complexity of ongoing electricity sector reforms, priority should be placed on ensuring these processes are well coordinated and allowed to mature before introducing additional regulatory obligations through the SGM. Overlapping or poorly aligned reforms risk creating unnecessary complexity, regulatory duplication and uncertainty for market participants.

Response to consultation questions

Tracking progress to 2030

Initial results indicate that reformed policy settings are working as intended and the Safeguard is on track to deliver its 2030 emissions targets. The review is interested in feedback on any perceived risks for the Safeguard Mechanism and whether it is on track to deliver its legislated outcomes.

The SGM appears to be on track to achieve its legislated 2030 emissions reduction targets. However, achievement of net emissions targets alone should not be taken as evidence that the Scheme is fully delivering its broader objective of industrial decarbonisation.

While emissions reductions achieved through offsets make an important contribution to Australia's overall emissions reduction task, the long-term success of the SGM should also be assessed by its ability to drive meaningful emissions reductions within covered facilities and support the transition of Australia's wider industrial sector towards net zero.

Current data suggests that compliance continues to rely substantially on ACCUs relative to direct emissions reductions. While this reflects the important flexibility role of offsets within the Scheme, a significant proportion of ACCUs are generated outside the industrial sector. This creates a risk that the Scheme meets its legislated targets while not fully realising its potential to drive investment in industrial electrification, energy efficiency, fuel switching and other on-site decarbonisation activities.

As the Scheme evolves, consideration should be given to how policy settings can continue to support high-integrity offsets while strengthening incentives for direct emissions reduction within industrial facilities. The ultimate measure of success should be whether the SGM is accelerating the long-term decarbonisation of Australia's industrial sector, while also delivering its legislated emissions reduction outcomes.

Overreliance on offsets risks undermining this objective in two ways:

1. **Reducing the availability of future abatement opportunities.** As discussed, a significant proportion of ACCUs used for Safeguard compliance are generated through land-sector activities. However, the land sector is expected to play an increasingly important role in delivering the residual abatement required to achieve net zero emissions by 2050. Continued reliance on these offsets for near-term compliance may constrain their availability when they are most needed in the future.
2. **Delaying investment in industrial decarbonisation.** Where offsets remain a lower-cost compliance pathway, facilities may defer the planning, capital investment and operational changes necessary to transition to low-emissions technologies. This risks slowing the deployment of electrification, energy efficiency and other emissions reduction measures that will ultimately be required to achieve deep and durable emissions reductions.

Emissions reduction technologies

Are Safeguard policy settings and Government support mechanisms suitable for developing and deploying emissions reduction technologies for the industrial sectors?

Are there any remaining barriers to undertaking on-site abatement, including sector-specific barriers? Are there any important areas that are not covered by government policy or programs?

The EEC considers the current policy architecture broadly appropriate but notes that significant barriers to industrial decarbonisation remain.

Firstly, high up-front costs continue to be a barrier for technologies capable of producing higher temperature heat (e.g. technologies that can provide heat up to 200° Celsius) and the current carbon price of around \$40/tonne provided through the SGM is unlikely to incentivise uptake.

Secondly, while many industrial facilities have economically attractive opportunities to pursue energy management measures, deployment continues to be constrained by factors including:

- access to affordable renewable electricity;
- transmission and distribution network constraints;
- project development capability;
- workforce shortages; and
- uncertainty regarding future energy supply and carbon market settings.

The SGM should continue to work in concert with programs such as the Powering the Regions Fund, CEFC, ARENA and the Net Zero Fund. Particular emphasis should be placed on accelerating deployment of commercially available technologies rather than focusing exclusively on longer-term emerging technologies.

For many industrial electrification projects, the primary barriers are no longer technological. Instead, businesses increasingly face challenges associated with grid connection processes, network augmentation costs, long approval timeframes and uncertainty regarding electricity access. These barriers can significantly increase project costs and delay implementation, even where electrification is technically and economically viable. Addressing these issues through targeted regulatory and market reforms will be critical to unlocking emissions reductions at scale.

Policy support should also recognise that many barriers to decarbonisation are non-financial. Businesses often require trusted technical advice, peer learning opportunities and practical support to identify and implement emissions reduction projects. International examples such as Germany's Initiative for Energy Efficiency Networks demonstrate how collaborative business networks can accelerate decarbonisation by sharing knowledge, building capability and overcoming informational barriers. Similar approaches could complement existing funding programs and help drive emissions reductions across a broader range of industrial facilities.

The EEC also emphasises that energy efficiency remains an underutilised decarbonisation opportunity. Efficiency improvements often provide the lowest-cost emissions reductions while improving productivity, energy resilience and competitiveness.

Are new policy measures for ACCU use needed to accelerate industrial decarbonisation?

If policy measures are needed, what would be the best way to reduce reliance on ACCU use without unduly disrupting the carbon market and when should any such measures start?

ACCUs and SMCs are an important flexibility mechanism within the SGM.

The EEC supports consideration of measures that strengthen incentives for emissions reduction within covered facilities (and support emissions reduction in non-covered facilities via ACCU methods), while avoiding unnecessary disruption to carbon markets or undermining investment certainty. Measures that maintain flexibility while encouraging industrial electrification, energy efficiency and other forms of on-site abatement are likely to be more effective than prescriptive limits on the use of offsets.

Broadly, the EEC understands the ACCU price (and therefore SMC price) has been consistently too low to encourage large-scale investments in electrification in both Safeguard entities, and non-Safeguard entities alike. A low carbon price that fails to spur investments in these technologies will persist if inexpensive land-sector credits continue to dominate the market.

Therefore, the EEC supports policy changes that would increase the ACCU price to make investments in electrification a more attractive proposition to businesses covered by and outside of the SGM, alongside reforms to the ACCU Scheme to reduce administrative burden (Box 1). Consequently, the EEC is cautious about the introduction of rigid quantitative limits on ACCU use that may lower the ACCU price (as noted in the paper). Any limits would need to be partnered with an ACCU price floor, creating a ‘price collar’.

Policy decisions on these mechanisms should be evidence-based, carefully targeted and implemented in a way that preserves market stability and confidence.

Is the current design of the cost containment measure sufficient to allow businesses to manage upside price risks? Could the current cost containment measure price deter investments in emissions reduction activities?

Without a detailed and up-to-date marginal abatement cost curve, it is difficult to say if the current cost containment measure is deterring investments in certain industrial abatement activities. However, it is likely that the current level of around \$80 a tonne may curb investments in nascent electrification technologies for higher temperature heat use.¹

As noted above, the EEC supports efforts to increase the ACCU price to boost the attractiveness of energy management activities under the ACCU scheme. Therefore, alongside any changes to the price ceiling created by the cost containment measure, the Department should consider introducing a price floor.

¹ For example, despite a carbon price of around €75/tonne in 2025, the European Commission introduced a new €1 billion Heat Auction under its Clean Industrial Deal to support medium and high temperature heat innovations. See: [IF25 Heat Auction - Climate Action - European Commission](#).

Are requirements to submit carbon abatement plans needed to improve transparency and help inform future supply and demand for ACCUs and SMCs? How would any such requirements complement or duplicate corporate climate disclosure requirements?

If changes to the scheme can be made to demonstrably increase on-site abatement, additional reporting requirements may not be required.

However, Australia's data on abatement technologies and their costs is very poor compared with our international counterparts, particularly since the wind-up of the Energy Efficiency Opportunities program in 2013.

Increasing reporting requirements for SGM firms that use a high share of offsets to meet their obligation could be one way of bolstering the availability of information on the cost of key abatement technologies (such as high temperature heat pumps) and improve the design of complementary policies.

That said, introducing additional reporting requirements would need to be made with careful consideration of existing reporting obligations and commercial confidentiality concerns. Any new requirements should clearly complement, rather than duplicate, existing climate-related disclosure, emissions reporting and transition planning frameworks.

Coverage threshold

Should the Safeguard Mechanism threshold be lowered and, if so, when?

The EEC has not seen evidence to support lowering the SGM threshold to bring a larger number of facilities into the Scheme. Based on the evidence available, expanding coverage is unlikely to deliver material additional emissions reductions and may impose disproportionate administrative and compliance costs on newly captured facilities.

The EEC does, however, support the gradual adjustment of thresholds over time to ensure Australia's largest emitters do not fall out of coverage as emissions decline and to provide an incentive for facilities currently below the threshold for coverage to remain below those thresholds.

The 2035 Target

What factors should be considered in setting the Safeguard Mechanism target for 2035?

What factors should be taken into account when determining an appropriate baseline decline rate to apply from 2030-31 to 2034-35, noting that it must be calibrated to meet the agreed target?

The consultation paper notes that Australia's 2035 target will be implemented as an emissions budget of between 1,240 to 1,386 Mt CO₂-e between 2030-31 to 2034-35.

EEC analysis that informed our position to support Australia adopting a 2035 target of 75% below 2005 levels suggested that the remaining carbon budget for Australia to play its fair share in achieving the Paris Agreement goals is only around 1,500 - 2,000 Mt between 2025 and 2050.

Given the Australian Government's proposed budget for 2031-35 (a five-year period) is more than half of the budget we modelled for a 25-year period, the Australian Government's emissions budget and targets' alignment with Paris Agreement goals appears to be contestable.²

The contentious nature of Australia's adopted carbon budget between now and 2035, and to 2050, should be a strong consideration in setting SGM targets. The carbon budget should be re-evaluated to ensure it remains consistent with the best available science on Australia's fair share of a global emissions budget, with SGM targets and decline rates calibrated as appropriate.

Concluding remarks

The EEC broadly considers the SGM to be on track to achieve its legislated emissions reduction objectives, noting the significant differences in our perspective on what constitutes an appropriate Australian carbon budget and 2035 target consistent with the Paris Agreement goals.

However, putting aside these differences, the long-term success of the Scheme should not be measured by compliance outcomes alone. It should also be assessed by the extent to which it drives genuine industrial decarbonisation, including investment in energy efficiency, electrification, fuel switching, methane abatement, energy flexibility and other low-emissions technologies within Australian industrial facilities.

The EEC supports a stable and predictable SGM that promotes emissions reductions consistent with Australia's obligations under the Paris Agreement, while providing investment certainty, supporting industrial competitiveness, and remaining aligned with Australia's broader economic and industrial priorities. While offsets will continue to play an important role in Australia's pathway to net zero, the Scheme should maintain strong incentives for direct emissions reduction and support greater alignment between carbon market outcomes and industrial decarbonisation objectives.

The EEC also emphasises that the effectiveness of the SGM will depend on the broader policy environment in which it operates. Coordinated infrastructure planning, efficient network connection processes, streamlined regulatory frameworks and complementary investment measures will all be critical to enabling businesses to respond to the incentives created by the Scheme.

As Australia enters the next phase of the energy transition, policy settings should continue to encourage the deployment of practical, cost-effective technologies that reduce emissions, strengthen energy resilience and improve the long-term competitiveness of Australian industry. This includes ensuring carbon market frameworks effectively support industrial energy efficiency, electrification and other industrial abatement opportunities. In the EEC's view, this represents the most effective pathway to achieving durable emissions reductions while maximising the economic opportunities associated with a net zero future.

² See footnote 1, which refers to the analysis of an appropriate Australian carbon budget completed by Professor Malte Meinshaussen to inform Victoria's 2035 emissions reduction target.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Jeremy Sung", is positioned above the typed name.

Jeremy Sung
Head of Policy
Energy Efficiency Council