

FREE RIDE: HOW OUR BIGGEST POLLUTERS ARE DODGING THEIR FAIR SHARE

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Free Ride: How our biggest polluters are dodging their fair share.



Reviewers:

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The Climate Council acknowledges the Traditional Owners of the lands on which we live, meet and work. We wish to pay our respects to Elders, past and present, and recognise the continuous connection of Aboriginal and Torres Strait Islander peoples to land, sea and sky. We acknowledge the ongoing leadership of First Nations people here and worldwide in protecting Country, and securing a safe and liveable climate for us all.



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Key Findings

1

Australians are already paying the price for climate change and doing their bit to cut climate pollution – but our biggest polluters aren't doing their fair share.

- › Climate pollution from coal, oil and gas is driving worsening climate disasters and rising costs for essentials – with insurance premiums increasing \$30 billion over the past decade, and groceries projected to cost up to \$3,000 more a year by 2070.
- › Australians are doing their bit to cut pollution – 4.4 million families have rooftop solar and more than 340,000 installed a home battery in the past year – helping renewables supply half the power in our national grid in late 2025.
- › Big polluters in heavy industry and resources aren't pulling their weight. Their pollution is expected to drop just 7.6% over the five years to 2030, compared to a 19% reduction across Australia.

2

Coal and gas corporations are exploiting loopholes in our national industrial pollution law – the Safeguard Mechanism – to increase pollution instead of cutting it.

- › The Safeguard Mechanism is Australia's key law to drive down industrial pollution – but two years into the Albanese Government's reforms, pollution has barely budged.
- › The 197 major polluters continuously covered by the law have only reduced pollution by 0.40%, falling far short of the 4.9% cut set out in the Safeguard Mechanism.
- › The big problem is that corporations are able to buy their way out of their obligations, purchasing as many cheap "offsets" as they like, rather than cutting pollution.
- › These loopholes have enabled fossil fuel corporations to increase their pollution rather than cut it. Pollution from continuously covered fossil fuel facilities has gone up by 0.2%.
- › Polluters are projected to continue relying more on offsets than genuine cuts until at least 2035, because it's cheaper and easier than cleaning up their pollution at the source.

3

Coal, gas and mining corporations are the largest polluters and have many affordable options to cut pollution today.

- › Australia needs to cut climate pollution, while fostering the growth of critical long-term industries like manufacturing. To do so, our industrial pollution law should first focus on cutting climate pollution where proven solutions are readily available.
- › The resources sector – including coal, gas and iron ore – represents 64% of the pollution covered by our industrial pollution law, but isn't doing enough to cut it.
- › Proven, cost-effective technology to slash on-site pollution from the resources industry is already available, from electrifying trucks to stopping methane leaks.
- › Coal, gas and mining corporations also have the financial means to invest in cutting pollution. With net profit margins from 21% to 39%, they are some of Australia's most profitable corporations.
- › Coal, gas and mining corporations can cut pollution now – so they should face tighter pollution limits than long-term industries like steel, aluminium, cement and chemicals, which have tighter margins and fewer options.

4

The Albanese Government must use the 2026-27 review of the Safeguard Mechanism to close loopholes, end the free ride for fossil fuels and rein in industrial climate pollution.

- › Most Australians (62%) support the Government strengthening the Safeguard Mechanism – and the 2026-27 review is the moment to act.¹
- › The Safeguard Mechanism should be aligned with the top-end of Australia's 2035 climate target (a 70% cut), to deliver on our domestic and international commitments, and keep Australians safer from climate harm.
- › The use of offsets (ACCUs) should be phased out over time to encourage cutting pollution at the source, and only used for climate pollution that cannot yet be cut directly entirely.
- › Loopholes that allow major expansions and extensions to shirk the tighter 'best-practice' pollution limits given to new projects should be closed.
- › All new, expanded, and extended coal and gas facilities should be accountable for every tonne of domestic climate pollution from day one – per existing rules for shale gas.

¹ n=1,500; YouGov Polling commissioned by Climate Council, in field 30 June to 10 July 2026.

Policy Recommendations

Eight ways to strengthen the Safeguard Mechanism to rein in harmful industrial pollution and secure Australia's clean industry future.

- 1** **Align the scheme with the top end of Australia's 2035 climate target** with a 6.8% overall decline rate across the scheme, in line with a 70% reduction in Australia's climate pollution by 2035.
- 2** **Legislate updated 'Safeguard Objects' to track progress in the 2030s.** 'Safeguard Objects' are goals set in the law, which are used to monitor progress. But the current Safeguard Objects only last until 2030, and new goals are required to track progress towards Australia's 2035 target.
- 3** **Apply tougher rules to highly-profitable and highly-polluting industries with the greatest capacity to cut climate pollution.** A stronger decline rate can be set for coal mining, oil and gas extraction, LNG export and metals mining industries, acknowledging their greater financial and technological capacity to cut climate pollution. Industries with a lower capacity could receive a moderated decline rate, enabling a longer-term transition.
- 4** **Phase-out offsets except where absolutely necessary,** limiting offset use to 5-10% of pre-decline baselines by 2035, except in limited cases of unavoidable pollution from long-term industries.
- 5** **Maintain the prohibition of international offsets,** consistent with Australia's commitments under the 2035 target and Climate Change Authority advice.
- 6** **Reform offset price rules to ensure incentives to cut climate pollution are strong and predictable** by introducing a price-floor for offsets, and replacing the current arbitrary price cap with a 'speed limit' on price rises.
- 7** **Close loopholes that let new developments dodge stronger pollution limits** by applying best-practice pollution limits to all material expansions and extensions in addition to new projects.
- 8** **Make fossil fuel developments accountable for all of their domestic climate pollution from day one** by setting their best-practice pollution limit to zero, in line with the best available science.

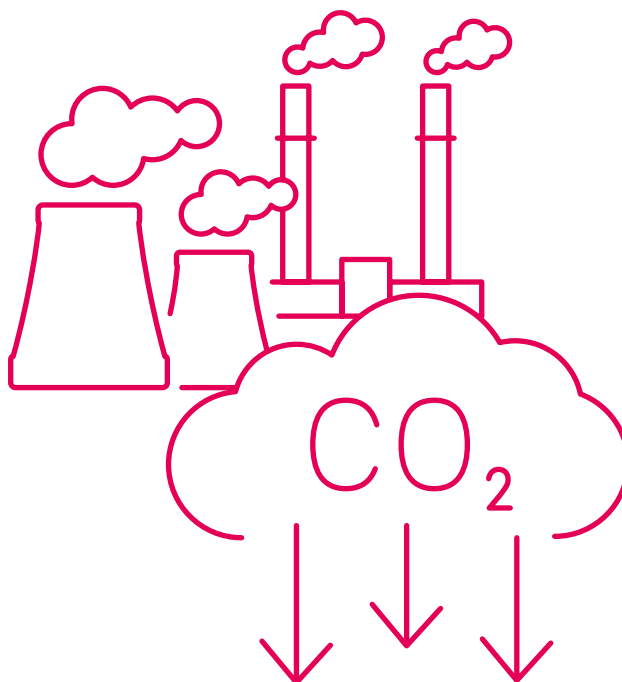
What is the Safeguard Mechanism?

The Safeguard Mechanism is our **main national law for cutting industrial climate pollution**. It regulates facilities that emit at least 100,000 tonnes of climate pollution per year, like coal mines, gas facilities and manufacturing plants. In 2024-25, it covered 208 facilities, responsible together for about a third of Australia's climate pollution.

The Safeguard Mechanism was introduced by the Abbott and Turnbull Governments, and reformed by the Albanese Government in 2023 to set pollution limits, or "baselines", that decline each year ("decline rates"). See Chapter 3 for a full explanation of the mechanism.

When the reforms were made, the Government committed to review the scheme in 2026-27, once two years of post-reform data were available, to ensure its settings remain calibrated to Australia's climate targets. **That review is now underway**, with policy positions and any draft rule changes expected in early 2027. The review will consider the issues and settings at the heart of this report: the baseline decline rate for 2030-2035, the future role of offsets, whether the scheme is genuinely driving on-site cuts to pollution, scheme coverage, and arrangements for trade-exposed facilities.

In parallel, the Climate Change Authority (CCA) will provide advice to the Government on the 2030-31 to 2034-35 decline rate and whether additional incentives for on-site pollution cuts are needed.



1. Building a safer, stronger and cleaner Australia

PROTECTING AUSTRALIANS FROM CLIMATE HARM

A decade on from the landmark global Paris Agreement, Australians are living with the consequences of climate change. Australia's 2025/26 summer saw:

- › Victorian communities flung from catastrophic fire warnings to flash flooding within a week, then back to extreme heat only 10 days later;
- › Western Queensland communities receiving their average annual rainfall in the first five weeks of the year;
- › Western Australia's key Eyre Highway closed due to fires ignited by dry lightning in 45°C heat, only to be cut off again two days later by floodwaters (Climate Council 2026a).

During the northern hemisphere's 2026 summer, Europe has sweltered through lethal, record-breaking heatwaves and wildfires, with more than 10,000 excess deaths recorded (Abnett 2026). An especially ferocious 2026/27 summer may be looming for Australia too, as climate change and a strong El Niño stack the odds of record heat, aggressive drought, an earlier and longer fire season and escalating costs (Climate Council 2026b). Australians are already paying the price, with insurance premiums increasing \$30 billion over the past decade (Climate Council 2024a). And as global heating escalates, costs will continue to rise, with groceries for a typical NSW family projected to cost up to \$3,000 more a year by 2070 (Net Zero Commission 2026).

These climate consequences are the result of past policy failures to curb climate pollution. For decades, pollution from coal, oil and gas has been creating a blanket of heat-trapping gases in the atmosphere, raising the global average temperature by approximately 1.3°C above pre-industrial levels (WMO 2026). And despite mounting progress, climate pollution from fossil fuels is still increasing, hitting a record high in 2025 (Friedlingstein *et al.* 2026).

To keep Australians safer from the catastrophic impacts of climate change, we must cut climate pollution much further and faster than we are today. The good news is that Australia has many opportunities to cut climate pollution, cut costs for households and businesses, create clean jobs and build a more prosperous nation.

Australians are already paying the price for climate change – through worsening disasters and rising costs for essentials like insurance and food.

THE OPPORTUNITY OF CLEAN ENERGY, INDUSTRY AND EXPORTS

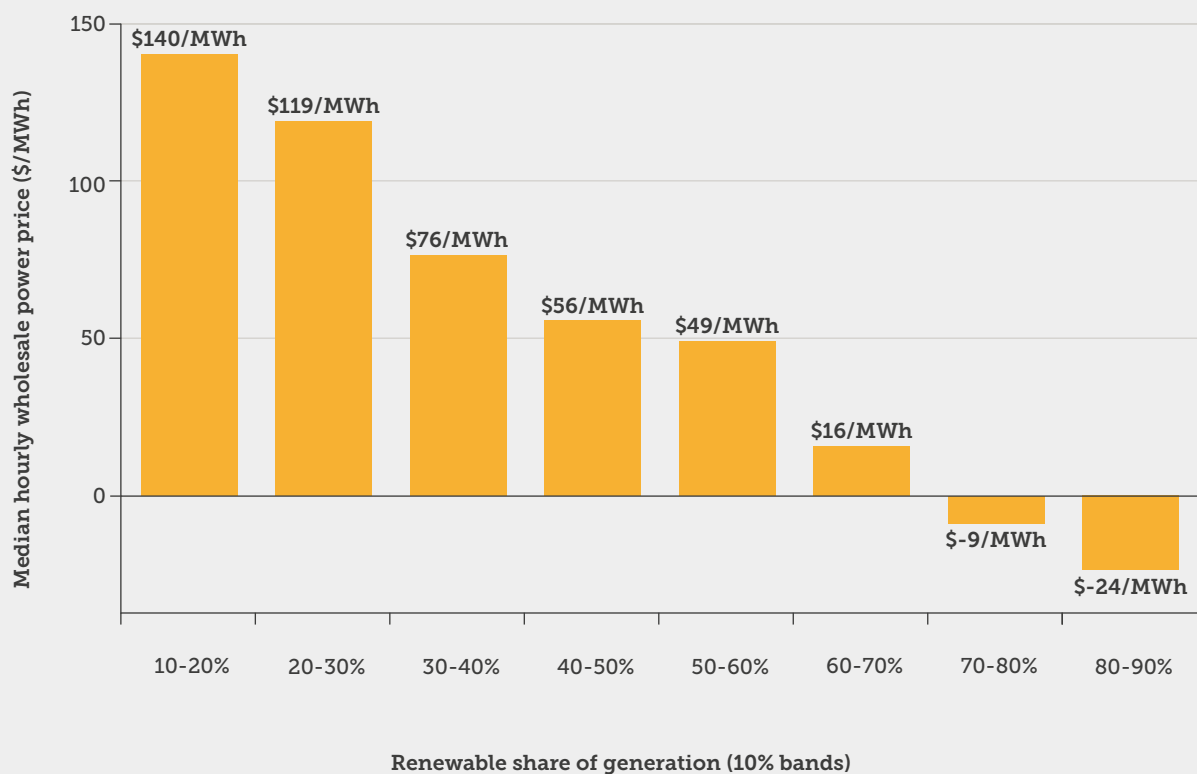
Renewable energy is the cheapest form of new power, and is receiving higher global investment than fossil fuels (IEA 2026b; IRENA 2026). Renewable energy was the largest source of new energy supply in 2025, driven by a 30% increase in solar power generation, and a 66% increase in installed battery capacity (Energy Institute 2026).

In Australia, the rollout of solar, wind and storage is driving down power bills and cutting climate pollution. Renewables and storage supplied more than half of our main

national grid for the first time in the final quarter of 2025 (AEMO 2026b). Increased renewable energy supply is pushing down wholesale power prices, as shown in Figure 1, and the benefits are beginning to flow to retail power bills too (AEMO 2026a; Australian Energy Regulator (AER) 2026). Everyday Australians are leading this shift: more than 4.4 million Australian families have solar panels on their roof, and more than 340,000 installed a home battery in just the past year (Clean Energy Regulator 2026b).

Figure 1

POWER PRICES ARE LOWER WHEN MORE RENEWABLE POWER IS IN OUR MAIN NATIONAL GRID



Source: Climate Council analysis of (Open Electricity 2025).



As the global shift to clean energy reshapes the sources of competitiveness and prosperity, Australia is uniquely positioned to take advantage of these opportunities. Australia is the sunniest country in the world and one of the windiest, and is forecast to be the world's third-cheapest region for power generation by 2030 (Graham and Havas 2023). These natural advantages are combined with abundant land, significant metal and critical mineral resources, a highly-skilled workforce, stable governance, and proximity to some of the world's fastest growing economies.

By seizing these advantages, Australia can build a prosperous domestic economy, underpinned by strong green export industries in sustainable fuels, green steel, iron and aluminium, critical minerals mining and processing, and green ammonia. Realising Australia's clean energy potential offers a significant economic reward.

Treasury modelling finds that Australia could seize a \$93 billion annual green export opportunity by 2035, growing to \$178 billion by 2050. As the world moves away from fossil fuels, building strong clean export industries could support the Australian economy to grow 84% by 2050, with a \$38,000 higher GDP per capita (Treasury 2025).

Australia's green exports can also help cut climate pollution across the world. Capturing Australia's world class solar and wind resources means we can produce essential metals, minerals and fuels more cleanly and cheaply than other countries. For example, Treasury modelling suggests that Australian green iron could help other nations avoid 188 million tonnes of climate pollution in steelmaking in 2050, while the use of Australian green ammonia could cut 55 million tonnes of climate pollution from fertiliser production and energy generation (Treasury 2025).

POLICY SETTINGS TO DELIVER A CLEANER, STRONGER AUSTRALIA

Australia has all the ingredients to power ourselves with cheaper and cleaner renewables, slash our climate pollution, and build world-class green export industries. But there is no guarantee of seizing these opportunities. Critically, delivering the transition will require deep public and private investment, guided by strong, early, and consistent government policy.

Australia's climate policies are pushing in the right direction:

- › Our 2030 and 2035 climate pollution targets, while not yet sufficient to prevent catastrophic levels of climate change, provide certainty and a clear direction of travel across the economy.
- › Strong policies to drive the roll-out of wind, solar and batteries are making a difference, with pollution in the electricity sector expected to be two-thirds lower in 2030 than in 2022 (DCCEEW 2025d).
- › The New Vehicle Efficiency Standards and Electric Car Discount are driving the switch to cleaner vehicles, with EVs and hybrids making up more than half of sales for the first time in June 2026.

While strong progress is being made in some areas, there is much more that can be done to cut climate pollution, and drive investment towards our clean export goals. In particular, Australia's biggest polluters in the resources and industry sectors are lagging behind in their efforts to cut climate pollution, despite being critical to both Australia's climate targets, and clean export opportunities. Their pollution is expected to drop just 7.6% over the five years to 2030, compared to a 19% reduction across Australia (DCCEEW 2025d).



2. Cleaning up Australia's biggest polluters

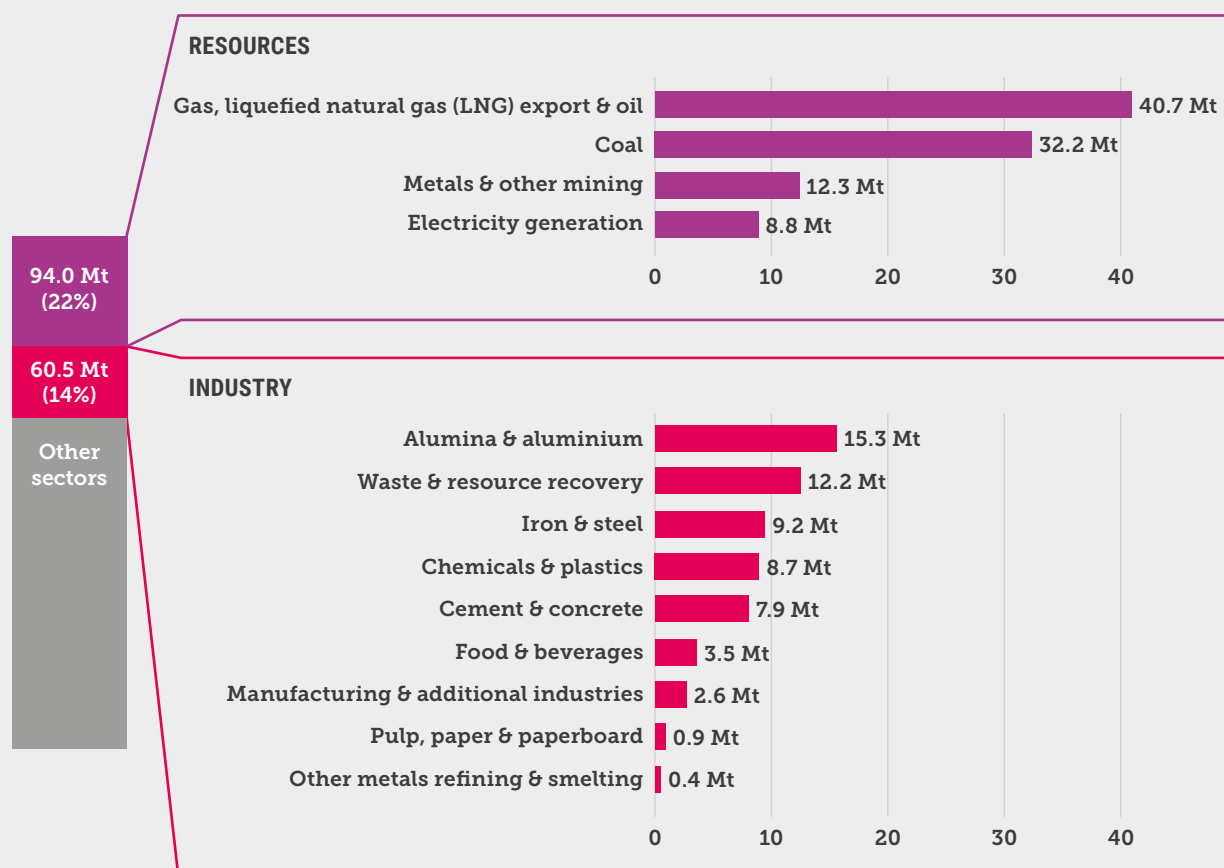
The industry and resources sectors, taken together, represent over one-third of Australia's domestic climate pollution. The fossil fuel industry – coal, oil and gas – is a particularly significant polluter, representing almost half of this. Outside of fossil fuel extraction, mining of other metals and minerals, metals processors, and a diverse range of manufacturers make up the remainder of industrial climate pollution.

Pollution across these sectors comes from a range of sources, including the combustion of diesel or gas to power machinery, generate power, or produce heat; the use of gas or coal as an input in chemical and smelting processes; or from production processes directly, such as in chemical reactions to produce cement or refine alumina.



Figure 2

INDUSTRY AND RESOURCES REPRESENT MORE THAN ONE-THIRD OF AUSTRALIA'S CURRENT CLIMATE POLLUTION



Source: Climate Council analysis of (DCCEEW 2025e; DISR and DCCEEW 2025a, 2025b). Million tonnes of direct on-site climate pollution (Mt CO₂e) in 2025. Totals may not sum due to rounding. Electricity generation refers to off-grid generation, e.g. generators on mining sites.

Most of the pollution from these sectors is governed by the Safeguard Mechanism, which is Australia's main industrial pollution law, regulating facilities that release over 100,000 tonnes of climate pollution per year. These regulated facilities represent 86% of the resources sector, and 55% of the industry sector (or 70% excluding waste and resource recovery). With the Safeguard Mechanism under review in 2026/27, Australia has a critical opportunity to get the policy settings right for these key sectors.

Cutting climate pollution from these sectors is essential to keep Australians safer from the impacts of climate change, get us on track to achieve our climate targets, and seize Australia's clean export goals. However, there are significant differences in the products produced by each sector, their economic environment and outlook, the sources of their pollution, and the clean technologies available. As a result, the resources and industry sectors will play different roles as Australia cleans up our economy.

CLEANING UP THE RESOURCES SECTOR

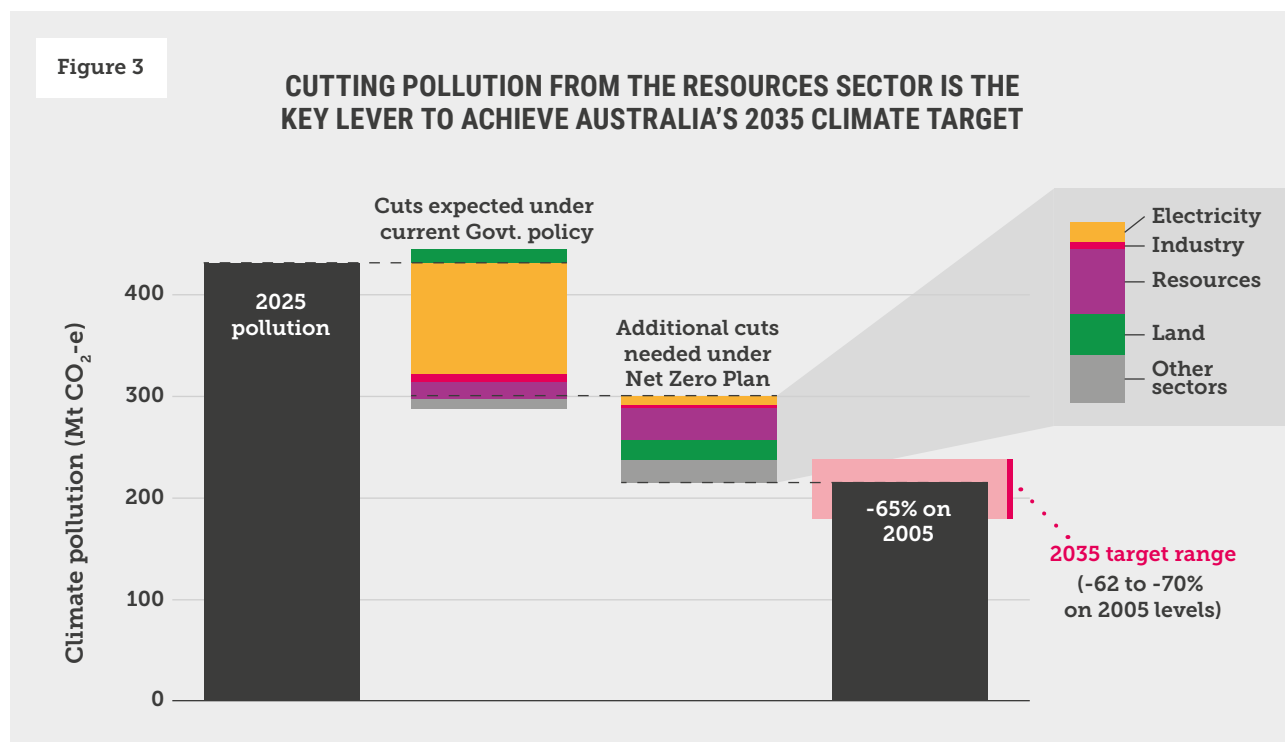
The resources sector is one of Australia's most polluting, representing more than one-fifth of Australia's climate pollution. Its pollution has increased dramatically over recent decades: since 2005, the resources sector's pollution has increased by 67%, despite Australia's total domestic climate pollution dropping by 29% over the same period (DCCEEW 2025d).

Climate pollution from the resources sector comes from two key sources. The majority (55%) is from burning petrol, diesel and gas to power operations, including heavy mining machinery and liquefying gas to produce LNG (which represents about half of the total pollution from gas, LNG and oil). The rest (45%) is fugitive pollution: mainly methane, released when fossil fuels are extracted, transported or processed (DISR and DCCEEW 2025b).

Fugitive pollution accounts for about half the pollution from gas, LNG and oil, and almost three-quarters of the pollution from coal mining.

Cutting climate pollution from the resources sector is essential to achieving Australia's 2035 target (Figure 3), as outlined in Australia's Net Zero Plan, based on Treasury modelling and advice from the Climate Change Authority (DCCEEW 2025e).

The resources sector needs to cut pollution more deeply than other sectors for two key reasons. Firstly, the resources sector has some of the most affordable and readily available options to cut pollution in the short term – and these should be rolled out as quickly and widely as possible. Secondly, while the world will still need many resources far into the future, fossil fuels are inherently polluting and expected to enter a necessary and terminal decline.



Source: Climate Council analysis of (DCCEEW 2025d, 2025e).

Deploying proven solutions to cut climate pollution now

Cost-effective options to cut climate pollution in the resources sector are readily available, and should be deployed rapidly and widely.

Cutting fugitive methane pollution from coal and gas extraction has an especially large impact on global heating. This is because methane pollution has a much greater impact on global heating than carbon dioxide in the short term: over a 20-year period, one tonne of methane traps about 85 times more heat in the atmosphere than a tonne of carbon dioxide (Climate Council 2024b). In addition, cutting fugitive methane is proven and cost-effective:

- › **Coal mines** can cut methane pollution with proven technologies. About half of methane pollution from coal can be reduced today using existing technology, including capturing and using methane from mines (such as in the Moranbah power station), or by destroying it through flaring or oxidation technologies (IEA 2026a). In Australia, CSIRO has already demonstrated methane oxidation technologies at the Appin coal mine in NSW (CSIRO 2026).
- › **The gas and LNG sector** can cut methane pollution by three-quarters using existing technologies like leak detection and repair (IEA 2026a). Globally, nearly 30 Mt of pollution from extracting gas could be cut at no net cost, because captured gas can be sold (IEA 2026a).

Climate pollution from energy, which represents about 55% of total pollution from the resources sector, can be cut using the same methods that are already working across Australia: electrifying machinery and vehicles, and powering them with wind, solar and storage. This opportunity is particularly significant for iron, coal and other mining, which can cut energy costs and diesel through electrification. Electric machinery for mining, from utes and water trucks to heavy haulage trucks, are already operating commercially. In Australia, Fortescue plans to eliminate fossil fuels from its Pilbara iron ore operations by 2030, a switch it expects to save close to \$1 billion a year in diesel costs (Fortescue 2026b). Underground coal mines can also benefit from further savings, through reduced ventilation requirements.

Access to these proven technologies allows the resources sector to cut climate pollution from extraction deeply in the next decade at a low cost – or even a cost saving. For most of the resources sector, outside of coal and gas, cutting pollution during extraction allows the industry to become essentially pollution-free.

The resources sector has some of the most affordable and readily available options to cut climate pollution.



Managing a necessary decline in coal, oil and gas production

Coal and gas extraction – which represents about three-quarters of the resources sector’s pollution – needs to decline significantly to limit global heating to globally agreed thresholds.

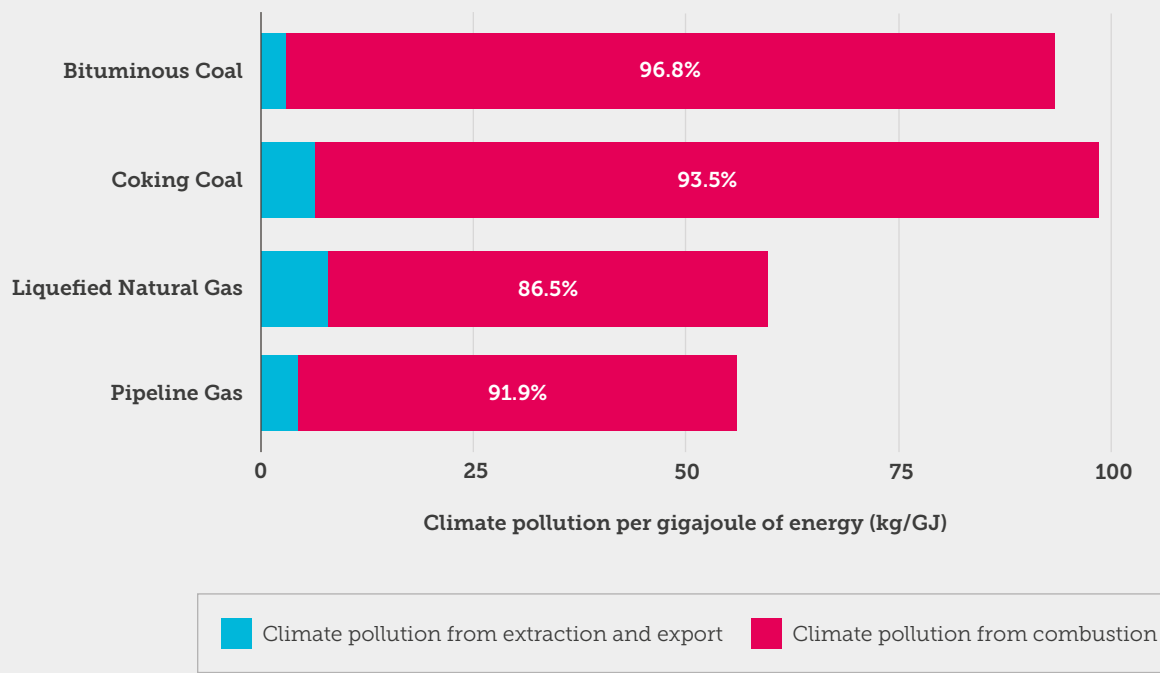
This is because coal and gas are fundamentally polluting products, which cannot continue to be extracted and used without causing significant climate pollution. While some options are available to cut pollution during production, like switching to electrified machinery and reducing “fugitive” pollution that escapes

when fossil fuels are extracted from the earth, these reductions represent only a small share of overall fossil fuel emissions.

As shown in Figure 4, only a fraction of the pollution from fossil fuels occurs during production. Up to 96.8% of pollution occurs when coal or gas is burnt by end users. This is particularly important given 88% of coal and 79% of gas extracted in Australia is exported overseas (DCCEEW 2025a).² With fossil fuels mainly produced for export, pollution limits in Australia only impact the small fraction of pollution that occurs during extraction and export.

Figure 4

MOST FOSSIL FUEL POLLUTION COMES FROM BURNING
COAL AND GAS RATHER THAN EXTRACTING OR EXPORTING IT



Source: Coal and pipeline gas emissions, and LNG combustion emissions based on (DCCEEW 2025b), Liquefied Natural Gas emissions estimated based on (Climate Analytics 2024; DCCEEW 2025d). Excludes international shipping emissions.

2 Including gas used to power LNG liquefaction.

As noted earlier, options to reduce climate pollution during fossil fuel extraction and export are available at scale, including reducing fugitive methane leaks and switching from diesel machinery to electric trucks. However, it is not feasible or economic to entirely or even substantially cut pollution across the entire lifecycle of fossil fuels, from extraction to processing and end use. Instead, the use of coal, oil and gas will dwindle as countries switch to clean energy sources that permanently cut climate pollution, like solar and wind backed by storage, or sustainable liquid fuels.

The trajectory of international agreements and law underscores the necessity and inevitability of a global shift away from polluting fossil fuels:

- › **The first “Global Stocktake” of the Paris Agreement**, endorsed by nearly 200 countries at the COP28 global climate summit in 2023, agreed to “Transitioning away from fossil fuels in energy systems, in a just, orderly and equitable manner, accelerating action in this critical decade” (UNFCCC 2024).
- › **The International Court of Justice’s landmark 2025 Advisory Opinion** on the *Obligations of States in Respect of Climate Change* put fossil fuels at the centre of nations’ obligations to cut climate pollution, contending that “[f]ailure of a State to take appropriate action to protect the climate system from GHG emissions – including through fossil fuel production, fossil fuel consumption, the granting of fossil fuel exploration licences or the provision of fossil fuel subsidies – may constitute an internationally wrongful act” (International Court of Justice 2025).
- › **The Belem Declaration on the Transition Away From Fossil Fuels**, signed by 24 countries including Australia at the COP30 global climate summit in 2025, reaffirms a “determination to work collectively towards a just, orderly and equitable transition away from fossil fuels aligned with pathways consistent with limiting global temperature rise to 1.5°C” (Belem Declaration 2025).





The consequences of a global shift away from fossil fuels are significant for Australia's resources sector, as acknowledged by Australia's Net Zero Plan. Under current global climate pledges, Treasury projects that Australian coal production would drop 42-51% by 2035 and 71-74% by 2050; while gas and LNG would drop 24-29% by 2035 and 66-68% by 2050 (Treasury 2025). With states continuing to increase their climate commitments over time, these reductions may be conservative. Indeed, under pathways that limit global warming to 1.5°C above pre-industrial levels, global coal production reduces by more than 97% on current levels by 2050, and global gas production by over 65% (SEI, Climate Analytics, & IISD 2025).

Despite mounting legal, scientific and economic momentum, Australia's climate, industry and economic policies do not reflect this necessary and accelerating shift away from fossil fuels. The federal and state governments continue to approve new, expanded, and extended coal, oil and gas projects without any meaningful consideration of their climate pollution from extraction or use. In particular, the Albanese Government rejected proposals to add meaningful consideration of climate impacts to its 2025 reforms of Australia's national environment law.

Australia's national climate, industry and economic policies do not reflect the inevitable global shift away from fossil fuels.



This glaring omission is evident in Australia's national law to drive down industrial climate pollution, the Safeguard Mechanism, which does not impose any rules that reflect a significant decline in fossil fuel production. New fossil fuel projects are not accountable for the majority of their pollution, and existing fossil fuel projects are subject to the same set of rules as long-term industries.

In addition, there are no adequate plans to guide the decline of fossil fuel industries, or support the workers and regions that will be affected by this economic transition. The Federal Net Zero Economy Authority, for example, is designed to support workers in the transition away from thermal coal power generation, but its remit only covers coal-fired power stations and the coal mines that directly supply them, leaving workers in export-oriented coal mines – which represent the vast majority of coal mines – or gas export facilities without direct support.

This failure to actively manage the phase-out of fossil fuel extraction and exports drives significant harm and costs. Climate pollution from digging up and burning fossil fuels is already driving more severe climate impacts and harms, leaving every day Australians to pay the price.

Furthermore, the climate pollution emitted by the fossil fuel industry today is rapidly exhausting the limited amount of climate pollution that can be released while limiting global heating to the safest levels still possible. Failing to rein in this climate pollution today means increasingly rapid cuts to climate pollution will be required in the future, constraining the time available to transition long-term industries with less viable or proven options to cut climate pollution. In addition, allowing ongoing fossil fuel production and expansion draws skilled workers, capital, and public resources away from long-term industries that will drive prosperity far into the future.

BUILDING PROSPEROUS CLEAN INDUSTRIES

Australia's industry sector produces less climate pollution than the resources sector, and this pollution has been declining over time. Industry's climate pollution has declined 24% since 2005, and now represents 14% of Australia's total climate pollution. Sources of pollution in the industry sector vary widely, representing the wide variety of producers in the Australian economy.

Many of Australia's industrial polluters have significant opportunities to decarbonise over time, becoming more competitive and productive as a result. Metals and minerals mining, manufacturing, smelting and refining, and sustainable fuels will all play an ongoing role in the global shift to clean energy – and a growing role in Australia's economy.

These industries produce an essential product, and are – or will be – able to cut pollution to very low levels or entirely through changes to production inputs and methods. Because most of the pollution from these sectors comes from consuming coal, oil or gas, they can cut the bulk of their pollution by replacing fossil fuels with clean energy sources.

Most of these industries have commercially available options to cut climate pollution, such as electrifying heavy machinery, transport, or manufacturing processes (e.g. heating and cooling), improving energy efficiency, and switching to cleaner energy sources.



Cutting climate pollution from these sectors is the first step in seizing Australia's clean export opportunity. While building world-class green export industries is the end goal, these industries will emerge as domestic producers first. Green industries are not new industries: they are established Australian industries, seizing growing advantages and opportunities by doing things differently. By transitioning to clean energy and processes, existing miners, smelters, refineries, and manufacturers will be critical in proving new technologies, establishing new supply chains, and refining the investment-case for green exports. Alongside the build-out of renewables in the grid, this 'learning-by-doing' is an essential ingredient for green exports.

Yet, this shift to clean up industry is not simple. Different industries have varying options available to cut pollution on-site. Some sectors are facing commercial challenges, operating on tight margins and facing steep competition globally. Delivering competitive clean industries will require significant and sustained public and private investment, underpinned by strong and consistent policy signals and incentives.

Nevertheless, decarbonising these industries is good economics. Powering Australian industry with cheaper, cleaner, home-grown renewable energy will reduce dependence on fossil fuels, protecting against global price spikes and shortages.

In addition, scaling clean exports can increase prosperity and competitiveness in the global clean economy. More than 90% of Australia's trading partners are committed to reaching net zero climate pollution, which will drive increasing demand for low-emissions commodities and trade over time (Treasury 2025). The Albanese Government's Future Made in Australia plan acknowledges this economic opportunity, providing billions in support for early producers of key green commodities that will prosper in the global economy – like sustainable fuels, critical minerals, and green metals (Treasury 2024).

"The world is committed to net zero by 2050. This will demand the biggest transformation in the global economy since the industrial revolution.

Australian energy can power it. Australian resources can build it. Australia's regions can drive it. Australian researchers can shape it. And Australian workers can thrive in it."

— The Hon Dr Jim Chalmers MP, Treasurer, 2024-25 Budget Speech

3. Our national industrial pollution law is falling short

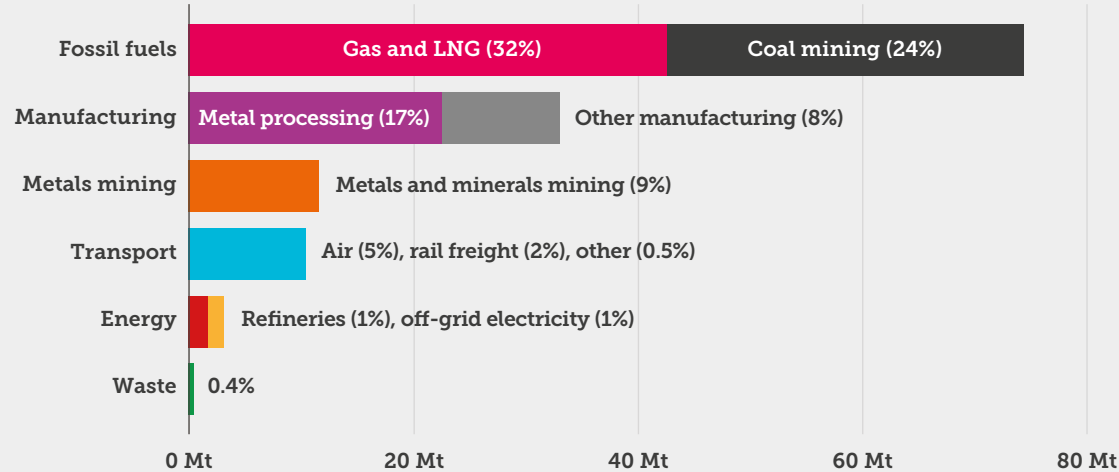
HOW OUR NATIONAL INDUSTRIAL POLLUTION LAW REGULATES AUSTRALIA'S BIGGEST POLLUTERS

The Safeguard Mechanism is Australia's main policy for cutting climate pollution from industry and resources. It regulates pollution from facilities that emit at least 100,000 tonnes of climate pollution per year. In 2024-25, the scheme covered 208 facilities, responsible together for about a third of Australia's climate pollution.

Fossil fuel and resources industries dominate the scheme. Despite covering a range of sectors, more than four-fifths of climate pollution comes from just four: gas extraction and LNG (32%), coal mining (24%), metals processing (17%) and metals and minerals mining (9%). Coal and gas extraction alone make up more than half of covered pollution, representing roughly one-sixth of Australia's total climate pollution.

Figure 5

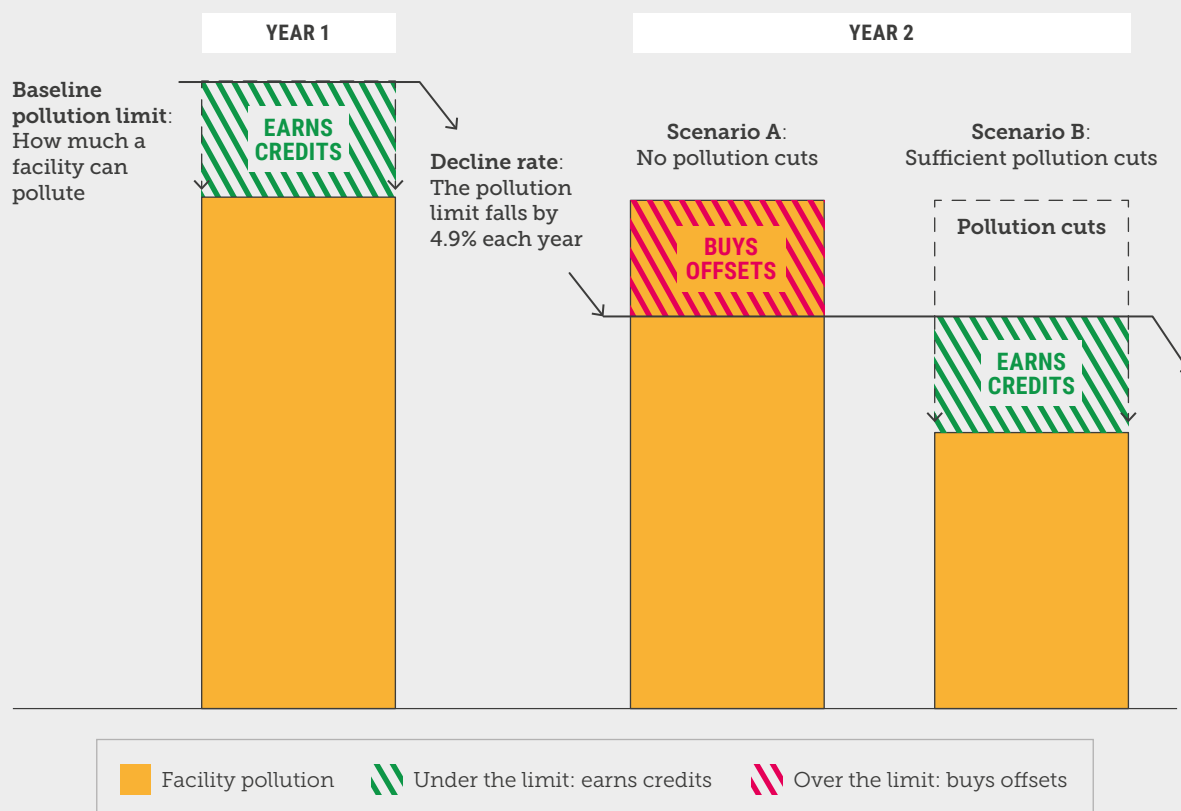
MORE THAN HALF OF THE CLIMATE POLLUTION UNDER THE SAFEGUARD MECHANISM COMES FROM COAL AND GAS EXTRACTION AND EXPORT



Source: Climate Council analysis of (Clean Energy Regulator 2026a).

Figure 6

HOW THE SAFEGUARD MECHANISM REGULATES CLIMATE POLLUTION



Under the scheme, facilities generating more than 100,000 tonnes of climate pollution per year receive a “baseline” pollution limit, based on the amount of product produced, and a pollution intensity set for that product. These pollution intensities were originally based on a facility’s historic pollution, but are transitioning to an industry-average intensity by 2030 (with the exception of coal mining, which is based on the average of both facility and industry-average intensities).

For example, an iron ore mine’s ‘baseline’ limit is based on the amount of iron ore produced, multiplied by the industry average pollution intensity of 0.00476 tonnes of climate pollution per tonne of iron ore.

These baselines decline over time, to encourage facilities to drive down climate pollution. The “baseline decline rate” is currently set at 4.9% per year until 2030, with the rate after 2030 to be set after the 2026-27 review.

In each year, facilities are only accountable for climate pollution that is above their baseline. As shown in Figure 6, covered facilities face one of two outcomes each year:

- › If a facility’s pollution is *below* their baseline, they receive a Safeguard Mechanism Credit (SMC) for the gap between their pollution and their baseline. These credits can be sold or banked for use in future years.
- › If a facility’s pollution is *above* their baseline, they must buy and surrender credits or offsets (Australian Carbon Credit Units or ACCUs), equivalent to the amount of pollution that is over their baseline.

In Figure 6 Scenario A, the facility does not cut its climate pollution. As a result, it has to buy and use offsets in year 2. If the facility cuts its climate pollution as in Scenario B, the facility would save money spent on offsets.

What is an offset?

An offset represents a cut to climate pollution that can be bought and sold. Offsets are meant to represent a trade, where one polluter pays someone else to cut climate pollution. Usually, this is done by cleaning up a current source of pollution (like capturing gas from landfills), or by 'sequestering' pollution by planting trees or restoring land.

In Australia, offsets are regulated by the government. There are approved methods to create Australian offsets, which are called Australian Carbon Credit Units, or ACCUs. In this report, 'offsets' refer specifically to ACCUs.

An offset can only be used once. To use an offset, a polluter must 'surrender' it to the government, who permanently removes it from the market.

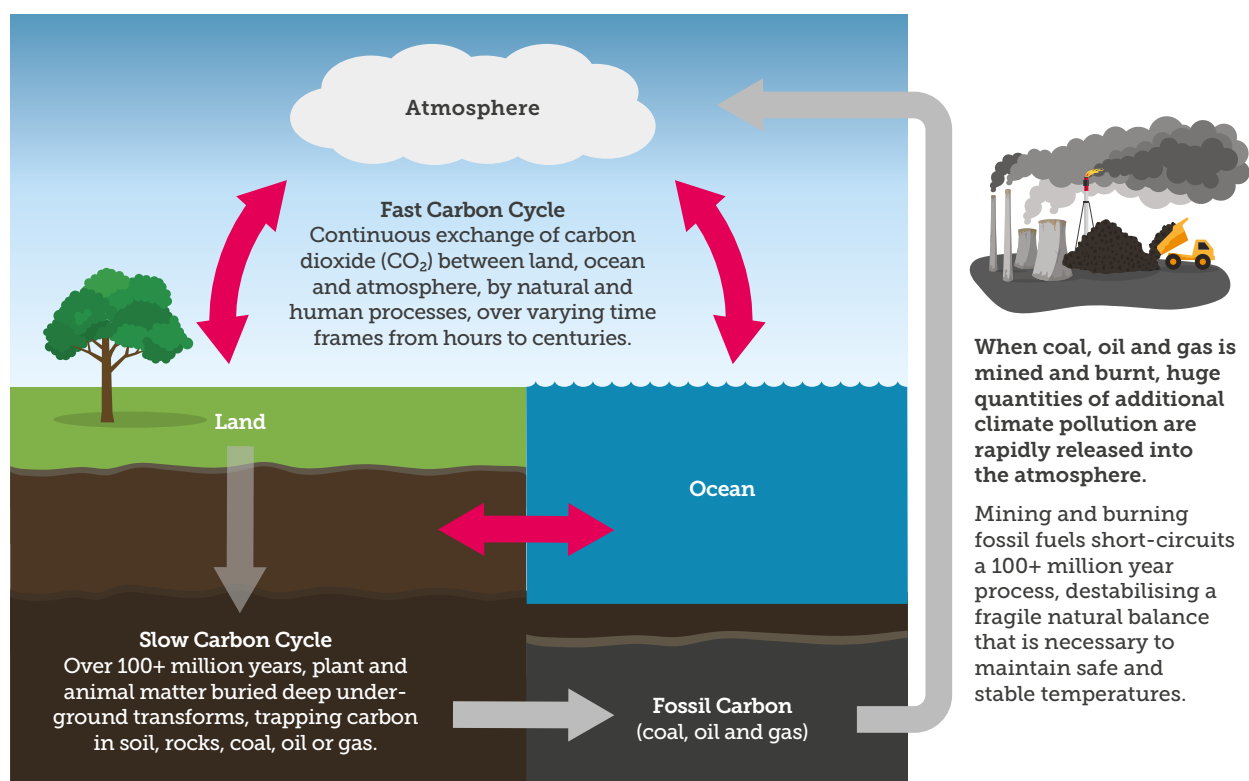
What is a credit?

In this report, credits refer to Safeguard Mechanism Credits or SMCs. They are a special kind of offset which can only be used by facilities in the Safeguard Mechanism.

Credits are given to facilities when their pollution is below their baseline limit. Facilities can then use those SMCs in later years, or sell them to other facilities whose pollution is above their baseline.

Figure 7

CLIMATE POLLUTION THAT HAS BEEN LOCKED UNDERGROUND FOR MILLIONS OF YEARS IS FUNDAMENTALLY DIFFERENT TO CLIMATE POLLUTION IN THE 'FAST' CARBON CYCLE



OFFSETS ARE NOT A VALID SUBSTITUTE FOR CUTTING POLLUTION AT THE SOURCE

Offsets are a smoke screen. They are not a valid substitute for cutting climate pollution at the source. Allowing polluting facilities to use unlimited offsets is substantially undermining Australia's efforts to cut climate pollution.

Here's why: Carbon is everywhere on Earth – in the atmosphere, the ocean, in soils, in all living things, and in rocks and sediments. It is constantly being cycled through these different places. Carbon is also being continually exchanged between the atmosphere and the ocean's surface.

Together these processes make up the earth's "fast" carbon cycle.

When fossil fuels are extracted and burnt, carbon that has been locked away for millions of years is released into the atmosphere – introducing vast new volumes of pollution into the "fast" carbon cycle (see Figure 7). Land-based offsets like planting trees do not lock carbon away again deep underground. Instead, the introduced fossil carbon from mining and burning coal, oil and gas remains a part of the fast carbon cycle for 100+ million years.

Consider a tree. As it grows, it takes up carbon from the air. When it eventually dies, most of that carbon is re-released back into the air. If that tree has been planted to offset against new fossil carbon being released into the atmosphere, it is, at best, only temporarily removing that carbon – but the fossil carbon is now permanently in the fast carbon system.

The full cost of removing carbon in perpetuity is not included in any offset regime.

To compound the problem, much of the carbon stored in land-based offsets does not stay stored for long. Forests can be destroyed by fire, disease, floods and droughts, all of which are increasing with fossil fuel driven climate pollution. If an offset project is impacted by these disasters, the offsets that have already been produced are not repealed. Worse still, the carbon released by these disasters, including from offset projects, is not included in our national emissions accounting – meaning the release of carbon once-stored as 'offsets' can slip by unaccounted for.

With these significant drawbacks, the use of offsets should be a last resort, relevant for the small share of pollution from essential industries that cannot entirely be reduced through process changes or modern technology (such as aviation). However, the use of offsets appears to be the default compliance strategy for many facilities in the Safeguard Mechanism, outstripping on-site cuts to climate pollution until at least 2035.

It is particularly problematic that the scheme's current design allows big polluters to claim that purchasing offsets or credits is evidence of appropriate action on climate change. This license is granted by current policy – and the Government has an immediate opportunity, through the 2026-27 review of the Safeguard Mechanism, to end it.

Offsets should be a last resort, used only in cases where pollution can't yet be cut.

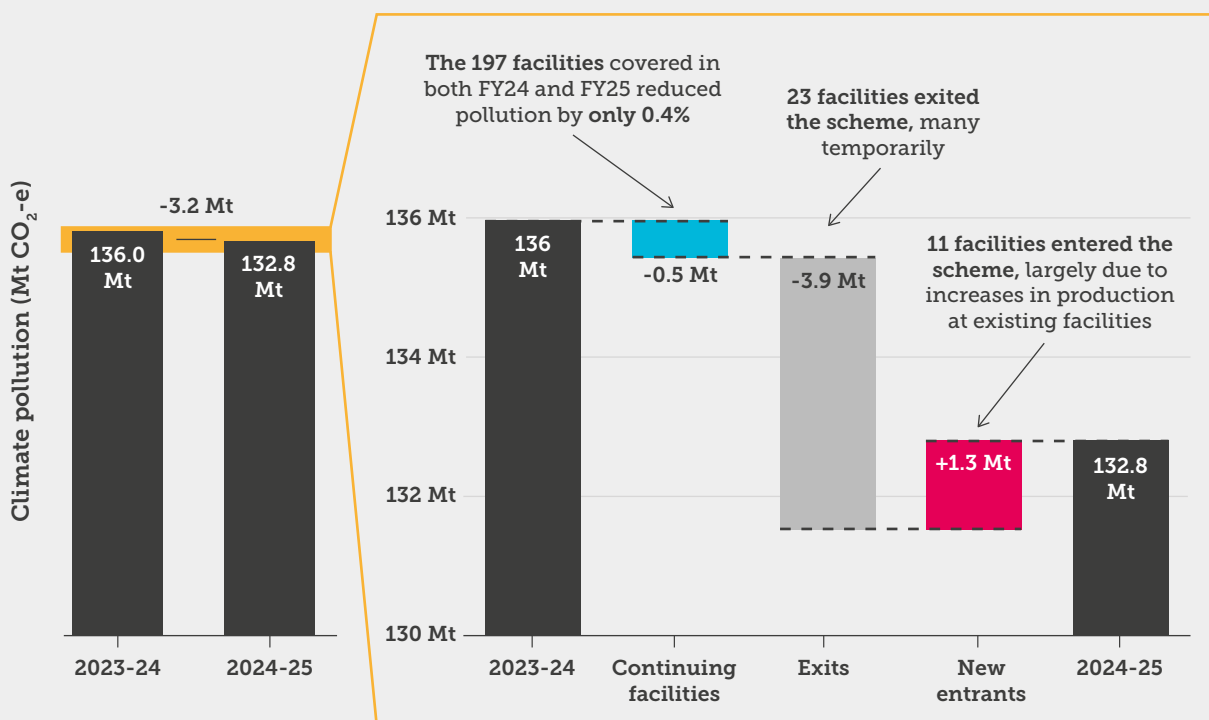
RECENT REFORMS HAVE FAILED TO DELIVER GENUINE CUTS TO POLLUTION

Two years into the Albanese Government's reforms to the Safeguard Mechanism, pollution has barely budged – with big polluters buying more offsets rather than cutting pollution. The fossil fuel industry is lagging even further behind, continuing to increase its climate pollution.

While the mechanism is still early in its application, weak early results make clear that it can deliver much more – and needs to, if Australia is to achieve its climate and industry goals. Policy recommendations to deliver a more effective mechanism are made in chapter 4.

Figure 8

POLLUTION UNDER THE REFORMED SAFEGUARD MECHANISM HAS BARELY BUDGED



Source: Climate Council analysis of (Clean Energy Regulator 2025, 2026a). Totals may not sum due to rounding.

Climate pollution from Australia's biggest polluters has barely budged

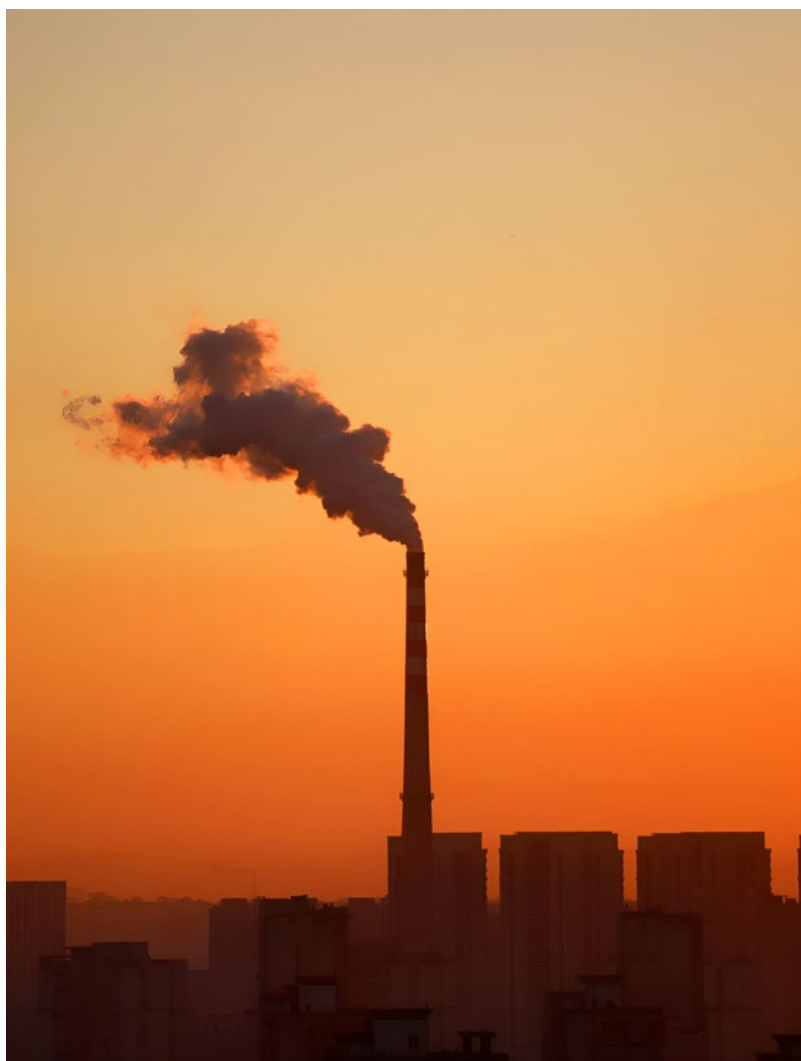
Pollution covered by the Safeguard Mechanism only fell by 3.2 million tonnes (2.3%) in the past year, less than halfway to the scheme's designated 4.9% decline rate. But even this figure obscures the reality. As shown in Figure 8, only an estimated 543,000 tonnes (0.4%) came from genuine pollution cuts at facilities that have been in the scheme since the 2023 reforms.

The vast majority of reported pollution reductions are from facilities temporarily dropping out of the scheme, rather than genuine cuts to climate pollution. In total, 23 facilities exited the scheme in 2024-25 because their pollution dropped below 100,000 tonnes. In most cases, these facilities were close to the 100,000 tonne threshold, and temporarily dropped below due to fluctuations in pollution or production. In addition, a number of large polluters exited temporarily due to suspension and disruptions, representing millions of tonnes of reported pollution reductions, including:

- › **1.1 million tonnes from the temporary closure of the Grosvenor Mine.** The mine closed after a methane explosion in June 2024, and was closed for the entire 2024/25 financial year, but is in early stages of reopening (Anglo American 2025).
- › **640,000 tonnes from the suspension of BHP's Western Australia Nickel operations,** due to low nickel prices globally. BHP plans to review the suspension in February 2027 (BHP 2024).
- › **231,000 tonnes from the temporary closure of Darwin LNG.** Darwin LNG resumed operations in 2026, exporting gas from the Barossa field (Santos 2026).

Meanwhile, 11 new facilities entered the scheme in FY25, adding 1.3 million tonnes of climate pollution. This includes three coal mines (the Cook Colliery, Blair Athol and Newlands mines), the opening of the Onslow iron ore mine and associated freight, and increased production and pollution at the six other facilities, bringing their annual pollution above the 100,000 tonne threshold.

Early data from this year show no signs of a change in course. Climate pollution from stationary energy use and industrial processes increased by 0.2% and 2% respectively in the first three quarters of FY26 compared with the same period last year, while fugitive emissions reduced by 2% (DCCEEW 2026a).



The fossil fuel sector has increased its climate pollution

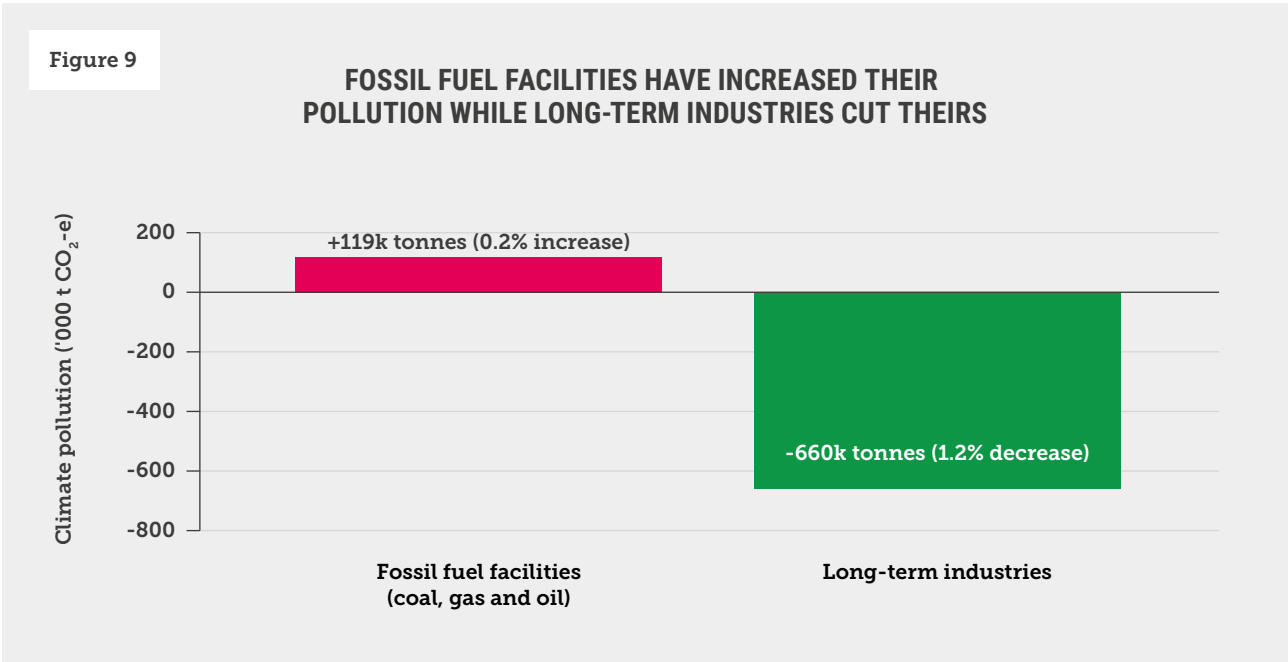
While the mechanism’s overall results show that pollution has barely budged, the results are even worse for the fossil fuel sector. Climate pollution from coal, oil and gas facilities – including facility entries and exits – dropped by just 1.5% in 2024-25, less than half of the 3.4% reduction across other sectors, and just under a third of the 4.9% mandated reduction rate.

But again this figure obscures the reality, as it accounts for facilities dropping in and out of coverage. As shown in Figure 9, the 97 fossil fuel facilities continuously covered by the scheme actually *increased* their pollution by 0.2% in FY25, compared to a 1.2% decrease from the remaining 100 non-fossil-fuel facilities.

As noted in chapter 2, the fossil fuel sector is responsible for the majority of climate pollution in the mechanism, and has some of the best options to cut climate pollution. Despite these options, and very high capacity to invest in cuts, the fossil fuel industry is increasing its climate pollution, but leaving others to pay the price for more global heating, and more frequent and severe climate impacts.

While pollution across the scheme remains too high, this increase from fossil fuel facilities is particularly concerning because it is eroding reductions in pollution that are occurring in other industries. If fossil fuel facilities had reduced pollution at the same rate as other industries, their pollution would have been about 1 million tonnes lower, tripling the cuts to climate pollution at continuing facilities.

Coal, oil and gas corporations are exploiting loopholes to *increase* their pollution rather than cut it.



Source: Climate Council analysis of (Clean Energy Regulator 2025, 2026a).

Polluters are buying offsets rather than cutting climate pollution

The Safeguard Mechanism's overall goal is to reduce climate pollution, by giving each facility a 'baseline' pollution limit that declines over time. Facilities are allowed to exceed their baselines, but they must buy and use offsets or credits to account for that additional pollution. Allowing facilities to use offsets and credits rather than enforcing strict pollution limits is intended to provide flexibility. For example, facilities may choose to use offsets where technology is not available to cut climate pollution, or where that technology is not yet cost-effective. Importantly, this flexibility should be temporary – helping facilities work towards genuine cuts to climate pollution at the source.

However, instead of providing flexibility, offsets are increasingly the first option for big polluters – and their use is increasing rapidly. As shown in Table 1, the number of offsets and credits used by facilities increased significantly over the past year.

The use of offsets is at least four times greater than the reported cuts to climate pollution, when facility exits and entries are included. It's around 20 times greater than the cuts reported by facilities that have been continuously covered by the scheme.

As pollution limits for Safeguard facilities decline year-on-year, it is clear that big polluters are electing to purchase an increasing number of offsets and credits, rather than genuinely cutting climate pollution. Under current policies, the use of offsets (ACCU) and credits (SMC) is expected to exceed genuine cuts to climate pollution at the source until 2035 (DCCEE 2025d). This high reliance on offsets is a symptom of the mechanism's design, which places no limits on the use of offsets, and never requires a facility to genuinely reduce its climate pollution. This is particularly concerning because, as explained in the previous section, offsets are not a valid substitute for cutting pollution at the source.

Table 1: The use of offsets and credits for compliance has increased significantly. **Source:** Climate Council analysis of (Clean Energy Regulator 2025, 2026a).

	2023-24	2024-25	Change
Credits (SMCs) used (millions)	1.4	2.6	+86.2%
Offsets (ACCU) used (millions)	7.6	10.8	+42.3%
Total offsets and credits used	9.0	13.4	+49.0%

AUSTRALIA'S BIGGEST POLLUTERS CAN CLEAN UP THEIR ACT

While the reformed scheme is early in its application, the weak results to date fall far short of what's necessary to achieve Australia's 2030 or 2035 climate targets. The Safeguard Mechanism is not on track to deliver sufficient – let alone strong – cuts to climate pollution. As shown in Figure 10, pollution in key sectors is projected to be almost twice as high as set out in the Government's own Net Zero Plan.

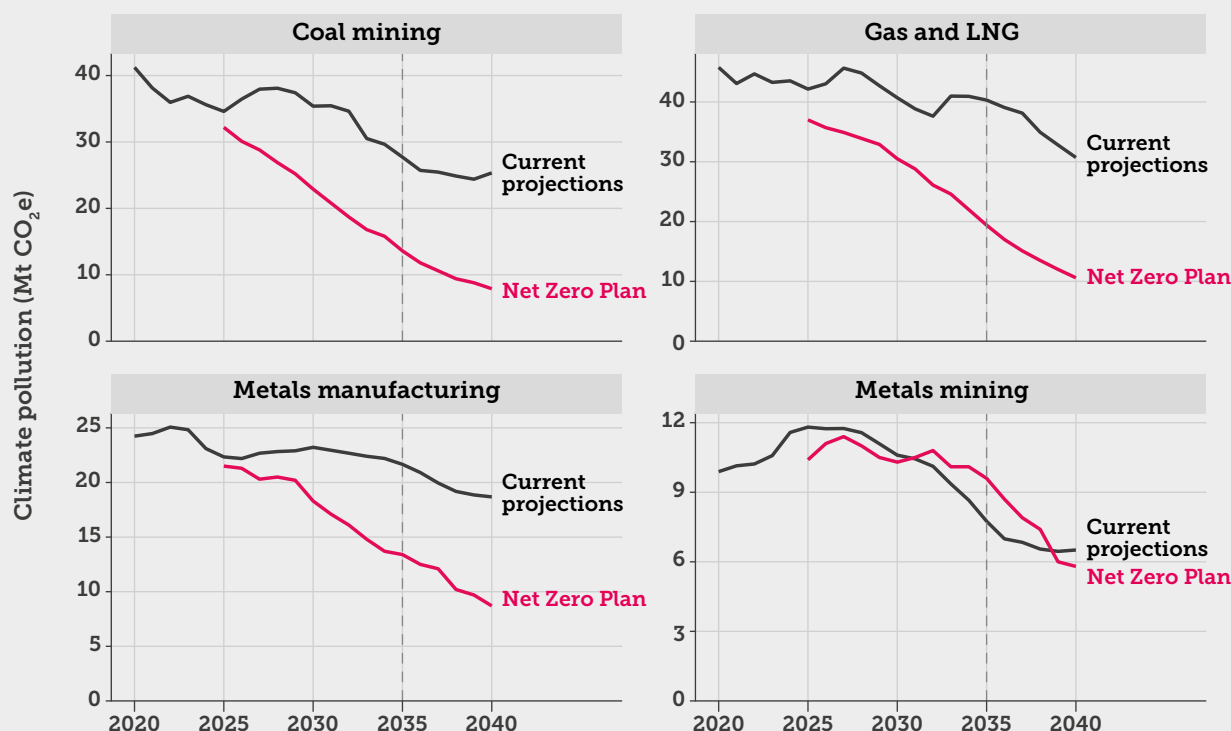
These underperforming projections are particularly concerning for coal mining, and the gas and LNG industry. As noted in Chapter 2, the resources sector has

some of the best options to cut climate pollution today, with proven, cost-effective technologies readily available.

If climate pollution from these sectors is not driven down, much larger cuts to climate pollution would be required in other sectors – primarily transport and agriculture. While more can and should be done to cut climate pollution in these sectors, available options to cut pollution are still emerging (such as cattle methane abatement) and slower to scale (e.g. transitioning the total fleet to electric cars) than investments at large-polluting facilities.

Figure 10

KEY SAFEGUARD SECTORS ARE NOT ON TRACK FOR AUSTRALIA'S 2035 CLIMATE TARGET



Source: Climate Council analysis of (DCCEEW 2025d, 2025e). Note: Discrepancies in initial values are driven by minor differences in emissions allocation between sources.

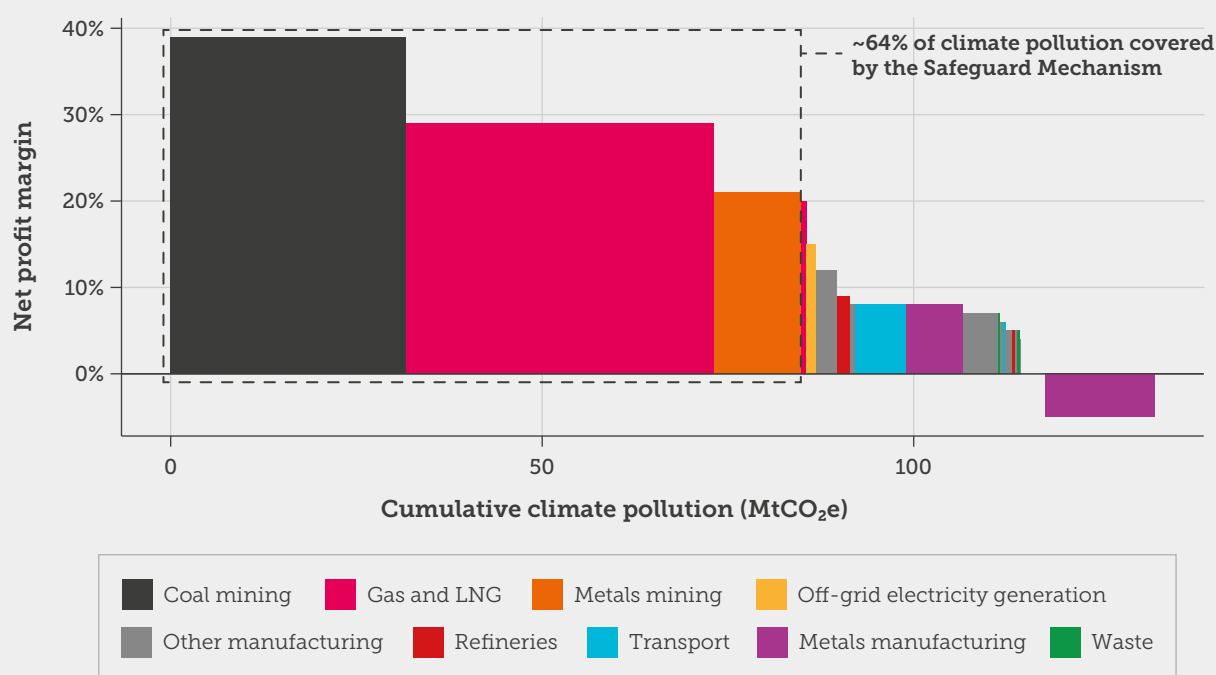
The resources sector also faces lower financial barriers to investing in cuts to climate pollution. While some industries operate with tight margins, almost two-thirds of the Safeguard Mechanism's climate pollution comes from three highly-profitable resources industries: coal mining, gas and LNG, and iron ore mining. With net profit margins from 21% to 39%, they are some of Australia's most profitable corporations, implying a significant capacity to invest in cutting climate pollution.

These significant profits extend to billions of dollars, and significantly outweigh the cost of compliance (through offsets) under the scheme. For example:

- › **The APLNG gas export facility** made a profit after tax of \$3.3 billion in 2024-25 (Origin 2025), but faced estimated Safeguard compliance costs of only \$5.3 million – only 0.16% of its profits. Even if APLNG were accountable for the entirety of its 2.2 million tonnes of climate pollution, compliance costs would only reach 2.4% of its profits.³
- › **The Roy Hill iron ore mine** made a profit after tax of \$1.8 billion in 2024-25 (Hancock Prospecting 2025), but was responsible for compliance costs of only \$3.1 million – 0.17% of its profits. Likewise, even if it were accountable for the entirety of its 480,000 tonnes of climate pollution, compliance costs would be less than 1% of its profits.

Figure 11

COAL, GAS AND MINING ARE HIGHLY-POLLUTING AND THE MOST PROFITABLE INDUSTRIES IN THE SAFEGUARD MECHANISM



Source: Climate Council analysis of (ATO 2026). Average net profit ratio in 2023-24 for businesses with income >\$20 million per annum (all businesses within industry). Emissions based on (Clean Energy Regulator 2026), linked to ATO data based on ANZSIC industry subdivision codes. Profitability data unavailable for rail and water passenger transport. Rail freight transport and Pulp, paper and paperboard manufacturing report 0% net profits, and are plotted but not visible.

³ Based on Climate Council analysis of baseline data, valued at the default prescribed unit price for 2024-25 (Clean Energy Regulator 2026a; DCCEEW 2026b).

Access to cheap and unlimited offsets undermines the case for pollution cuts

Buying offsets or credits has become the default compliance strategy under the Safeguard Mechanism, not because options to cut climate pollution on-site don't exist, but because offsets and credits are a cheaper and easier option. While offsets and credits are intended to provide flexibility for polluters as they work towards cutting pollution on-site, they are instead leaving facilities frozen at the start line: relying on offsets as their main compliance option, rather than temporarily or partially. This is because the price signals within the scheme that set the rate for offsets and credits are currently far too low, so using offsets is much cheaper than on-site pollution reduction.

In the first three years of the reformed Safeguard Mechanism, offset prices have only briefly exceeded \$40 – peaking at around \$42.50 ahead of the first compliance deadline in November 2024 – and have otherwise traded in the low-to-mid \$30s. After adjusting for inflation, offset prices have remained essentially flat for three years. This low price is insufficient to incentivise on-site cuts to climate pollution.

Figure 12 compares the Safeguard Mechanism's price signal (i.e. the price of buying offsets for compliance) with values that Australian governments and regulators use when planning for investments or policies that cut climate pollution. When governments or regulators consider an option to cut climate pollution, they use these benchmark values to decide whether it represents value for money. If an option to cut climate pollution is cheaper than the planning value, it's considered a good investment.

Because price signals in the Safeguard Mechanism are much lower than these 'benchmark' values, polluters in the mechanism are not doing their fair share to cut climate pollution. Polluters may have options to cut climate pollution that are more cost-effective than the options in other industries, but the low price signal means they won't use them. Put simply, big polluters currently pay far less for each tonne of climate pollution than what governments themselves consider that pollution to cost the community.

While the mechanism's price signal is projected to rise, it will remain far below these benchmarks throughout the coming decade. Even if prices rose faster than expected, they remain capped far below these benchmarks by the cost containment measure (see box on following page). While big polluters are allowed to pollute at low cost, others in the economy – especially the Australian Government – are left with the responsibility of cutting climate pollution, effectively subsidising polluting facilities.

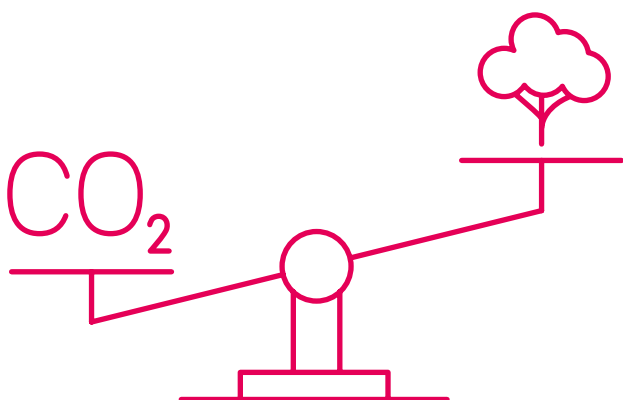
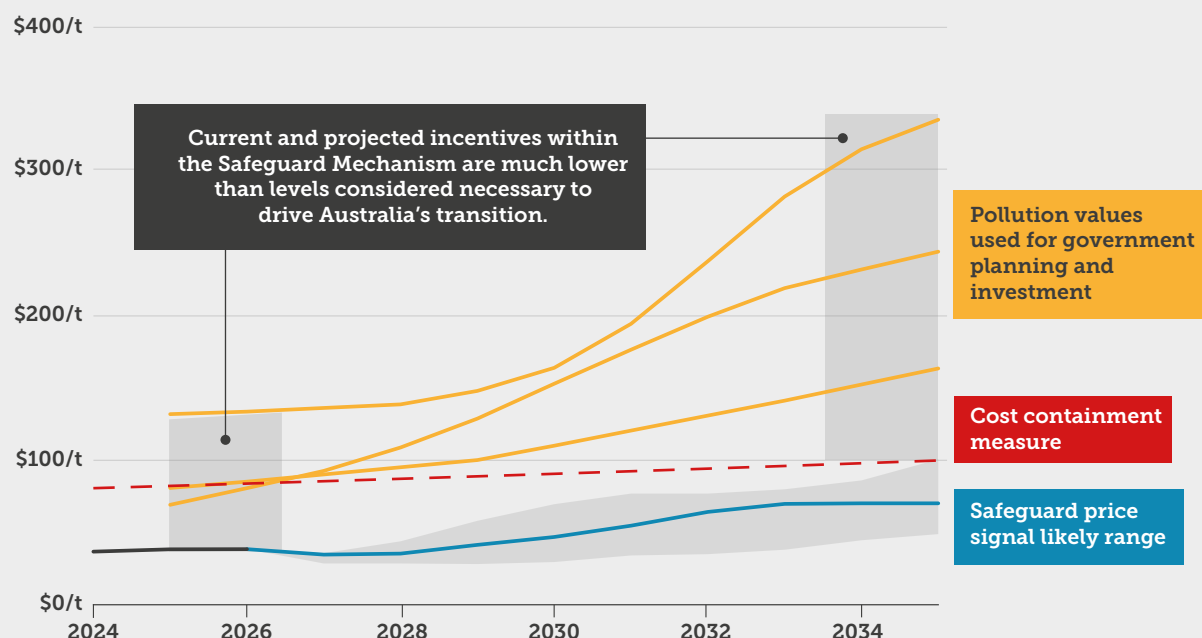


Figure 12

PRICE SIGNALS ARE EXPECTED TO REMAIN TOO LOW TO INCENTIVISE NECESSARY CUTS TO POLLUTION



Source: Adapted from (EY Net Zero Centre 2026). All values in real terms (i.e. excluding inflation), valued at June 2025 dollars. Safeguard price signal refers to ACCU price. Pollution values, from top to bottom in 2035, are planning values from NSW Government, Infrastructure Australia, and the Australian Energy Regulator.

The big problem is that polluters are able to buy as many cheap offsets as they like, rather than cutting pollution.

The 'cost containment measure' price cap

The 'cost containment measure' is a kind of price cap, which allows covered polluters to buy offsets (ACCU) from the Government at a set price.

If polluters exceed their baseline pollution limits, they must buy and surrender offsets to comply with the mechanism. While these are typically purchased on the private market, polluters also have the option to buy them from the government at a set price. This price was set at \$75 in 2023, and increases each year by 2% plus the rate of inflation, reaching \$87.72 for the 2026-27 financial year (Clean Energy Regulator 2026c). This represents a price cap, but its arbitrary low value is undermining incentives to cut climate pollution.



Offsets are currently the easy option for polluters

In addition to the low price of offsets and credits, their certainty also makes them more attractive to polluters. Under current rules, polluters can be confident that buying offsets will meet their requirements, and that they will be able to access affordable offsets, because of the price cap provided by the cost containment measure. This makes relying on offsets a low risk option for polluters. By contrast, investments in on-site cuts to climate pollution are not guaranteed, with inherent risks. An investment in a cleaner production process or renewable energy may face delays, cost blowouts, or fail to perform as expected, leaving facilities paying more than expected.

In addition to these typical risks, investments to cut climate pollution also face a more fundamental uncertainty: their value depends on climate policy itself. A facility can put reasonable odds on future commodity prices, but not on the outcome of successive Safeguard Mechanism reviews – or whether the scheme will survive future parliaments at all, as the repeal of the carbon price in 2014 showed.

This lopsided risk profile is made worse by the scheme's price cap on offsets, the so-called 'cost containment measure'. The cap means a polluting facility knows the most it will ever have to pay for compliance, if offsets are used. If offset prices spike, the cap protects them. But if prices fall – or a future government weakens or repeals the scheme – they pocket the savings. The result is that buying offsets is a surer-bet than cutting climate pollution on site.

The cap also weakens the case for cutting pollution on site: the main financial reward for cutting pollution is avoiding the cost of buying offsets, and the cap puts a ceiling on how large that avoided cost can ever be. The Safeguard Mechanism should incentivise reducing pollution and reward those that act swiftly. Instead, the price cap undermines these goals by making waiting less risky, and acting less valuable.

The Government must implement strong and durable policy settings to make sure our biggest polluters clean up their act.



There are also non-financial barriers to investing in cutting climate pollution, which mean that even where cost-effective options exist, polluters may still opt to rely on offsets. Making an investment in cutting on-site pollution requires investing time and resources into the investigation, design and implementation of solutions. These solutions are often outside a facility's core business, requiring additional staff and/or external advice, and adding organisational hurdles to having investments approved.

Further, investments to cut climate pollution are a capital expense, while using offsets is an operating cost. Capital expenses face a different process for approval, in competition

with all other candidates for investment amongst a business. Compared against an investment in expanding operations, which often offers stronger financial returns, even cost-effective options to cut climate pollution may appear inferior. Large capital commitments also weigh on corporate balance sheets, affecting debt-to-equity ratios and the financial performance measures boards set for management.

Unless big polluters face strong and durable policy settings that neutralise and outweigh the risks, uncertainty and headwinds associated with investing in on-site pollution cuts, they will not take real accountability for their pollution.

4. Eight ways to strengthen the Safeguard Mechanism and secure Australia's clean industry future

The Safeguard Mechanism is one of Australia's most significant climate policies, but it's also an important economic policy. If done right, the scheme could drive down one-third of Australia's climate pollution, while guiding the transition of industries worth more than \$300 billion per year to Australia's economy (Australian Bureau of Statistics 2026). And it can drive billions in clean energy and manufacturing investment, incubating the growth industries that will drive Australia's clean export future.

To contribute to Australia's climate targets and clean industry opportunity, the Safeguard Mechanism needs to incentivise cuts to climate pollution at the source. This means investment in renewable energy, energy efficiency, electrification, fuel-switching, and new industrial processes that reduce the use of fossil fuels and other sources of climate pollution – such as carbon dioxide released in chemical reactions.





Cutting climate pollution through investment in modern energy and industrial technologies delivers many benefits, including:

- › Ensuring that climate pollution is genuinely and permanently prevented from entering the atmosphere
- › Driving job creation and economic growth, particularly in areas critical to seizing Australia's green export opportunity
- › Lowering energy costs, and increasing productivity, as facilities upgrade equipment and processes
- › Reducing fossil fuel reliance, shielding industry from volatility in global energy markets, and reducing Australia's dependence on imported fuels

Delivering on this potential requires stronger policy settings. Since the Safeguard Mechanism's 2023 reforms, Australia's climate policy has come a long way. Our journey to cut climate pollution is now bolstered by a 2035 target (in addition to the legislated 2030 and 2050 targets), renewable energy policies such as Rewiring the Nation, Cheaper Home Batteries and the Capacity Investment Scheme, and almost \$30 billion in support for clean industry, including the \$5 billion Net Zero Fund and \$22 billion Future Made in Australia program.

The 2026-27 review of the Safeguard Mechanism is a critical moment to bring the Safeguard Mechanism up to speed with this progress and Australia's 2035 climate target, as well as address gaps that have become evident in the first two years since the 2023 reforms.

1 Align the scheme with the top end of Australia's 2035 climate target

Without reform, the Safeguard Mechanism's current settings will fall well short of Australia's 2035 climate target. The mechanism's current decline rate of 4.9% until 2030 was originally set to align with Australia's 2030 climate target. The decline rate for 2031 to 2035 was not set during the 2023 reforms, given Australia's 2035 climate target had not yet been set.

To hold global heating well below 2°C above pre-industrial levels and pursue efforts to limit temperature increase to 1.5°C, consistent with the Climate Change Act 2022 and Paris Agreement, Australia must cut climate pollution further and faster than both our current projections and targets. In this context, the Safeguard Mechanism's settings should deliver the greatest possible reduction in climate pollution.

For 2031 to 2035, the Safeguard Mechanism must be aligned with *at least* the top-end of Australia's 2035 climate target (a 70% reduction on 2005 levels), and maintain scope to drive further cuts to climate pollution if possible.

Such a commitment would reflect the Climate Change Authority's advice on the 2035 target, which states:

"The Authority recommends that the Australian Government adopt the 62-70% target, and in doing so present it as Australia's minimum commitment, aim for the top of the range, prepare for both breakthroughs and setbacks, and not rule out 'overachievement', should greater emissions reductions prove possible."

(Climate Change Authority 2025)

A failure to heed this advice when calibrating the Safeguard Mechanism would significantly undermine the credibility of Australia's 2035 climate target. The Safeguard Mechanism is Australia's clearest existing policy lever to deliver further cuts to climate pollution by 2035. As such, aiming for a lower target in the Safeguard Mechanism would essentially indicate the abandonment of aiming higher, calling into question the sincerity of Australia's target range.

Aligning the Safeguard Mechanism with at least the top-end of the 2035 target range is also critical to manage potential underperformance. The potential for higher fossil fuel production, revised methane estimates, or unexpected headwinds to abatement technologies could all result in higher than expected pollution, putting Australia's 2035 target at risk. Aiming for the top-end of the target range or higher places some buffer between these risks and achievement of the 2035 target.

While the Safeguard Mechanism's mandated rate of pollution cuts (or "decline rate") is the scheme's 'headline' setting, it is not the only one, or necessarily the most important. The scheme's contribution to our 2035 climate target will also be impacted by other policy settings, including rules around offsets, new facilities, and how different industries are treated.

As such, the Climate Council recommends that the Safeguard Mechanism's settings be aligned with *at least* the top end of Australia's 2035 climate target, which would mean a 6.8% decline rate from 2030, if all other settings remained the same.

2 Legislate updated 'Safeguard Objects' to track progress in the 2030s

Setting the right targets for the 2030s is only half the job. Those targets also need to be written into law, so there's a legal benchmark for judging whether the scheme is on track.

The law behind the Safeguard Mechanism (the National Greenhouse and Energy Reporting Act) contains a set of legislated goals, known as the 'Safeguard Objects'. These goals are yardsticks used to measure the scheme's progress. The Climate Change Authority's annual advice on whether the scheme is on track, and the department's monitoring of annual pollution data and new projects, are both measured against them.

The current Safeguard Objects cap the scheme's net climate pollution at 100 million tonnes in 2030, and cap total pollution between now and 2030 in line with Australia's 2030 climate target. If the scheme drifts off track, the Minister must consult on rule changes to fix it.

The problem is that these binding goals stop at 2030. After that, the only legislated goal is net zero by 2050 – leaving a 20-year gap with no benchmark to measure progress against, and no trigger requiring the Minister to act if pollution isn't falling fast enough.

To close this gap, the Government should legislate new Safeguard Objects for 2030 to 2035, capping both net and gross pollution in line with Australia's 2035 climate target.



3 Apply tougher rules to highly-profitable and highly-polluting industries with the greatest capacity to cut climate pollution

Setting different Safeguard Mechanism rules for different industries can drive greater pollution cuts.

Currently, the mechanism's relatively uniform treatment across sectors means that its settings (primarily, the baseline decline rate) must be considered appropriate across all sectors. This limits the cuts to climate pollution it can deliver, because uniform settings must be moderated to accommodate the most constrained sectors.

While some industries operate with tight margins, 64% of the scheme's climate pollution comes from three sectors with net profits above 20%: coal mining (39% profit), oil and gas extraction and exports (29%), and metal ore mining (21%). This is in contrast to other industries, particularly in manufacturing, which experience tight margins typically less than 10%.

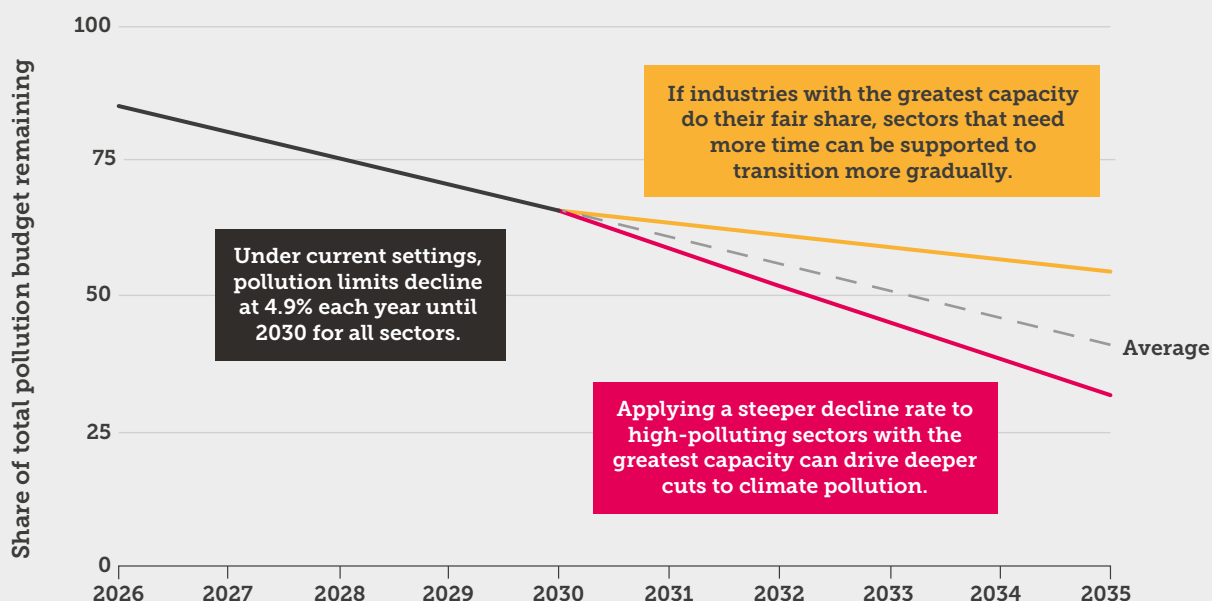
Just as the Safeguard Mechanism provides more generous settings to trade-exposed industries that need more time to adapt, there is a strong case to apply stronger settings to the most polluting and profitable industries, with the greatest technological and financial capacity to cut climate pollution – namely, in the resources sector. Under the Net Zero Plan, these industries cut climate pollution first. The Safeguard Mechanism should reflect this. By ensuring that facilities with the greatest capacity to cut climate pollution do their fair share, the overall cuts to climate pollution delivered by the mechanism can increase.

The 2026-27 review of the Safeguard Mechanism should better align the scheme's settings with each sector's capacity to contribute cuts to climate pollution. A higher pollution reduction rate (or decline rate) should be applied to industries that have the greatest technological and financial capacity: coal mining, oil and gas extraction, LNG exporters, and metals mining. This would allocate costs more progressively, driving investment in measures to cut climate pollution from highly-profitable facilities that can easily afford to do so.

For example, Figure 13 shows the impact of setting a 6.8% decline rate for the fossil fuel industry, but a 2.2% decline rate for other sectors to achieve an overall outcome that is equivalent to the current decline rate of 4.9% (Reputex 2026).

Figure 13

DIFFERENT DECLINE RATES CAN DELIVER POLLUTION CUTS MORE FAIRLY



Source: Illustrative example prepared by Climate Council.

Final decline settings for each industry should be set with reference to other changes in the scheme. One option which could be considered is to place most industries at the default decline rate (i.e. 3.285% per annum), with the decline rate for higher-capacity sectors set to align the mechanism's overall

trajectory with the top-end of Australia's 2035 target (70%). Importantly, industries under a lower decline rate may still lower their climate pollution more quickly than this rate, in order to receive valuable safeguard credits.

Coal, gas and mining corporations can cut pollution now – so they should face tighter pollution limits than long-term industries that have tighter margins and fewer options.

4

Phase-out offsets except where absolutely necessary

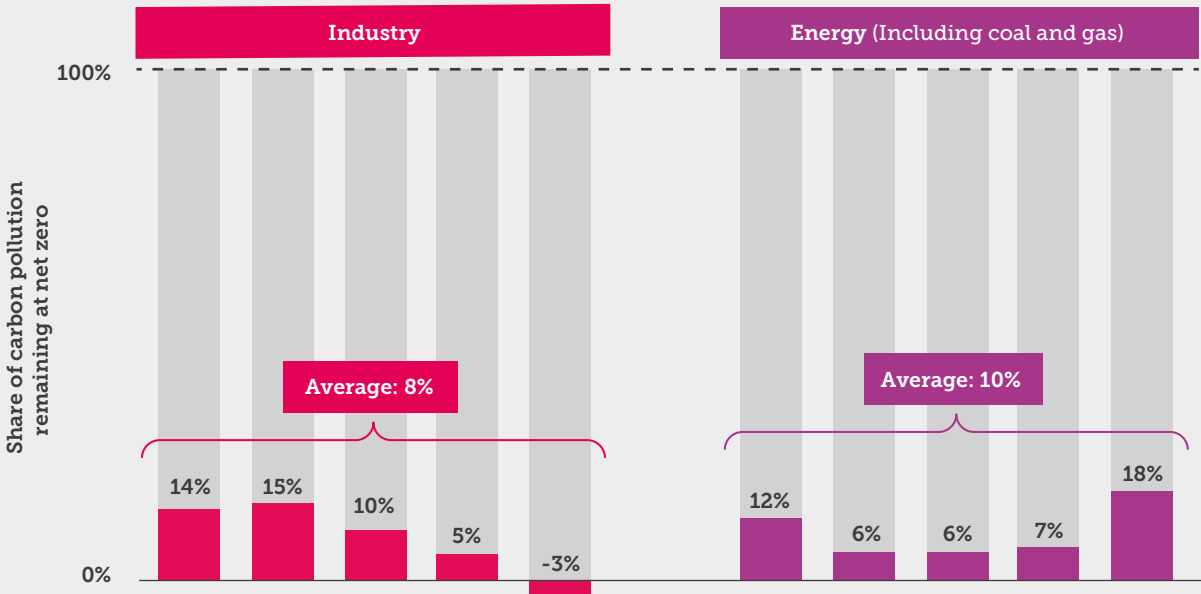
The most critical headwind to cutting industrial pollution is unlimited access to offsets, at a low and capped price. As long as facilities can guarantee compliance by buying cheap offsets – which don't reflect the true cost of their climate pollution – there is little incentive to make costlier or less certain investments in on-site pollution cuts. To deliver genuine cuts to climate pollution, the Safeguard Mechanism should introduce limits on the use of offsets, while providing more certain incentives for on-site pollution cuts. Given offsets are not an adequate substitute for on-site cuts to climate pollution, they should be a last-resort compliance option, not the first.

The Climate Council recommends that offsets (i.e. ACCUs) should transition to a limited role by 2035, permitted for use only for long-term industries with sources of climate pollution that cannot yet be cut. They should not be available to prop up fossil fuel producers, or to disincentivise viable options to cut climate pollution.

These rules would be consistent with the Intergovernmental Panel on Climate Change (IPCC)'s science-aligned pathways to limit global heating to 1.5°C or well below 2°C (IPCC 2022).

Figure 14

THE VAST MAJORITY OF CLIMATE POLLUTION FROM
INDUSTRY AND ENERGY NEEDS TO BE CUT AT THE SOURCE,
WITH ONLY A SMALL FRACTION 'OFFSET' AT NET ZERO



Source: Adapted from IPCC AR6 WGIII Technical Summary, Figure TS.10(e). Energy includes supply and transformation, including fossil fuel extraction, electricity generation, and refineries. Columns for each sector, from left to right, refer to IPCC illustrative mitigation pathways GS (<=2°C), LD, SP, Ren (<=1.5°C with no/minimal overshoot), and CDR (<= 1.5°C with significant overshoot) respectively.

Each column in Figure 14 shows the share of global carbon pollution remaining when the world reaches net zero, under five different IPCC science-aligned pathways. This carbon pollution is considered ‘residual’, meaning that it cannot yet be cut due to technology limitations or high costs. On average, only 8% of industry carbon pollution and 10% from energy is residual. Importantly, this reflects a global total, in the first year that net zero climate pollution is reached. In wealthy nations like Australia, and in later years, ‘residual’ (hard-to cut) pollution would be even lower.

To phase-in this limit, offset use should be capped to a falling percentage share of a facility’s pre-decline pollution budget (i.e. baseline), reducing to 5-10% by 2035 (consistent with IPCC pathways, as shown in Figure 14). Facilities requiring access to more offsets than permitted by default may apply for an exception by demonstrating substantial technical or economic barriers to cutting their leftover pollution.

In addition, the use of credits (SMCs) could remain mostly unlimited, since these are generated within the scheme. While the allocation of credits in early years of the scheme has often failed to reflect genuine cuts to climate pollution, the transition to industry-average baselines and tightening of baselines over time is expected to largely resolve this issue, such that SMCs increasingly reflect genuine pollution cuts.



5 Maintain the prohibition of international offsets

Offsets purchased from other countries, known as 'international units' or internationally transferred mitigation outcomes (ITMOs), are not currently permitted for use under the Safeguard Mechanism or any Australian climate policy – including state, territory, or national climate targets.

As a wealthy, developed nation with enormous renewable energy resources, Australia does not need to import offsetting options from other nations – we should instead be leveraging these advantages to cut climate pollution here, as deeply and quickly as possible.

The scope of the 2026–27 Review of the Safeguard Mechanism includes determining “whether international units should be considered”. Since this scope was set, the Australian Government has received further advice, and made commitments regarding international units:

- › The Climate Change Authority’s 2035 Targets Advice states that “Australia should not need to use international offsets to meet the 62–70% target by 2035.” (Climate Change Authority 2025).
- › The Net Zero Plan states that “The Australian Government does not currently allow [international offsets] to be used towards our national emissions reduction targets or for compliance purposes. Our focus is firmly on enabling our industries to reduce emissions domestically as this places them in the best position to capture the economic benefits of the transition to net zero.” (DCCEEW 2025e).
- › Australia’s 2035 NDC states that “Australia has no plans or policy to count internationally transferred mitigation outcomes for use towards NDCs.” (DCCEEW 2025c).

With no “plans” or “need” to use international offsets to meet Australia’s existing climate targets, the use of international offsets should be ruled out from the review, reflecting Australia’s broader standing position.

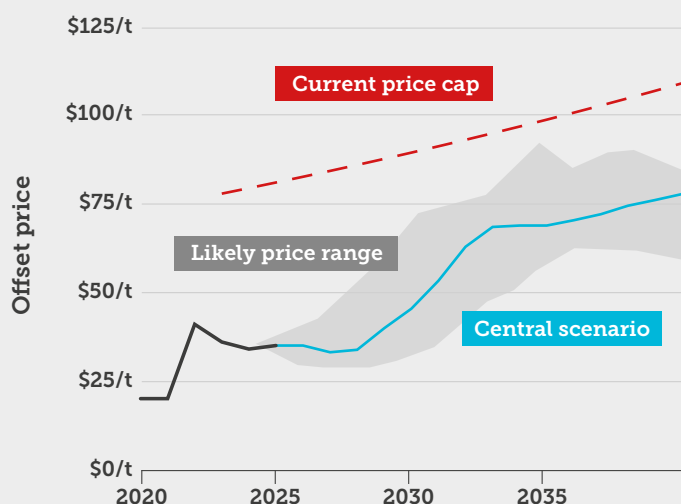
6 Reform offset price rules to incentivise cuts to climate pollution

In the first three years since the Safeguard Mechanism’s reform, weak price signals set by access to cheap offsets have delivered little to no incentive to invest in on-site pollution cuts. These investments require significant capital and involve increased risk – not only in predicting future offset prices, but in planning, implementation and operation. Under low and stagnant prices, facilities understandably decide not to invest in on-site pollution cuts, instead opting for a guaranteed and lower-risk option of buying offsets.

In addition to limiting offsets, pricing reforms would shift the Safeguard Mechanism’s incentives towards on-site pollution cuts, consistent with its legislated objectives. Importantly, pricing reforms can provide investment certainty for both facilities and offset producers, supporting more efficient investment decisions both within the scheme and across the economy.

Figure 15

UNDER CURRENT SETTINGS, INCENTIVES TO CUT POLLUTION ARE TOO LOW AND UNCERTAIN

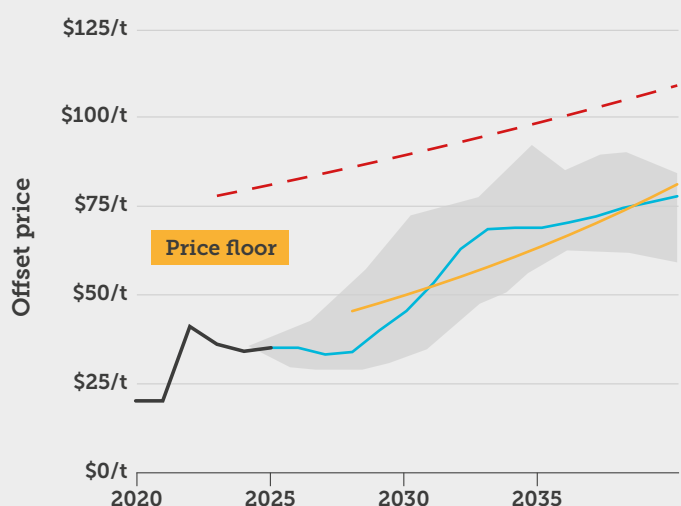


Facilities will only invest in cutting climate pollution if it is at least more cost effective than the alternative option: buying offsets.

But the outlook for offset prices is low, providing weak incentives. And it is uncertain, meaning investments in cutting pollution may not pay off if prices are lower than expected.

On the other hand, the 'cost containment measure' places a cap on prices, which limits the possibility of extra payoff from investments to cut climate pollution. The potential risks of investment are essentially unlimited, but the potential benefits are capped.

ADDING A PRICE FLOOR WOULD GUARANTEE A PREDICTABLE RISE OVER TIME, PROVIDING INVESTMENT CERTAINTY



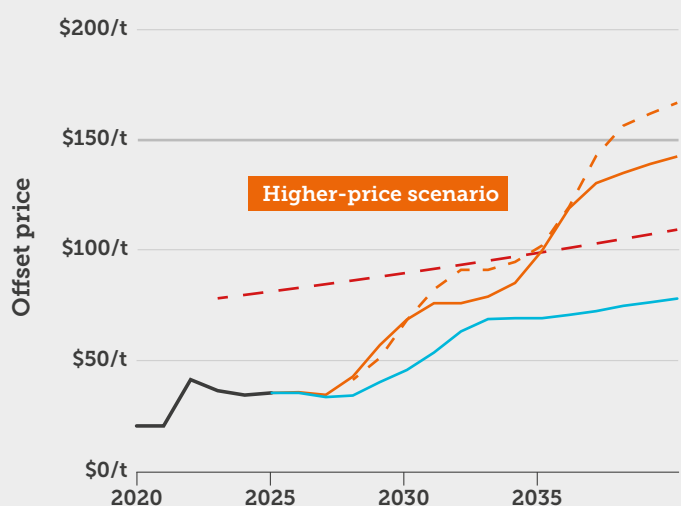
Adding a price floor would provide equal treatment for the risk of high and low prices, increasing certainty for Safeguard facilities and offset producers alike.

Where the price cap limits the risk of high prices causing instability, a price floor limits the risk of low prices that fail to provide sufficient incentives to cut pollution.

The floor could be implemented as a royalty charged on offset use, with any revenue raised being hypothecated for reinvestment into cutting pollution at Safeguard facilities.

This chart shows an example price floor, commencing at \$45 in FY28 and increasing by 5% per year.

SWITCHING FROM A PRICE 'CAP' TO A 'SPEED LIMIT' EASES PRICE SPIKES BUT MAINTAINS STRONG INCENTIVES TO CUT CLIMATE POLLUTION



The cost containment measure price cap will end in 2030, unless remade.

If a price cap continues, it should transition to a cap on the rate of price rises, not prices themselves. This limits short-term volatility, but maintains market-driven price setting and incentives over time.

For example, the price cap (dotted line) in the orange higher-price scenario prevents prices from rising more than 20% from the previous year. This allows prices to stabilise above the current price cap, without excessive spikes that could lead to price corrections.

7 Close loopholes that let fossil fuel projects dodge stronger pollution limits

Under the Safeguard Mechanism's current setting, 'new' facilities are given stricter 'international best-practice' pollution limits, reflecting the expectation that they incorporate best practice technologies from day 1. However, expansions and extensions of existing facilities are not held to the same standard: they get to keep weaker industry-average pollution limits, even though expanding an existing coal mine or gas field is a fresh investment decision, materially equivalent to a new project.

This difference in treatment between expansions and new projects allows proponents to avoid more stringent international best-practice pollution limits, leading to materially lower incentives for investment in new, genuinely low-pollution projects. If this loophole did not exist, an existing proponent may choose to build a new facility with best-practice, low-pollution production processes. Instead, they are incentivised to expand their existing facility, even if this leads to higher pollution than a new project.

This issue is especially clear for expansions to coal mines and gas projects.

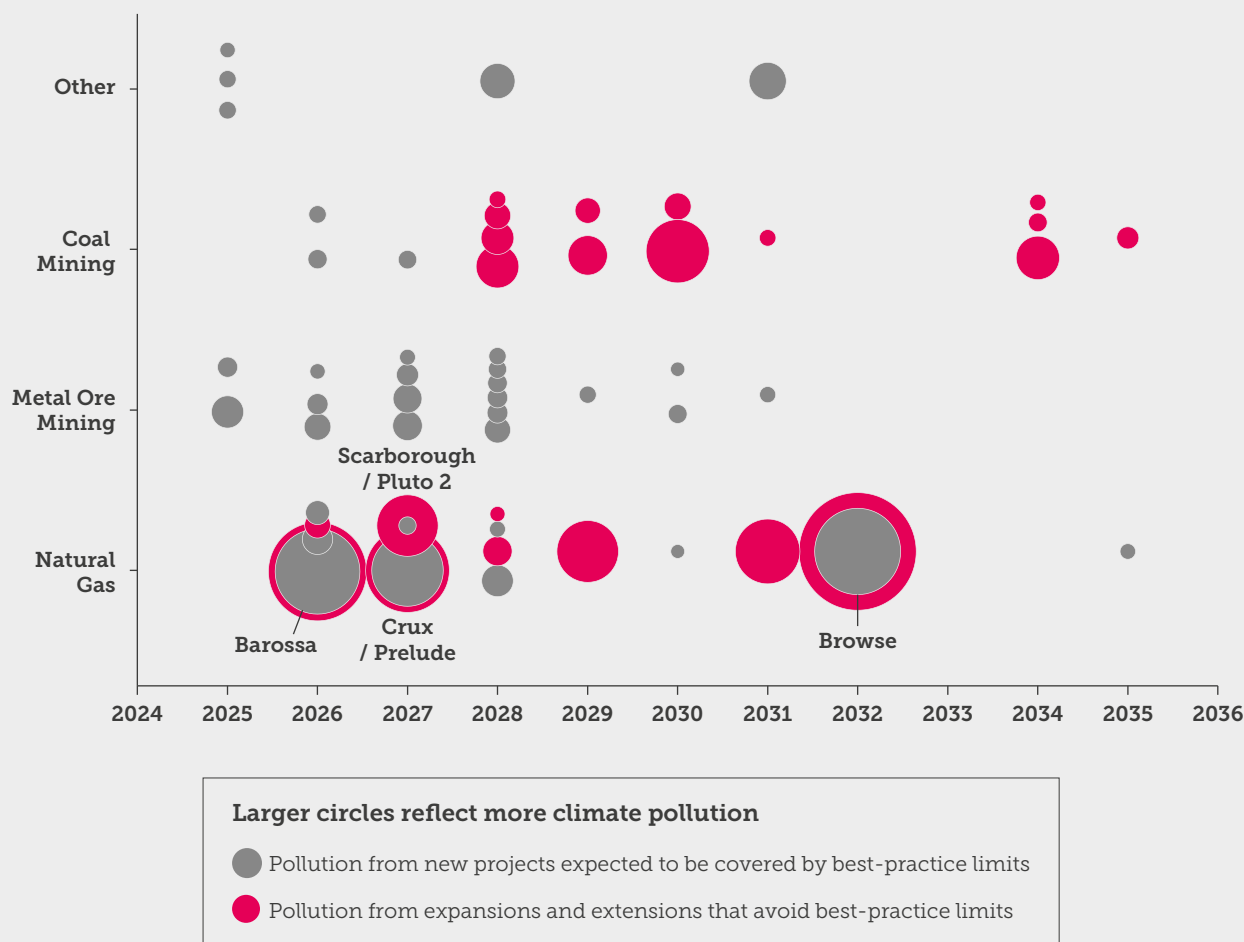
- › **Coal mines:** Since 2022, 77% of coal mining projects approved under the national environment law (EPBC Act) were expansions or extensions (Climate Council 2026c). Now, 80% of the 35 projects in the queue for approval are expansions and extensions. Despite being sufficiently 'new' to require an environmental approval application, it is unclear whether any of these projects would be considered 'new' under the Safeguard Mechanism.
- › **Gas extraction:** At least three major new gas projects have been approved since 2022, or are awaiting approval.⁴ In addition, an extension of Woodside's North West Shelf gas export project from its current closure date in 2030 to 2070 received approval (Climate Council 2026c).



⁴ Goodwyn Area Infill Development OPP ([approval](#)), Gorgon Gas Development: Backfill Fields OPP ([approval](#)), Browse to North West Shelf Development ([application](#)).

Figure 16

OVER THE NEXT DECADE, 22 COAL AND GAS EXPANSIONS AND EXTENSIONS COULD AVOID BEST-PRACTICE POLLUTION LIMITS



Source: (Reputex 2026).

Over the next decade, 22 coal and gas expansions and extensions are expected to enter the Safeguard Mechanism under standard pollution limits, accounting for around 20 million tonnes of climate pollution per year (before potential on-site pollution cuts). This distortion can be effectively addressed by expanding best-practice pollution limit benchmarks to material expansions or extensions of existing facilities. The materiality threshold would be triggered for expansions requiring a Commonwealth or state approval, expansions in production of more than a certain percentage, or for extensions of more than 12 months (cumulatively, if multiple extensions occur).

Applying best-practice pollution limits to expansions and extensions at existing coal mines and LNG facilities lifts the volume of pollution held to best-practice standards by more than 2.7 times by 2035, from 11 to 31 million tonnes a year. This would raise the share of projected 2035 pollution covered by best-practice pollution limits from 8% to 21% (Reputex 2026). Under a continued 4.9% decline rate, this reclassification would lower the Safeguard Mechanism's net pollution by around 7% in 2035 (Reputex 2026).

8 Make fossil fuel developments accountable for all of their domestic climate pollution from day one

To limit global heating to the safest levels still possible, there is no room for new fossil fuel developments. Scientists and energy experts have warned that fossil fuel extraction and use must plummet in order to avoid the most catastrophic impacts of climate change:

- › In 2023, the Intergovernmental Panel on Climate Change warned that climate pollution from the remaining life of existing fossil fuel infrastructure alone would breach the 1.5°C temperature limit, while emissions from existing and planned infrastructure could approach the 2°C temperature limit (IPCC 2023).
- › In 2023, the International Energy Agency (IEA) concluded that to limit warming to 1.5°C, the necessary decline in fossil fuel demand negates the need for new long lead time conventional gas projects (IEA 2023).
- › Climate change researchers have consistently warned that both current and projected production of gas, oil, and coal – including by Australia – exceeds levels consistent with limiting warming below 2°C (SEI, Climate Analytics, & IISD 2025).

However, the Safeguard Mechanism currently sends the opposite signal. Every new coal and gas project that enters the scheme is handed a free allowance to pollute, in the form of a baseline pollution limit. While baselines are declining over time, their gradual decline does not reflect the urgent need to end fossil fuel development. For example, baseline limits in 2030 will still be 65% of their starting level, leaving even new fossil fuel projects with a material ‘free’ pollution buffer.

To be aligned with the scientific consensus outlined in this chapter, new fossil fuel developments should not proceed. However, Australian governments are continuing to greenlight coal and gas projects, in spite of this evidence.

In this context, the Safeguard Mechanism should at least ensure fossil fuel developments do not receive a free pollution allowance. Instead, the best-practice limits for coal, oil, and gas developments should be set to zero. This builds on recommendation 7 (‘Close loopholes that let fossil fuel projects dodge stronger pollution limits’), which would ensure that project expansions and extensions are covered by the same best-practice pollution limits as new projects.

There is clear precedent for this zero-baseline approach in the Safeguard Mechanism. The 2023 reforms set zero baselines for two activities: shale gas extraction, and carbon dioxide released from new gas fields that supply LNG facilities. For these activities, polluters are responsible for every tonne of their climate pollution, from the very first tonne. This recommendation extends that principle to all new, expanded and extended coal and gas developments.

New coal, oil and gas developments should not receive a free pass to pollute.



ALIGNING SUPPORTING POLICIES

In addition to reforms to the Safeguard Mechanism, key supporting and conflicting policies should also be reviewed by the Government this term to better align with the goals of Australia's Net Zero Plan and the Future Made in Australia program. Two key reform opportunities are outlined here.

Reform the diesel fuel tax credit

The diesel fuel tax credit directly undermines the intent and effectiveness of the Safeguard Mechanism. Diesel use by iron ore and coal mining for haulage and electricity generation currently represents up to 19 million tonnes of climate pollution under

the Safeguard Mechanism.⁵ This pollution is effectively subsidised by the Government to the tune of more than \$190 per tonne, which is more than five times greater than the incentive to cut climate pollution provided by the Safeguard Mechanism (i.e. the price of purchasing an offset) (Fortescue 2026a). This undermines any case for facilities to invest in reducing diesel use, with Safeguard price signals not projected to exceed these levels within the next 15 years (EY Net Zero Centre 2026). The result is wasteful and incoherent policy: taxpayers fund the administration of a scheme to cut industrial pollution, as well as a taxpayer handout that pays the same facilities far more to keep polluting – sending conflicting signals to industry.

Most diesel use covered by the scheme has commercially available alternatives – such as electrified haulage and off-grid solar and batteries – that can be deployed at scale in the near-term. Unlike the fuel tax credit – a recurring expenditure that will only grow – these are one-off capital investments that permanently cut pollution, reduce reliance on imported diesel, and deliver a lasting saving for taxpayers and firms alike.

The fuel tax credit should be phased out, starting with its largest users – covered by the Safeguard Mechanism – as a priority. For example, capping claims to \$50 million per year per group would remove a \$2.5 billion disincentive to cutting climate pollution, and only affect 18 large mining or transport corporations (Pollard and Jonson 2026). Savings from phasing-out the credit could be reinvested in support for industrial electrification.



⁵ Total diesel emissions from mining were approximately 22 million tonnes in 2025 (IEEFA 2026). With 86% of total resources sector emissions covered by the Safeguard, up to 19 million tonnes of diesel emissions are likely covered by the mechanism.

End approvals of new, expanded and extended fossil fuel projects

While the Safeguard Mechanism regulates facilities after they are approved, no Australian Government policy considers the climate change impacts of new, expanded or extended fossil fuel projects. The Australian Government continues to approve new fossil fuel developments, despite scientists and energy experts warning that fossil fuel extraction and use must plummet in order to avoid the most catastrophic impacts of climate change.

In 2023, the Intergovernmental Panel on Climate Change warned that climate pollution from the remaining life of existing fossil fuel infrastructure alone would breach the 1.5°C temperature limit, while emissions from existing and planned infrastructure could approach the 2°C temperature limit (IPCC 2023). The Albanese Government has approved more than 35 new, expanded and extended coal, oil and gas developments (Climate Council 2026c).

The legal and diplomatic risks of continued approvals are also rising. In a unanimous 2025 advisory opinion, the International Court of Justice found that Governments have a legal responsibility to act on climate change, and that ongoing fossil fuel production and licensing may constitute an internationally wrongful act. The Australian Government endorsed this advisory opinion by supporting the United Nations General Assembly resolution on the same topic.

Australia has also joined 23 other nations in signing the Belém Declaration on phasing out fossil fuels, and as President of Negotiations for COP31, is championing a new global goal to lift electrification from 20% to 35% of world energy demand by 2035 – replacing fossil fuels with clean electricity (UNFCCC 2026). Each new coal and gas approval sits at odds with these commitments, and shifts the growing legal, financial and climate risks onto the Australian Government and community.



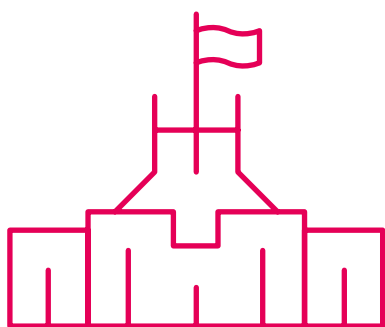
Within the context of the Safeguard Mechanism, approving further fossil fuel projects adds new climate pollution to the scheme, and makes it harder to deliver pollution cuts in line with our climate targets:

- › Higher-than-expected fossil fuel production, broadly aligned with the International Energy Agency's 'current policies' scenario, could increase gross climate pollution under the Safeguard Mechanism by 5% between 2031 and 2035, and increase the necessary pollution reduction (or decline) rate by 0.7 percentage points a year (Reputex 2026).
- › Approving Woodside's Browse to North West Shelf project, alongside the now-approved extension to the Karratha Gas Plant, could add \$60.9 billion in incremental compliance costs between 2031 and 2050, with an additional \$276 million for the average Safeguard-covered facility (Myburgh 2025).

The Safeguard Mechanism is not currently equipped to deal with these risks.

The Australian Government's 2025 reforms to our national environmental laws confirmed that proponents must disclose their expected scope 1 and 2 pollution and how they will manage it – but this information is for transparency only, cannot inform approval decisions, and excludes the far larger pollution released when exported coal and gas are burned. In declining to assess climate impacts under environmental laws, the Government's stated position is that climate pollution is managed through the Safeguard Mechanism instead.

The 2026-27 review must now make good on that claim. If the Safeguard Mechanism is to serve as Australia's answer for the climate impacts of new, expanded and extended fossil fuel projects, it cannot continue to hand them industry-average baselines and unlimited access to cheap offsets. At a minimum, all new fossil fuel projects, expansions and extensions should be responsible for all of their climate pollution from day one – per recommendation 8 – with offset use strictly limited, so that proponents cannot point to paper compliance as evidence their pollution is acceptable.



Approving new sources of climate pollution directly undermines the Albanese Government's climate goals and policies, including the Safeguard Mechanism.

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Page 34: 'Alpha HPA (High Purity Aluminium) industrial site', photo by Climate Council. Alpha HPA (High Purity Aluminium) in Gladstone, is a 10-hectare facility that will be capable of producing 10,000 tonnes of HPA per year.

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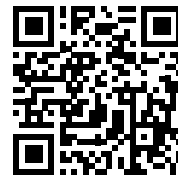
Page 48: North West Shelf gas export project via Save Our Songlines.

The Climate Council is a fearless champion of the climate solutions that Australia needs. People power got us started and we are proudly community-funded and independent.

The Climate Council acknowledges the Traditional Owners of the lands on which we live, meet and work. We wish to pay our respects to Elders, past and present, and recognise the continuous connection of Aboriginal and Torres Strait Islander peoples to land, sea and sky. We acknowledge the ongoing leadership of First Nations people here and worldwide in protecting Country, and securing a safe and liveable climate for us all.

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