



## Climate Council of Australia

Submission to: Department of Climate Change, Energy, the Environment and Water, 2026-27 Review of the Safeguard Mechanism consultation paper

Addressed to: Safeguard Mechanism Review Team, DCCEEW

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# About the Climate Council

Climate Council is Australia's own independent, evidence-based organisation on climate science, impacts and solutions.

We connect decision-makers, the public and the media to catalyse action at scale, elevate climate stories in the news and shape the conversation on climate consequences and action, at home and abroad.

We advocate for climate policies and solutions that can rapidly drive down emissions, based on the most up-to-date climate science and information.

We do this in partnership with our incredible community: thousands of generous, passionate supporters and donors, who have backed us every step of the way since they crowd-funded our beginning as a non-profit organisation in 2013.

To find out more about the Climate Council's work, visit [www.climatecouncil.org.au](http://www.climatecouncil.org.au).

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## Summary of recommendations

- 1 Introduce improved scheme reporting to support a focus on genuine, on-site abatement.
- 2 Introduce limits on offsetting to address market failures systematically disincentivising on-site abatement.

Phasing out offsets except where absolutely necessary, judged through an independent evidence-based test, is the preferred approach. Offsetting should be limited to 5–10% of pre-decline baselines by 2035.

In the absence of offset limits, a reinvestment contribution is the next best option, and could support a transition to quantitative limits.

- 3 Introduce vintaging to support the integrity of Australia's multi-year NDC commitments.
- 4 Improve transparency and assurance of the Safeguard Mechanism by requiring the submission of forward-looking statements, reporting anticipated facility production, emissions intensity and compliance approach to 2050.
- 5 Maintain the prohibition of international offsets, and rule them out permanently.
- 6 Restrict banking and multi-year monitoring periods, and end access to borrowing adjustments.
- 7 Reform offset price rules by introducing a price floor for offsets and repealing the CCM. If a price cap is retained, it should function as a dynamic 'speed limit' on price rises, not an absolute cap on prices.
- 8 Consider the role of TEBA in context of broader differentiation, given its role in effect as a transition-assistance measure.
- 9 Prohibit coal, oil, or gas facilities from accessing TEBA assistance.

- 10** Introduce a border carbon adjustment for cement and clinker, and review opportunities to extend it to other commodities over time.
- 11** Establish separate production variables for underground and open cut mines, transitioning baselines to a 100% industry average basis by 2035 at the latest.
- 12** Establish mandatory national reporting for transport sectors.
- 13** Set best-practice emissions intensities for fossil fuel extraction and export to zero, in line with the best available science.
- 14** Introduce a phased decline in the coverage threshold, to 75,000 tonnes in the first instance.
- 15** Introduce coverage of coal-fired generators through a zero-baseline introduced beyond reasonable closure dates. Set a zero baseline for all coal-fired generators after 2035.
- 16** Close loopholes that let new developments dodge stronger pollution limits by applying best-practice pollution limits to all material expansions and extensions.
- 17** Maintain the SGM's current static, proportional share of emissions.
- 18** Legislate updated Safeguard Objects to track progress in the 2030s, capping both net and gross scheme pollution consistent with the 2035 target.
- 19** Align the mechanism with the top end of Australia's 2035 climate target – a 6.8–7% overall decline rate across the scheme, under current settings.
- 20** Apply stronger decline rates to highly-profitable and highly-polluting industries with the greatest capacity to cut climate pollution, with a moderated decline rate for industries with lower capacity.

# 1. Introduction and context

## 1.1 Escalating global heating and climate harm demands an increasingly urgent mitigation response

Every fraction of a degree of global heating matters, and the world is running out of time to avoid increasingly dangerous and severe climate impacts. Under current policies, global heating is on track to reach 2.6°C by 2100, and continue rising in the next century (Climate Action Tracker 2026).

In September 2026, the United Nations Environment Programme concluded that exceedance of 1.5°C above pre-industrial levels is now unavoidable (UNEP 2026). The UNEP concludes that “overshoot is not an argument for resignation, but rather for urgency to action.” Lowering the peak of global heating, and limiting the duration of heating above safer levels (1.5°C and below) reduces the risk to people, nature and the economy, including the chance of triggering irreversible tipping points.

As global heating nears a sustained rise above the critical 1.5°C goal, the chance of ‘tipping points’ being triggered becomes more likely. A number of tipping points are at risk of being triggered at 1.5°C, including the thawing of the Greenland and West Antarctic ice sheets (rising sea levels), abrupt permafrost thaw (releasing methane, a potent greenhouse gas, into the atmosphere) - methane), and warm-water coral reefs collapse (loss of unique ecosystems, marine life and livelihoods); while a second cluster of tipping point thresholds are estimated to sit around 2°C (Lenton *et al.* 2025).<sup>1</sup> That makes the depth and the pace of pollution cuts into the future much more consequential and urgent, not less.

Australians are already living with the results of past inaction. The 2025/26 summer saw Victorian communities flung from catastrophic fire warnings to flash flooding within a week and back to extreme heat ten days later, western Queensland receiving its average annual rainfall in five weeks, and Western Australia’s Eyre Highway closed by fire and then by floodwater within two days (Climate Council 2026a). The current, higher warming trajectory could cost the average NSW worker around \$3,500 in lost annual income every year for the next 50 years (Net Zero Commission 2026).

Australian households are responding. More than 4.4 million families have rooftop solar, more than 340,000 installed a home battery in the past year,

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<sup>1</sup> Including widespread mountain glacier thaw, boreal forest dieback, and collapse of the AMOC

and renewables and storage supplied more than half of the main national grid for the first time in the final quarter of 2025 (Climate Council 2026a).

Australia's largest industrial polluters are not keeping pace. Pollution from the industry and resources sectors is expected to fall just 7.6% over the five years to 2030, against a 19% reduction across the economy (DCCEEW 2025b).

This gap represents not only a missed opportunity to cut climate pollution, but also unfulfilled energy security, productivity, and competitiveness opportunities. Cutting pollution at the source and strengthening Australia's energy security are mutually reinforcing tasks. The consultation paper confirms the expectation that Safeguard facilities will save 18 billion litres of diesel and over 1,000 petajoules of natural gas use to 2035. Those savings are delivered through on-site investment and real pollution reductions: electrified haulage, off-grid renewables, energy efficiency and fuel-switching. Offsetting does not deliver these benefits – it simply fulfills a compliance obligation.

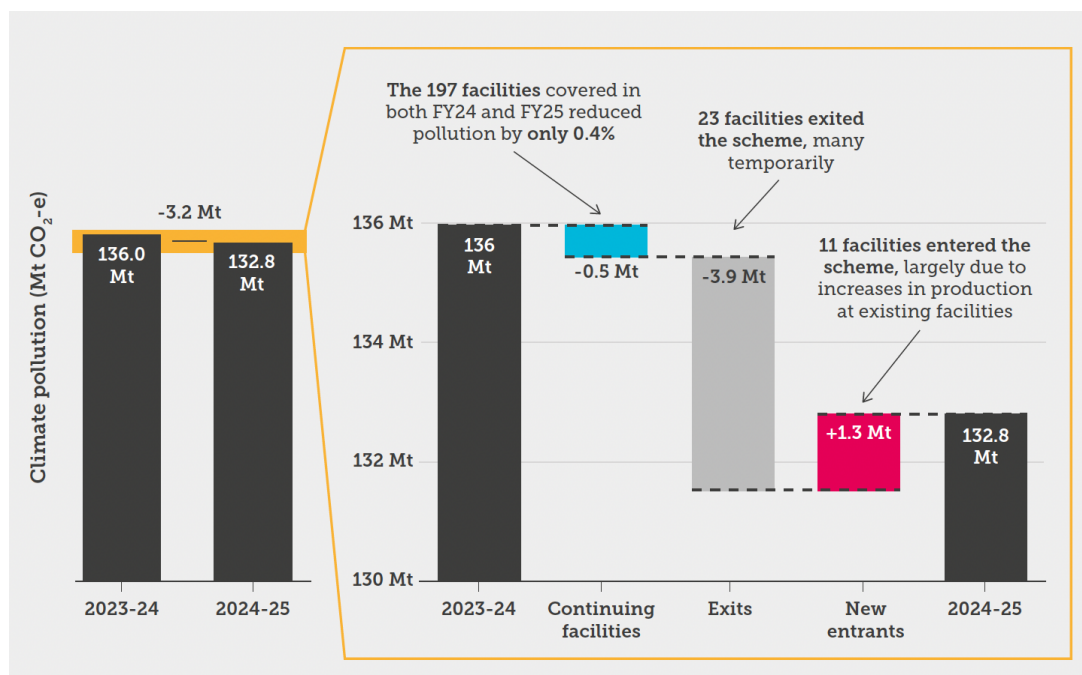
## **1.2 The evidence from two years of the reformed scheme**

The consultation paper concludes that the SGM is broadly working on track for its 2030 Objects, with risks to be monitored. While true, this fact is attributable to the fact that the SGM's Objects are primarily based on net emissions. Supported by the reserve in the initial scheme, the achievement of most of these Objects only required that gross covered emissions not substantially increase. This is not a high bar.

Much less progress is being made in reducing direct (gross) emissions from covered facilities. Indeed, the consultation paper notes that the SGM Object to reduce five-year rolling gross emissions is only being met by a small margin, and in part due to suppressed emissions during COVID-impacted year. This is especially concerning, given the object only requires that rolling average emissions decline in general, rather than a material reduction.

Between 2023-24 and 2024-25, gross covered emissions fell 3.2 Mt CO<sub>2</sub>-e, or 2.3%. Climate Council analysis finds that only around 543,000 tonnes of that, 0.4%, came from reductions at facilities continuously covered across both years (see Figure 1, (Climate Council 2026a)).

**FIGURE 1: TWO YEARS POST-REFORM, SAFEGUARD FACILITIES HAVE MADE LITTLE PROGRESS CUTTING ON-SITE CLIMATE POLLUTION**



The remainder is accounted for by temporary closures, including the Grosvenor mine, BHP's Western Australia Nickel operations and Darwin LNG, all of which have reopened or may reopen, and by facilities dropping below the 100,000 tonne threshold, which produces a book reduction in covered emissions of at least 100,000 tonnes without actual abatement anywhere near that level.

Continuously covered fossil fuel facilities increased their pollution by around 119,000 tonnes since the reformed SGM came into force. Had they cut at the same rate as other industries, pollution would have been about 1 million tonnes lower, tripling the cuts delivered at continuing facilities.

Offset and credit use has moved in the opposite direction. ACCU surrenders rose 42%, from 7.6 to 10.8 million units. SMC surrenders rose 86%, from 1.4 to 2.6 million units. Combined use rose 49% in a single year. Under current settings, offset and credit use is expected to exceed genuine cuts at the source until at least 2035.

A scheme that has delivered 0.4% in genuine cuts, while offset use rises 49%, is not yet working to sufficiently lower real emissions. This is a clear indication the design needs to change to better deliver real emission cuts while still supporting the industries Australia needs to flourish in a net zero economy.

The Government's own consultation paper notes the slow pace of on site emission reductions, stating "This remains a watch point moving forward and the Government is keen to ensure the pace of industrial decarbonisation is sufficient to meet Australia's medium and long-term emissions goals" (p.6)

## 2. Tracking progress to 2030

The scheme's headline results overstate its performance in terms of delivering covered facility on-site abatement, which is the ultimate goal of the Safeguard Mechanism. The monitoring framework should be changed so that Government, stakeholders and the general public have a more transparent view of the scheme's performance, and what is driving headline results, especially its effectiveness in delivering its ultimate goal of on-site abatement.

Reported gross emissions move for reasons that have nothing to do with abatement: facilities close temporarily, production shifts, operations fall below the coverage threshold, and new facilities enter. Aggregating these with genuine on-site cuts produces a number that cannot be used to assess whether the scheme is working and does not provide a detailed enough picture of scheme performance to guide Government assessments and refinements over time.

The Climate Council recommends the review adopt the following as standard reporting, retrospectively and ongoing:

- **A continuing-facilities decomposition.** Changes in covered emissions should be split between facilities continuously covered since the 2023 reforms, on a rolling basis for later post-reform years, and changes driven by entries, exits, outages and closures. On this basis, genuine cuts at continuing facilities were around 543,000 tonnes in 2024-25, against a headline reduction of 3.2 Mt. A gross emissions figure, including previously-covered below threshold facilities, should also be reported.
- **Decomposition of the drivers of change in gross emissions,** including changes in production and in emissions intensity at industry and production-variable level.
- **Ongoing gross and net reporting at scheme, sector and facility level,** so that offset purchases are never conflated with abatement.
- **Expanded operational and abatement plans,** as outlined in section 3.1.

- **Reporting of covered methane on a GWP20 basis** alongside the GWP100 compliance metric, so that the near-term warming consequences of the scheme's largest single pollution source are transparently acknowledged, and evident to Government, the Climate Change Authority, interested stakeholders and the public.

### Recommendation 1

Introduce improved scheme reporting to support a focus on genuine, on-site abatement.

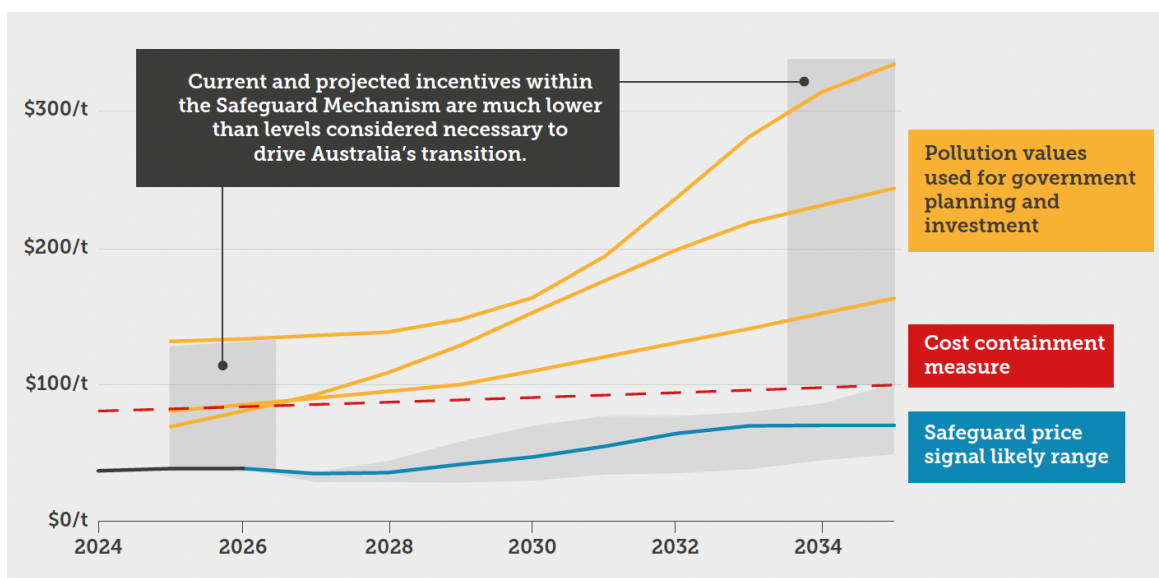
## 3. Current scheme settings

### 3.1 Flexible compliance

*Are Safeguard settings and government programs suitable for developing and deploying emissions reduction technology?*

No. The scheme's settings do not currently make on-site investment the rational first choice for most facilities, for the reasons set out throughout this submission: offsets are cheap, relatively riskless and unlimited (for covered facilities) and price-capped. As shown in Figure 2, both the current price signal, and price cap, sit well below the values governments themselves use to appraise the value of abatement.

**FIGURE 2: PRICE SIGNALS IN THE SAFEGUARD MECHANISM ARE EXPECTED TO REMAIN TOO LOW TO INCENTIVISE NECESSARY CUTS TO POLLUTION.**



Note: 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.

On the investment and support side, the Net Zero Fund should prioritise the pace of deployment. The slow outlay of investment support fails to drive urgency or competitiveness from potential recipients, and delays the benefits of knowledge spillovers, overcoming first-of-a-kind premiums, or economies of scale.

In addition, consultation with industry indicates obtaining support for the deployment of abatement technologies is process heavy, costly, and too uncertain to underpin long-term capital allocation. There may be merit in greater collaboration, co-design, and flexibility in allocating support, to ensure greater value for money and additionality in Government investments.

### *Are new measures needed to restrict ACCU use for compliance?*

Yes. It is unacceptable that the SGM, despite covering almost one-third of Australia's climate pollution, *never* requires any individual polluting facility to actually reduce its climate pollution, even for facilities with demonstrated technologies and financial resources to do so.

The SGM Review consultation paper sets out the scale of the problem itself. It records around 59 million ACCUs in holdings, with a further 20 million expected to be issued in each of the next four years, and describes that stock as "roughly equivalent" to the scheme's remaining abatement task to 2030 of 140 Mt. On the Department's own arithmetic, the offsets available this decade are the same size as the SGM's remaining role this decade, and nothing in the current design prevents that role being met almost wholly by ACCU purchases. Without limits, and considering the responses of covered facilities to date, this stock of offsets will likely continue to be consumed first by the facilities with the deepest balance sheets, rather than those most in-need from a society-wide perspective.

The SGM's primary policy goal should be driving cuts to climate pollution on-site, with the use of offsets considered as a limited source of flexibility to be utilised by those facilities with limited technological and financially feasible options to abate, rather than a primary compliance option – which is evidently the role of offsets have played to date. There are a number of reasons for the SGM to prioritise on-site abatement:

### **Offsets are not a substitute for reducing emissions on-site.**

As a source of abatement, offsets face significant issues, both fundamentally and in practical implementation (Climate Council 2026a).

*Fundamentally*, land-based sequestration is not equivalent to the release of fossil carbon and methane from geological storage (in coal, oil and gas reserves), and offsets based on land-based sequestration should not be recognised as being equivalent to on-site abatement. Rather, land sequestration holds carbon in the fast carbon cycle, and is exposed to reversal through fire, drought, and extreme weather – the frequency and severity of which is rising with global heating. Where this release occurs, the now-defunct offsets previously generated are not required to be returned (except in cases of negligence or bad faith), and the additional release of pollution is not counted under Australia’s national emissions inventories.

The ability to access ACCUs with a 25-year permanence period escalates this risk, beyond that addressed by the small permanence discount. Currently, SGM polluters can release pollution that remains in the atmosphere for hundreds of years or more, but legitimise this pollution by purchasing a 25-year ACCU, which provides for sequestration for a maximum of 25 years (and typically less) (Climate Change Authority 2026).

*In practical application*, many offsets face further deficiencies which mean there is little assurance that the emissions sequestration has occurred, or that the sequestration or avoided emissions are genuinely additional to what would have occurred in the absence of the offset incentive. For example:

- Peer-reviewed analysis of 182 human-induced regeneration (HIR) projects found woody cover across the 3.4 million hectares of credited area increased by just 0.8%, and almost 80% of projects experienced negative or negligible change in woody cover (Macintosh *et al.* 2024). Observed changes largely mirrored those in adjacent comparison areas, indicating they are attributable to factors other than project activities – most likely rainfall. HIR credits made up 34% of ACCUs surrendered by Safeguard facilities in 2024–25 (Clean Energy Regulator 2026b).
- Landfill gas methods may have credited abatement that would have occurred regardless. Analysis has identified questionable additionality for around 19.5 million ACCUs credited under the method, because the methods contained no measures to address financial additionality, despite gas capture for electricity generation often already being profitable through electricity and LGC revenue (Macintosh 2022). Landfill gas credits made up 29% of ACCUs surrendered by Safeguard facilities in 2024–25.

With both the fundamental role and integrity of offsets deeply contested, there is a strong case for the SGM to take a precautionary approach to offsetting. Australia’s and in particular the SGM’s current reliance on offsets

is a significant risk to the integrity and genuine effectiveness of the SGM and emission reduction efforts more broadly, in which the failure of any one component of the ACCU system could invalidate or destabilise offsetting, with the consequence being a failure to avoid more catastrophic global heating.

**Unlimited access to offsets is a structural disincentive to on-site abatement, in conflict with the Safeguard Objects.**

In the Climate Council's view, the SGM's object that "the responsible emitter for each designated large facility has a material incentive to invest in reducing covered emissions from the operation of the facility" is not being met.

As long as price-capped offsets are available to facilities without limits, they will remain the rational default, especially for fossil fuel facilities with an uncertain future – who have little incentive to make long-lived capital investments – and for facilities where the cost of ACCU's represents a small proportion of revenues, costs and profits. There are at least four reasons that offsetting is currently, the rational default, beyond simply its comparably low price:

- *Asymmetric price risk.* The cost containment measure (CCM) caps the most a facility will pay to comply with offsets, with no corresponding floor. As a result, facilities who choose to continue relying on offsets have uncapped 'upside' risk of lower costs (because offset prices could stagnate, and theoretically drop as low as \$0.01), but capped downside risk of higher costs, because prices can only rise to the level of the CCM. Likewise, the CCM also places a hard ceiling on the maximum financial reward for cutting pollution on-site, since that reward is simply the offset cost avoided (or SMC value generated).
- *One-sided investment risk.* Buying and surrendering offsets is a straightforward compliance option. By contrast, capital investments in on-site abatement carries material upfront investigation, planning and design costs, as well as construction and performance risk, such as delays, cost blowouts, or equipment that underperforms. Administratively, it is easier for firms to choose a compliance option that involves the purchase of a price capped certificate than to go through the process of designing, attaining board approval for and delivering a new, complex and risky capital investment. On the offset side, the comparable risk of price rises is already mitigated through the CCM and can be further easily hedged through pre-emptive purchasing or futures contracts. No such risk management options exist for the capital investment of on-site abatement projects.

- *Policy risk.* A facility can put reasonable odds on future commodity prices over the life of a capital investment; it can't on the outcome of successive SGM reviews, or whether the scheme survives future parliaments at all. The continued political and partisan disagreements over climate policy in Australia create an additional barrier to on-site abatement, with one side of politics pledging to repeal the SGM if and when they win government, creating the expectation that SGM liabilities will cease at some point in the future due to a change of government. As a result, the investment case for on-site abatement is uncertain, relative to other investment prospects – such as expansions, as well as shorter term compliance through offset purchases.
- *Corporate financial management.* Offsets are a predictable, recurring compliance cost. By contrast, on-site abatement often requires significant capital investments, and must be approved by investment committees weighing a facility's hurdle rate, alternative investment options, and the need to manage other KPIs (e.g. debt to equity ratios, return on capital, etc).

Taken together, these headwinds can significantly disincentivise investments in on-site abatement, even where a desktop assessment of marginal costs supports that investment. As a result, without restrictions or disincentives on offset use, most facilities will remain incentivised to delay or dismiss investments in on-site abatement, especially if they do not bring significant, de-risked and ongoing co-benefits that improve business balance sheets.

This is fundamentally a split-incentives problem, which the current review must resolve. None of the four factors above are inherently irrational choices by the facility: given the SGM's current design and ongoing political environment, buying offsets is a better private decision. The problem is that society's interest – locking in cleaner infrastructure, driving technology diffusion into harder-to-abate sectors, and reducing exposure to climate damages – diverges from the facility's interest in minimising private compliance cost and risk. The opportunity to address this basic misalignment of incentives is a key opportunity of the current review.

Facilities capture the full benefit of the cheaper, lower-risk compliance path regardless of whether that path serves the public interest. They will not bear the costs associated with a failure to make deep, permanent cuts to pollution at the source; those costs are shared with all of society. The facility gets certainty and a lower bill; the costs of slower cuts to climate pollution, the risks of relying on offsets, and the lost spillover and co-benefits is

externalised onto society. This is a clear market failure, with no current recognition in the design of the SGM, which requires a policy response in the SGM Review.

### *Differentiated decline rates would complement reforms to offsetting*

Policies that incentivise on-site abatement would be most effective if they are targeted to the sectors with the greatest technical and economic capacity to cut climate pollution. As such, the Climate Council recommends that both differential decline rates and offsetting reforms be implemented.

Differentiating decline rates based on capacity would better target new on-site abatement incentives to sectors with the balance sheet to scale and accelerate investment, and near-term abatement options to refine and deploy. Differentiation is discussed further in section 4.2.

### *Models for restricting offsets*

#### **A quantitative limit is the Climate Council's preferred measure.**

The ultimate goal of any restrictions on offsets should be to maximise cuts to climate pollution at the source. In the first instance, placing a direct limit on the use of offsets is a direct, clear approach to delivering this goal. Placing a limit on the use of offsets would be consistent with analogous emissions markets globally, which typically tightly limit, or exclude, external offsets.

Under IPCC pathways consistent with limiting global heating to 1.5°C or well below 2°C above pre-industrial levels, more than 90% of global industrial climate pollution is cut at the source by the time net zero is achieved, with an average of only around 8% of industry emissions remaining (i.e. residual).<sup>2</sup> By contrast, the reliance on offsets under the SGM is projected to increase overtime, and exceed genuine cuts until at least 2035.

The Climate Council recommends that ACCU use be capped as a share of each facility's pre-decline baseline, phased down to 5-10% by 2035. This limit would be broadly consistent with IPCC pathways, while also reflecting Australia's greater capacity and resources as a developed nation, and accountability for climate pollution released to date.

Importantly, facilities facing genuine, insurmountable technical and/or economic barriers to implementing on-site abatement should be able to apply for a time-limited exception by demonstrating those barriers, with the onus of proof on the facility rather than the regulator. Offsets should not be

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<sup>2</sup> See IPCC AR6 WGIII Technical Summary, Figure TS.10(e); discussed further in (Climate Council 2026a).

available to prop up fossil fuel production beyond science-aligned phase-out pathways, or to displace viable on-site abatement.

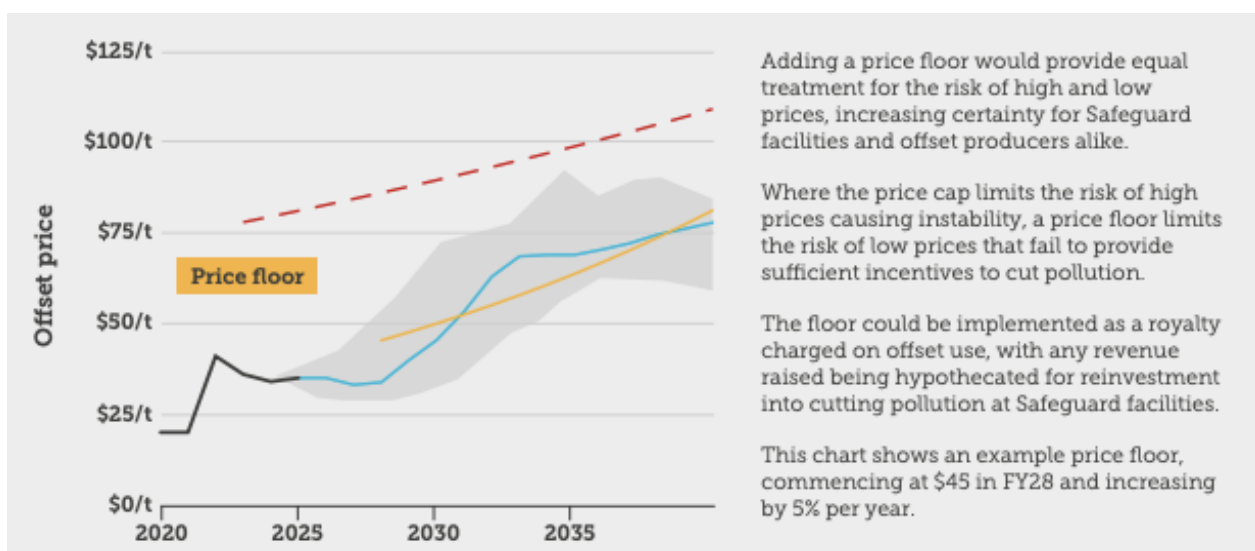
SMC use can remain largely unconstrained, given credits are generated and limited to within the scheme. While early allocation has often failed to reflect genuine cuts, the transition to industry-average baselines and the tightening of baselines over time is expected to largely resolve these issues, notwithstanding ongoing distortions associated with the run of mine coal production variable, discussed further in section 3.4.

Limits could also be considered at a scheme-wide level, noting the added complexity associated with the introduction of tradeable rights to offsetting. However, it is noted that a tradeable right to use offsets would tend to favour the most profitable facilities, rather than those with the strongest technical case for accessing offsets in transition.

### **Implementing a price floor would complement offset limits.**

In addition to quantitative limits, reforms to offset pricing should also be implemented. Since the 2023 reforms, the price of ACCUs has been low and flat, despite growing demand, high levels of inflation particularly in construction and engineering, and rising interest rates. Both this low price, and weak price momentum (leading to lower forward price expectations), suppresses on-site abatement incentives. Introducing a price floor, illustrated in Figure 3, is a direct response to this challenge.

**FIGURE 3: ADDING A PRICE FLOOR WOULD GUARANTEE A PREDICTABLE RISE OVER TIME, PROVIDING INVESTMENT CERTAINTY**



Source: (Climate Council 2026a)

A price floor would:

- Provide incentives for on-site abatement more consistent with the long-run value of abatement, rather than the short-run cost of ACCU production.
- Increase investment certainty and reduce policy risks for covered facilities, by providing a more 'bankable' return on investment for on-site abatement initiatives (in the form of avoided offsetting costs or SMC generation revenue).
- Reduce the incentive for covered facilities to delay on-site abatement, by capping the potential upside (windfall) risk of lower offset prices. Similarly, if a price cap is retained post-2030, this includes addressing the current asymmetry in the risks of future price.

This price floor should be implemented as a top-up contribution, charged to facilities upon offset surrender to close any gap between the cost of acquiring the offset,<sup>3</sup> and the price floor's value for the relevant compliance period. Any contributions collected would be hypothecated for re-investment in covered facilities, for example through the Powering the Regions Fund, delivering further on-site abatement by supporting industry investment.

A price floor for offsets would complement the phase-in of offset limits, by providing greater upfront investment certainty, and supporting offset values as demand from the compliance market wanes.

**In the absence of offset limits, a reinvestment contribution is the next best option.**

While offset limits would clearly and directly drive investment in viable on-site abatement options, we recognise that there are a number of measures that could also support greater on-site abatement, including offset discounting and vintaging, as noted in the consultation paper.

Climate Council recommends that, if quantitative limits are not adopted by this review, a reinvestment contribution should be implemented. Without firm limits, this model represents the next-best approach to drive on-site abatement, and is preferred to discounting. The contribution would be levied on ACCU surrender by covered facilities, and could be set as either an

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<sup>3</sup> Upon surrender, covered facilities would report the purchase price of surrendered offsets, adjusted for inflation to present day values. The Clean Energy Regulator would administer the collection of contributions, calculated as offsets surrendered \* (price floor value – average price of surrendered offsets) for each covered facility. Offsets not sourced through a commercial transaction could be valued based on the prevailing market price of offsets at the time they were acquired. The Clean Energy Regulator already undertakes similar assessments, for example, when reviewing applications for TEBA status.

absolute level (e.g. \$10, increasing over time) or as a price goal.<sup>4</sup> Facilities that face demonstrable hardships in transition (e.g. current TEBA facilities) could be exempted from this contribution.

Contributions collected would be held in a fund to provide focused support for on-site abatement at covered facilities, which could include providing low or no-cost finance, direct grants, or other novel supports (for example, supporting common user infrastructure). Importantly, reflecting its targeted role, the fund could be governed by an investment committee consisting of representatives from covered facilities and industry, government, and independent experts.

Modelling demonstrates that a reinvestment contribution would drive substantial on-site abatement, at minimal aggregate cost to industry (Hatfield-Dodds and Jotzo 2026):

- Levying a 30% reinvestment contribution on ACCU surrender (~\$10 in 2025 values), would increase total on-site abatement to 2035 by 25% (+9 Mt).
- Reinvesting just half of the contributions in direct support for on-site abatement would drive an additional 31% increase in on-site abatement, for a total increase of 19 Mt.

Remaining contributions could be re-invested in supporting on-site abatement directly, or be deployed in more indirect opportunities to support covered facilities – such as first-of-a-kind pilots, R&D programs, or common user infrastructure.

- Because contributions are reinvested dollar-for-dollar (in aggregate), the cost to industry is nominal, and negative in later periods, due to earlier and deeper investments in on-site abatement.

### **A reinvestment contribution is preferred to offset discounting.**

Discounting offsets (that is, requiring more than one offset to be surrendered per tonne of above baseline emissions) would strengthen the incentive to invest in on-site abatement. However, it faces a number of drawbacks, compared to other options.

First, offset discounting delivers less on-site abatement than a reinvestment contribution (Hatfield-Dodds and Jotzo 2026). Directing capital towards investments at covered facilities, rather than into more offsetting, is more

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<sup>4</sup> A price goal would function similarly to the price floor outlined previously, but be set to target a central price trajectory that drives on-site abatement directly, as opposed to acting as a backstop for price signals.

consistent with the ultimate goal of delivering on-site abatement and would deliver superior co-benefits relative to great offset reliance.

While protecting and restoring land has an important role in cutting climate pollution and restoring nature, the offset market is chiefly targeted at the lowest cost abatement options, which do not necessarily deliver benefits for nature. By contrast, investment in on-site abatement can support Australia's competitiveness and build sovereign capability. Implementing modern production processes and electrification can reduce reliance on volatile fossil fuels (including imported diesel), improve productivity through both energy and process efficiency, and support capital deepening, spillover benefits, and positive externalities more generally.

Second, offset discounting is prone to unintended consequences in offset markets. As previously noted, persistent questions surrounding the integrity of offsets, and their role in combatting global heating more fundamentally, support a precautionary approach to their use. But offset discounting, despite targeting greater on-site abatement, would still increase the SGM's reliance on offset markets and therefore its vulnerability to future developments in offset integrity and policy. Over time, the SGM should be less reliant on offsets, eventually restricting their use to a select set of residual sources of climate pollution, which is small and shrinking.

If the Government does proceed with discounting, the following safeguards should be implemented:

- Discounting should not lead to changes to any other SGM settings or reporting, including facility baselines, net emissions goals, proportionate share, or decline rates. The quantity of gross emissions that are offset should remain the basis of account, rather than the number of offsets surrendered.
- Methane should be discounted on a GWP20 basis, acknowledging its disproportionate short-term warming impacts in the context of approaching climate-system tipping points, and the availability of abatement options (see *Driving on-site abatement of methane pollution* below).

### **Vintaging and qualitative restrictions.**

The Climate Council supports vintage restrictions. The use of offsets to meet compliance requirements many years after the point-abatement has occurred does not meet community expectations for covered facilities.

It is also at odds with the fundamental accounting of Australia's Nationally Determined Contribution (NDCs), which are based on multi-year emissions budgets (DCCEEW 2025a). For example:

- An offset generated in 2027 (should) lower Australia's total emissions reported from 2022–30, its first NDC period. Australia will use that reduction to achieve that NDC.
- A covered facility could still surrender that offset in 2033, to cover excess emissions. Those excess emissions are physically in the 2031–35 inventory.
- One tonne of lower-emissions has discharged two tonnes of abatement obligations. However, the atmosphere still gains one tonne of climate pollution in 2033, counting towards Australia's 2031-35 NDC.

As a result, even with SGM baselines consistent with Australia's 2035 targets, covered facilities will not make the intended contribution to our second NDC, instead requiring other sectors to make greater contributions. A rolling vintaging window for offsets surrendered under the SGM would improve integrity, noting that a netting-off unused offsets under Australia's NDC reporting and inventories would represent a more complete solution.

The vintaging window could be phased in over time, but should, by 2035, be limited to no more than three compliance periods. In practice, this permits close to five years for offsets to be surrendered, given surrender for SGM compliance already occurs 9 to 21 months after pollution is physically emitted (i.e. March in the financial year following the relevant compliance period).

The Climate Council supports phasing out the use of 25-year ACCUs in the SGM, noting the Climate Change Authority's analysis under the 2026 review of the ACCU scheme (Climate Change Authority 2026).

### **Recommendation 2**

Introduce limits on offsetting to address market failures systematically disincentivising on-site abatement.

Phasing out offsets except where absolutely necessary, to be judged through an independent evidence based test is the preferred approach. Offsetting should be limited to 5-10% of pre-decline baselines by 2035.

In the absence of offset limits, a reinvestment contribution is the next best option, and could support a transition to quantitative limits.

### **Recommendation 3**

Introduce vintaging to support the integrity of Australia's multi-year NDC commitments.

#### *Driving on-site abatement of methane pollution*

A large share of the pollution emitted by fossil fuel sectors covered in the Safeguard Mechanism is fugitive methane, escaping from coal seams during mining and leaking during oil and gas extraction, processing and transport.

Methane is a far more powerful warming agent than carbon dioxide over the timeframes that matter most. Fossil methane traps about 85 times as much heat as an equal mass of carbon dioxide over 20 years, and methane is responsible for roughly a third of the global heating experienced to date (Climate Council 2024).

Its short-term impact is especially dangerous, as our climate is approaching warming levels that risk triggering feedback loops that intensify climate change and irreversible changes. We urge the Review to carefully consider the latest Global Tipping Points Report 2025, in particular to note the latest scientific evidence regarding how perilously close the climate system is to triggering a number of tipping points, which could cause a cascading warming, triggering further tipping points (Lenton et al. 2025). The non-linear nature of tipping points is an under-reported and under-appreciated feature of the climate system, yet even current levels of global heating are increasing the risk of entering significant non-linear feedbacks. In this context, the importance of meaningful, immediate, and sustained reductions in climate pollution, and especially methane pollution, cannot be overstated.

Standard impact-probability risk assessments assess hazards one at a time, assume roughly proportionate responses, and treat impacts as reversible in principle. Climate system non-linearity driven by tipping point risks violate all three assumptions, meaning non-linearity risk meaning climate change is more likely to be irreversible on policy-relevant timescales, deeply uncertain, and prone to cascading failure across natural and human systems.

Because of both its higher warming impact and its shorter atmospheric life, cutting methane aggressively is likely the single most effective lever available to Australia for slow global heating in the near term, and the first priority to avoid triggering tipping points and their cascading consequences for global heating, biodiversity and climate impacts.

The SGM accounts for methane using its 100-year global warming potential, a factor of around 28 to 30, which by design averages its impact over a century and understates near-term warming by a factor of roughly three. The practical consequence is that the SGM systematically undervalues the abatement that would do most to slow warming this decade, despite that abatement being among the cheapest available, even on a 100-year warming basis.

The compliance metric must remain GWP100 for international consistency. But the near-term warming impact of methane is a relevant consideration in determining each sector's fair share, and it strengthens the case for differentiated treatment of the methane-intensive fossil fuel extraction sectors, noting that 19.5 Mt of coal mining's 31.7 Mt covered emissions is methane (Clean Energy Regulator 2026a).

### *Are carbon abatement plans or transparency requirements needed?*

Currently, little is known about each facility's efforts to reduce on-site emissions. The only circumstances where facilities must disclose information about their emission reduction plans are within an ACCU surrender statement, published when a facility surrenders ACCUs equivalent to 30% or more of its baseline. To date, these statements have been minimal, and present very limited engagement with genuine barriers to abatement, or steps being taken to overcome them. They provide little insight to stakeholders or policy makers alike.

This increases risks for the scheme, because each facility's planned production, abatement, and operations are not disclosed. The lack of consistent, complete, and mandatory reporting leaves those responsible for assessing or projecting the progress of the SGM - including DCCEEW and the CCA - in the dark. Current analysis is typically based on manual research across many government, market and reporting sources for each facility (if information is disclosed at all), projections based on techno-economic models, and individual consultations with responsible emitters. This represents a significant administrative burden, but still fails to result in a clear, confident view of the SGM's likely future outcomes.

Instead, SGM facilities should be required to disclose a clear forward plan. This would include:

- Basic facility information, including planned closure dates, and relevant regulatory milestones (e.g. limits to environmental approvals).
- Nameplate production capacity, and future production expectations to 2050.

- Projected emissions intensity to 2050.
- Planned compliance approach to 2050, including on-site abatement investments planned or under consideration, anticipated offset needs, and current ACCU/SMC holdings.
- Any material events likely to impact production, emissions intensity, or gross emissions, such as planned facility expansions or extensions.

Reporting could be subject to rolling windows with different levels of certainty. For example, reporting for the next 5 to 10 years should be based on concrete plans and investments, while disclosures beyond 10 years could be based on current expectations and preliminary planning.

It is noted that this reporting represents an increase in administration for covered facilities. However, it is reasonable to expect the large businesses operating covered facilities to undertake this kind of operational and abatement planning as a matter of course, and as part of mandatory climate-related financial disclosures.<sup>5</sup> Nevertheless, the preparation and publication of these plans is overwhelmingly in the public interest. The SGM permits large facilities to pollute in the form of baselines, allowing covered facilities to externalise damage costs onto society. This is a privilege, and transparent planning and disclosure requirements are proportionate.

This reporting should be published by the Clean Energy Regulator, noting suitable mechanisms to suppress commercial in confidence information are already present under section 25 of the NGER Act. Information would also form an input to SGM and climate policy assurance processes, such as the CCA's statutory Annual Progress Report, and DCCEE's annual emission projections.

This reporting would also benefit third-parties. Currently, anticipating demand for offsets or abatement solutions requires the purchase of consultant reports. Greater transparency could support more efficient and confident investment decisions and planning both within the SGM directly, and for external suppliers.

### *Is there ongoing interest in international offsets?*

International offsets should continue to be prohibited, and should be ruled out permanently to provide certainty moving forward.

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<sup>5</sup> Further disclosure requirements for covered facilities would complement existing disclosure requirements by providing detailed and disaggregated plans for assets which are, by virtue of their compliance obligations and high pollution levels, particularly exposed to transition risk.

International units are not permitted under the SGM or any Australian climate policy, noting the recent decision to close the voluntary Climate Active program (DCCEEW 2026). Since the SGM was reformed in 2023, this position has been strengthened:

- The Climate Change Authority's 2035 Targets Advice states that Australia should not need international offsets to meet the 62-70% target (Climate Change Authority 2025).
- The Net Zero Plan states that the Government does not currently allow them for compliance purposes, and that the focus is on enabling domestic reductions (DCCEEW 2025c).
- Australia's 2035 NDC states that Australia has no plans or policy to count internationally transferred mitigation outcomes (DCCEEW 2025a).
- The consultation paper for this review reaffirms the mechanism's focus on delivering domestic abatement, which is welcome.

As a developed nation, with enormous renewable energy resources, Australia neither needs to, or can justify, passing the buck for our climate pollution to other countries. The Climate Council recommends the review maintain the prohibition on international units, and make this position permanent rather than deferring the question to a future review.

#### **Recommendation 4**

Improve transparency and assurance of the Safeguard Mechanism by requiring the submission of forward-looking statements, reporting anticipated facility production, emissions intensity and compliance approach to 2050.

#### **Recommendation 5**

Maintain the prohibition of international offsets, and rule them out permanently.

### **3.2 Inter-temporal flexibility and cost containment**

Banking plays an important flexibility role, but the broader 'cost' of banking and borrowing is currently understated, considering the urgency to make real emission reductions. At the same time, the current unlimited use of offsetting provides ultimate flexibility to facilities, leaving little genuine

reason for some other forms of flexibility. For these reasons, we recommend changes to flexibility measures.

### *Banking*

The consultation paper's evidence that headroom in the SGM was removed is aggregate. SMCs are generated at the facility level, and the hybrid industry-average/facility approach to baseline setting means that aggregate netting conceals facility-level headroom. As long as baselines remain partly set on a facility's own historical emissions intensity, a credit can reflect a generous starting point rather than performance better than comparable facilities.

The 2023-2030 and 2031-2035 periods will have different targets, and SMCs from the 2023-2030 period, which may reflect relatively generous baseline settings at the facility level, should not be carried over to the 2031-2035 period.

Likewise, SMC's arising from the coal mining industry's transitional 50/50 industry and facility emissions intensities will perpetuate this issue into the 2030's unless reformed. If this treatment continues, and/or as it is phased out, SMC claims by facilities using the run-of-mine coal production variable should be limited only to demonstrated on-site abatement.

### *Borrowing*

The ability to access multi-year monitoring periods and surrender offsets limits genuine use cases for borrowing. In cases where facilities seek to manage year-to-year fluctuations in emission intensities, surrendering offsets purchased in the open-market is likely to be lower cost to facilities. Where it is not, borrowing provides a concession to facilities, with no policy basis.

Reflecting the urgency of emissions reduction, the Climate Council recommends that new borrowing adjustments are not made, with any existing arrangements to close by 2030.

### *Multi-year monitoring periods*

If multi-year monitoring periods (MYMPs) are to be retained post 2030, they should be strictly limited to enabling committed on-site abatement investments, rather than managing fluctuations in emissions intensity (for example, due to maintenance or shutdowns, as with the Kemerton Silicon Smelter (Simcoa Operations 2025)).

Consideration should be given to the role of interest or over-performance requirements for MYMPs, and/or penalties where committed on-site abatement actions are not undertaken.

*Is the cost containment measure sufficient to manage price risk? Could the price deter investment?*

As noted in section 3.1, the CCM acts as a headwind to on-site abatement investment.<sup>6</sup> It caps the possible payoff from investing in on-site abatement, while leaving the downside risk of that investment unlimited (for example, if offset prices drop or fail to meet expectations, or the scheme were repealed altogether). The risks of investment are open-ended and the benefits are capped. This incentivises facilities to continue relying on offsets, contrary to the Mechanism's Object to incentivise on-site abatement.

As such, the Climate Council recommends the CCM cease in 2030, allowing market-driven pricing to prevail. Instead, implementing a price floor that supports earlier price discovery and investment would reduce the risk of short-term volatility caused by underinvestment in on-site abatement or ACCU generation (see section 3.1).

If a measure to limit price rises is retained post-2030, it should be restricted to a dynamic limit on price *rises*. Such a 'speed limit' cap would set the upper-limit for prices in a given compliance period to a percentage increase on typical market prices in the previous period. This would support the goal of reducing excessive short-term price volatility, while still allowing the equilibrium price to be set by the market over time.

**Recommendation 6**

Restrict banking and multi-year monitoring periods, and end access to borrowing adjustments.

**Recommendation 7**

Reform offset price rules by introducing a price floor for offsets and repealing the CCM.

If a price cap is retained, it should function as a dynamic 'speed limit' on price rises, not an absolute cap on prices.

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<sup>6</sup> See point 2 under *Are new measures needed to restrict ACCU use for compliance?*

### 3.3 Trade-exposed and strategic industries

*TEBA is transition assistance, and the review should say so*

Despite its policy intent, the trade-exposed baseline adjustment is not directly calibrated to carbon leakage risk. Eligibility is based primarily on cost impacts, rather than the exposure of a commodity to international competition, or on any assessment of whether production would relocate. As a result, in practice, TEBA functions as a broader transition-assistance measure for industries with lower economic capacity and fewer abatement options – and this should be formally recognised.

Doing so would enable Government to deliver reforms that maximise abatement delivered by the SGM in the near-term, while also accommodating sectors that require more time to transition, yet are recognised as playing an important long term role in Australia's economy (e.g. sectors that are positioned for increasing growth and competitiveness under net zero, and/or provide key sovereign capabilities).

The Climate Council suggests that the TEBA treatments' existing role as an assistance treatment for genuinely constrained (technologically and financially) industries with long-term futures in Australia be recognised, and considered under this review on that basis.

Two consequences follow.

**Considering sectoral eligibility for TEBA could improve fairness, but should be complemented by broader differentiation.** Moving from facility-level cost-impact tests to sectoral TEBA is an acknowledgment that the key question is the circumstances of a sector as a whole. It permits lower emissions facilities to build a justified competitive advantage over more-polluting facilities in the same sector.

However, it should be applied symmetrically. Differentiation by sector is established as both administrable and appropriate. A moderated decline rate for constrained sectors and a steeper decline rate for high-capacity sectors are the same instrument applied in both directions. The review cannot consistently adopt the first and reject the second.

**Coal and gas extraction and exporters should not have access.** TEBA exists to support industries through a transition. Coal and gas extraction are not transitioning and their continued operation is not consistent with the ultimate goal of limiting global heating to the safest levels still possible. In addition, they hold among the highest profit margins in the scheme (and economy), and have the most abatement technology available to them (ATO

2026; Climate Council 2026a; IGCC 2026). As such, extending transition assistance to facilities in these sectors would more likely reflect a concession on the basis of facility-level commercial factors, rather than principled transition assistance.

### *Border carbon adjustment*

The Climate Council supports introducing a border carbon adjustment for cement and clinker, with a review of opportunities to extend it to other commodities over time.

A border carbon adjustment addresses carbon leakage directly, by equalising rules for imported and domestically produced goods, rather than indirectly by reducing the obligation on domestic producers. It is the better instrument where it can be made to work.

The Climate Council also supports a general review of the role of TEBA, particularly once a border carbon adjustment is implemented, noting that as outlined above, TEBA is not in reality operationalised as a trade exposure adjustment measure. Because TEBA eligibility relies (indirectly) on abatement capacity rather than trade exposure, a role may remain for a capacity-based measure even for commodities covered by a border adjustment – but this is not yet clear.

#### **Recommendation 8**

Consider the role of TEBA in context of broader differentiation, given its role in effect as a transition-assistance measure.

#### **Recommendation 9**

Prohibit coal, oil, or gas facilities from accessing TEBA assistance.

#### **Recommendation 10**

Introduce a border carbon adjustment for cement and clinker, and review opportunities to extend it to other commodities over time.

## **3.4 Sector-specific issues**

### *Should the hybrid baseline approach for coal continue past 2030?*

The hybrid industry-average and site-specific approach for coal should not continue in its current form. The rationale for site-specific treatment is the heterogeneity of coal mines, but that heterogeneity is largely captured by the distinction between underground and open cut operations. Separate production variables for underground and open cut coal would capture the material differences in emissions intensity, and support a necessary

transition to industry-average baselines. This should occur by 2035 at the latest, with a strong case for the transition to be front-loaded to 2031/32, to encourage facilities to act by 2035.

A split of this kind is reasonable on a practical, policy, and consistency basis.

- Open cut and underground mines have fundamentally different emissions intensities, dominated in the underground case by fugitive methane.
- They are already treated distinctly under NGER reporting methodologies.
- Their physical characteristics, extraction methods and available abatement technologies differ materially.
- Disaggregation is consistent with existing practice elsewhere in the Safeguard Rules. For example, the gas sector already carries multiple production variables reflecting different configurations with corresponding differences in emissions intensities. Continuation of special treatment for coal mining in that context represents unjustified favourable treatment.

#### *How should unplanned interruptions be handled?*

No change is warranted. The SGM's purpose is to reduce industrial pollution in line with Australia's climate targets. Whether climate pollution occurs during normal operations, shutdowns, or exceptional events is irrelevant to its global heating impact, and standing in Australia's global contribution to climate pollution.

Facilities are already able to seek exemptions where malicious damage occurs (e.g. third party criminal damage). They should not otherwise receive concessions for events arising from reasonable commercial and operating risks.

The SGM also contains substantial flexibility for facilities facing unexpected circumstances, not least through offsetting. Adding a further concession would compound flexibility that is already generous.

#### *Would mandatory national reporting for road and rail transport reduce competitive distortion?*

Mandatory national reporting is a reasonable approach to avoid inconsistencies in coverage, and is supported.

### *Science-aligned settings for fossil fuel developments*

Every new coal and gas project that enters the SGM is still handed a free allowance to pollute in the form of a baseline. Baselines in 2030 will still sit at 65% of their starting level, leaving even new fossil fuel projects with a material free buffer.

The IPCC has warned that pollution from the remaining life of existing fossil fuel infrastructure alone would breach 1.5°C. To be consistent with the Paris agreement and stated Government climate goals, the best-practice limit for new, expanded and extended coal, oil and gas developments should be zero.

There is clear precedent for this approach within the scheme. The 2023 reforms set zero baselines for shale gas extraction and for carbon dioxide released from new gas fields supplying LNG facilities. For those activities, polluters are accountable from the first tonne. This recommendation extends an existing principle rather than inventing one.

#### **Recommendation 11**

Establish separate production variables for underground and open cut mines, transitioning baselines to a 100% industry average basis by 2035 at the latest.

#### **Recommendation 12**

Establish mandatory national reporting for transport sectors.

#### **Recommendation 13**

Set best-practice emissions intensities for fossil fuel extraction and export to zero, in line with the best available science.

## **3.5 Coverage**

### *Should the Safeguard Mechanism cover a larger share of national emissions?*

Yes. The Climate Council supports broadening SGM coverage over time. Initially, two changes are warranted: a gradual decline in the coverage threshold, and a role for the scheme in providing certainty about coal-fired generator closures.

#### **Gradually decline the coverage threshold**

As baselines decline, the SGM's current fixed 100,000 tonne coverage threshold could increasingly cause unintended consequences and distortions. As a facility's baseline declines over time, it can continue to

decline below 100,000 tonnes. However, because facility coverage itself is a firm 100,000 tonne threshold, facilities can face inconsistent incentives.

For example, a facility with 110,000 tonnes of emissions, but a baseline of 90,000 tonnes:

- Must surrender offsets equivalent to its entire 20,000 tonne net position.
- Is incentivised to reduce its emissions up to 10,001 tonnes *only*, after which it will fall below the 100,000 tonne coverage threshold, and further SGM obligations.<sup>7</sup>
- Is *not* incentivised to abate the emissions between its 90,000 tonne baseline and the 100,000 tonne threshold, despite otherwise being required to offset those emissions if it remains a covered facility.

As baselines decline over time, this situation will become more common. To address this unintended set of incentives, a gradual decline in the coverage threshold is warranted.

This decline would also reduce the 'book' reductions in emissions described in Section 2, where a facility dropping below the threshold registers as a reduction of at least 100,000 tonnes in gross covered pollution, while far less abatement has occurred in practice.

In the short-term (e.g. by 2030), the coverage threshold should decline to at least 75,000 tonnes. Further declines should continue to occur, applying to current and previously covered sectors in the first instance.

### **Coal-fired generator closures**

Coal-fired generators are the single largest category of climate pollution in Australia, but they face no direct signal to reduce their pollution. Because grid-connected electricity generators are covered by a sectoral baseline, most of the country's largest polluting facilities are effectively exempted from the SGM.

The common rationale for this exclusion is the expectation that coal fired generators have committed closure dates, which align to the declining need for their services in the grid as renewable and storage capacity grows. However, the reality since 2022 contradicts these expectations, with coal generator closures frequently delayed, in many cases well beyond their

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<sup>7</sup> In this case, the incentive for on-site abatement per tonne is doubled, as reducing one tonne of emissions avoids the need to purchase two offsets.

possible need in the electricity system. These delays can be self-fulfilling, as increased uncertainty around closure timing creates a disincentive for timely renewable investments. This review should consider this coordination failure, and whether the SGM should play a role by providing greater certainty to the electricity market around coal closure timing.

There is a specific opportunity. Uncertainty surrounding coal generator closure dates is now widely recognised as a barrier to renewable investment, creating a self-reinforcing negative cycle: unclear closure timing creates uncertainty about future wholesale prices, which undermines renewable project business cases and lowers renewable investment, leaving projected capacity shortfalls that are then cited to justify coal extensions – further deepening closure uncertainty, and perpetuating the cycle.

The SGM can play a role in breaking this cycle and supporting energy affordability. Signalling that coal-fired power baselines will move to zero from a defined date, with timing informed by the AEMO Integrated System Plan (ISP), would provide firmer closure certainty, but create no costs or reliability impacts above the AEMO ISP's core scenario (currently, Step Change). Should owners choose to keep coal generators operational beyond their AEMO determined useful life and planned closure dates, the SGM would ensure generators are fully accountable for their pollution.

The Climate Council also recommends that as a backstop, all coal plants move to a zero baseline by 2035. This may be earlier than the ISP-based closure, particularly given committed closure dates are modelled as exogenous constraints. This would be more consistent with the necessary climate pollution reduction targets for Australia to make a fair contribution to limiting global heating to the safest levels still possible.<sup>8</sup>

Confirming these closure dates well in advance would provide a clear and bankable signal for investment in renewable energy, storage, transmission and clean firming. It would also provide workers and affected communities with a credible transition timetable. Most importantly, it would prevent repeated extensions to coal-fired power stations from undermining national climate policy and investment certainty.

### **Opt-in coverage for below-threshold facilities**

Climate Council also notes other stakeholder proposals, which would allow below threshold facilities to opt-in to SGM coverage in order to produce SMCs. The Climate Council does not support these proposals. SMCs produced from opt-in facilities are unlikely to represent additional abatement or

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<sup>8</sup> See (Climate Council 2025)

genuine over-performance, and therefore risk further undermining the integrity of SMCs. For genuine on-site abatement, below-threshold facilities can already access energy efficiency ACCU methods for incremental investments in on-site abatement.

As an alternative, proponent-led proposals for new sectors or further facilities in existing sectors to be covered comprehensively could be considered.

**Recommendation 14**

Introduce a phased decline in the coverage threshold, to 75,000 tonnes in the first instance.

**Recommendation 15**

Introduce coverage of coal-fired generators through a zero-baseline introduced beyond reasonable closure dates. Set a zero baseline for all coal-fired generators after 2035.

*How should baselines be set for newly covered facilities?*

The Climate Council supports Option 1. Baselines for any new facility should be set consistent with current baseline decline settings, noting that this approach already applies to existing facilities whose pollution rises above the coverage threshold.

Facilities entering the SGM due to changes in coverage rules should not receive a concessional phase-in or bespoke settings. In fact, having been exempt from other compliance requirements by virtue of operating below the coverage threshold, these facilities have already received a concession.<sup>3.6</sup> Technical and administrative matters

*Application of best-practice emissions intensities*

Under the 2023 reforms to the SGM, new facilities were intended to be subject to international best-practice baselines, reflecting their ability to incorporate best-practice technology from day one. This policy can influence investment decisions, encouraging capital investments made today to integrate low-emissions technology and processes, reducing climate pollution, and the risk of stranded assets or sunk capital as Australia's transition progresses.

Despite representing new investment and production decisions, material expansions and extensions to existing facilities are exempt from these best-practice pollution limits. This can encourage investment in existing facilities, even if they are more emissions intensive. It also exacerbates a

policy advantage held by incumbent facilities over new entrants. These outcomes are not consistent with policy intent of the 2023 reforms.

This is particularly problematic in sectors where market conditions do not support greenfield investment, such as coal mining. Since 2022, 82% of the 16 coal mining applications approved under the EPBC Act were expansions and/or extensions (Climate Council 2026b), along with 30 of the 42 projects currently seeking approval.<sup>9</sup>

Reputex modelling, commissioned by Climate Council and ACF, identified 22 coal and gas expansions and extensions that are expected to enter the SGM by 2035 (Reputex 2026). Together, they account for 20 Mt CO<sub>2</sub>-e per year before on-site abatement.

To address this unintended consequence, best-practice benchmarks should apply to material expansions and extensions. Materiality could be triggered by an expansion requiring Commonwealth or state approval, an increase in production above a defined percentage, or an extension of more than 12 months (cumulatively where multiple extensions occur).

Applying best-practice limits to expansions and extensions would lift the volume of climate pollution held to best-practice standards from 11 to 31 Mt CO<sub>2</sub>-e per year by 2035, raising the share of projected 2035 pollution covered by best-practice limits from 8% to 21%, and lowering the scheme's net pollution by around 7% in 2035 under a continued 4.9% decline rate (Reputex 2026). Notably, this reduction in net emissions is equivalent to a 1.5% change in the annual decline rate.

**Recommendation 16**

Close loopholes that let new developments dodge stronger pollution limits by applying best-practice pollution limits to all material expansions and extensions.

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<sup>9</sup> Profiling of projects seeking approvals is based on unpublished Climate Council analysis, available upon request.

## 4. Post-2030 settings

### 4.1 The Safeguard Mechanism's share of the 2035 target

*The proportional share approach should be retained*

The proportional share approach strikes a sensible balance between simplicity and accuracy in allocating effort between covered and non-covered sources. It is transparent, predictable, and provides a stable basis for investment planning. The Climate Council supports retaining it.

*The share should remain static, and should not be rebased*

Consistent with the consultation paper's position, the Climate Council supports retaining a static share, with any update triggered only by a material change in the scheme's policy coverage, such as a significant lowering of the coverage threshold, rather than by inventory updates.

A dynamic share would represent backsliding against the scheme's current strength. Gross emissions are not falling at the rate required to maintain a proportionate share over time, which means the covered sector's share of national pollution is rising. A dynamic proportional share based on gross emissions would therefore produce weaker decline rates over time, leading to a perverse incentive for facilities to resist cutting pollution on site. With the scheme covering a small number of very large facilities, there is a genuine risk that dynamic shares could be gamed to that effect. The additional uncertainty of dynamic share setting would more than offset the benefit of slightly more accurate shares.

The consultation paper's proposal to update the share from 28.1% to 29.8% raises a related but separate question. It is presented not as a move to dynamic shares but as a one-off correction to reflect more recent inventory data availability.

The Climate Council does not support this change. The SGM's proportionate share is primarily a policy decision, which was settled as part of the 2023 reform package. There is no evidence that the scheme's effectiveness or efficiency would be improved by overhauling this decision post-2030, some seven years after it was made. The market has adopted this share in planning and commercial responses. Reopening this question treats an initial policy decision, endorsed by Parliament in passing the reforms, as a dynamic question of estimation.

Making such a change opens a number of questions that highlight the challenges of changing this proportion post-hoc:

- *Should inventory updates in other sectors lead to changes in proportional share?* For example, frequent revisions have been made to LULUCF emissions, which impacts Australia's national total emissions. These changes are not the responsibility of SGM facilities, but would impact their compliance obligations.
- *When is the proper 'before-policy' benchmark?* Much of Australia's broader emissions accounting, including NDCs, refers to 2005 as a baseline year; this period would also represent a firm pre-policy base case. Likewise, reforms to the SGM were an election commitment throughout the 2022, meaning this decision was, in-effect, committed Government policy during the entire 2023-23 period included in the alternate proportional share.

Finally, it is noted that updating the proportional share in this manner would *reward* SGM facilities for the fact that their emissions increased in the early 2020s, while emissions elsewhere in the economy declined. This would be a perverse outcome.

### *Where should the target sit within the 62-70% range?*

The scheme should be calibrated to a 70% reduction.

The Climate Change Authority's own 2035 Targets Advice recommends that the Government adopt the 62-70% target, 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.

This approach (but not the insufficient level of the target itself) is consistent with Australia's obligations under the Paris Agreement, and its domestic ratification in the Climate Change Act 2022. Australia has committed to limit global heating to well below 2°C above pre-industrial levels, and pursue efforts to limit heating to 1.5°C above pre-industrial levels. To support these goals, as a developed nation with significant capacity, it is critical that climate pollution be reduced as deeply and quickly as possible.

Calibrating Australia's principal industrial abatement policy to anything below 70% would signal the effective abandonment of the top of the range, and would be inconsistent with the principle that policy should be designed to avoid the worst outcomes, rather than on a hope that the best occur.

If pollution from covered sectors fails to fall in line with the target, larger cuts would be required from sectors such as heavy transport and agriculture,

where abatement policies largely do not exist, abatement options are less developed, and scaling will take longer.

The consultation paper raises the alternative of a conservative target paired with an ambitious decline rate. The Climate Council does not support that approach. It confines ambition to the setting that is easiest to revise later while locking in the weaker number in the setting that is hardest to change. If the Government's intent is to deliver at the top of the range, the target should say so.

### *How should the reserve be set for 2035?*

If a reserve is implemented, it should be set to calibrate total reductions *above* levels consistent with achieving the 70% climate target.

The existence of a target range should not be confused with a reserve. The target range does not represent a set of equally-desirable outcomes to accommodate uncertainty or flexibility in individual policies. Any reserve should therefore increase the likelihood of achieving reductions consistent with the top-end of the 2035 target range, not use the target range as a buffer.

### *Legislated accountability for the 2030s*

Currently, the binding Safeguard Objects in the NGER Act cap the scheme's net emissions at 100 Mt CO<sub>2</sub>-e in 2030 and cap cumulative net emissions to 2030. They are the legal yardstick against which the CCA's annual advice and the department's monitoring are measured, but they end in 2030. Beyond that, the only legislated goal is net zero by 2050, leaving a 20-year gap with no legislated benchmark for interim targets, or trigger requiring the Minister to act if interim targets are off-track.

The Government should legislate new Safeguard Objects for 2031-2035, and for future commitment periods, capping both net and gross scheme pollution consistent with the 2035 target. A gross cap is essential. It gives legal force to the outcome this review is most concerned with, which is genuine cuts at the source. This requires amendment of the NGER Act and should be progressed as early as possible, so that the legislated benchmark is in place when new decline rates commence.

#### **Recommendation 17**

Maintain the SGM's current static, proportional share of emissions.

### **Recommendation 18**

Legislate updated Safeguard Objects to track progress in the 2030s, capping both net and gross scheme pollution consistent with the 2035 target.

## **4.2 Decline rates after 2030**

### *The overall rate*

The Climate Council recommends an overall decline rate aligning the scheme with a 70% reduction in Australia's climate pollution by 2035. If all other settings remain unchanged, this is estimated to be 6.8 to 7% (IGCC 2026; Reputex 2026).

It is noted that this headline rate may change as other scheme settings change. While the decline rate is the scheme's headline setting, it is not the only one that determines the pollution outcome, and it is not necessarily the most important – particularly for the level of on-site abatement.

Final settings should be determined with reference to the other changes made through this review, including differentiation (discussed below), offsetting rules (discussed in section 3.1), and the treatment of expansions and extensions (discussed in section 3.6).

### *Differentiated decline rates*

The Climate Council strongly supports setting differentiated decline rates, under the principle that climate policy should deliver the maximum possible abatement.

#### **The first-principles case for differentiation.**

With the exception of TEBA, the scheme is currently designed as a single uniform mechanism across sectors, which themselves have vastly different characteristics, including: available abatement technologies, financial 'headroom' to deploy abatement technologies, and gross emissions (especially where methane emissions are considered on a GWP20 basis).

Many critical manufacturing sectors, central to Australia's sovereign capability and to the clean industry and export opportunities under the Future Made in Australia agenda, face greater constraints on cutting pollution in the near term.

Other sectors, particularly in resources, have both the technology and the financial resources to abate. In addition, those who have the technology and

financial resources to abate are also responsible for a much greater share of emissions than those who do not.

This means that maximising abatement from the SGM, while preserving sovereign capability and FMIA goals, necessarily requires differentiated treatment within the SGM. Setting the scheme's decline rate according to the constraints of its most-constrained participants leaves substantial abatement on the table. Setting it according to the capacity of its least-constrained participants would be unfair to industries that cannot meet it. Differentiation resolves the trade-off rather than splitting the difference.

### **Differentiated treatment addresses a problem that trading does not solve.**

Trading ensures the most cost-effective abatement within the scheme happens first, and the ability to generate SMCs ensures on-site abatement is available for selection regardless of baseline limits. But no measure in the scheme seeks to maximise the amount of abatement that occurs. Total net abatement is determined chiefly by the baseline decline rate, and decline rates are not set with regard to efficiency or sectoral shares of emissions. They are set to maintain a proportionate share of overall SGM climate pollution over time.

There are good reasons for that approach. It is simple, predictable and functional. The alternative of setting a scheme-level decline based on assessed abatement potential relative to the rest of the economy is impractical and uncertain. But those challenges are far smaller within the scheme. Covering around 208 facilities, it is both reasonable and practicable to consider the relative abatement potential of classes of large facility.

It is not necessary to assess a marginal abatement cost curve for each facility. The simpler assessment, that classes of facility have access to significantly more low-cost abatement than others, is sufficient. Notably, SGM scheme already does this elsewhere:

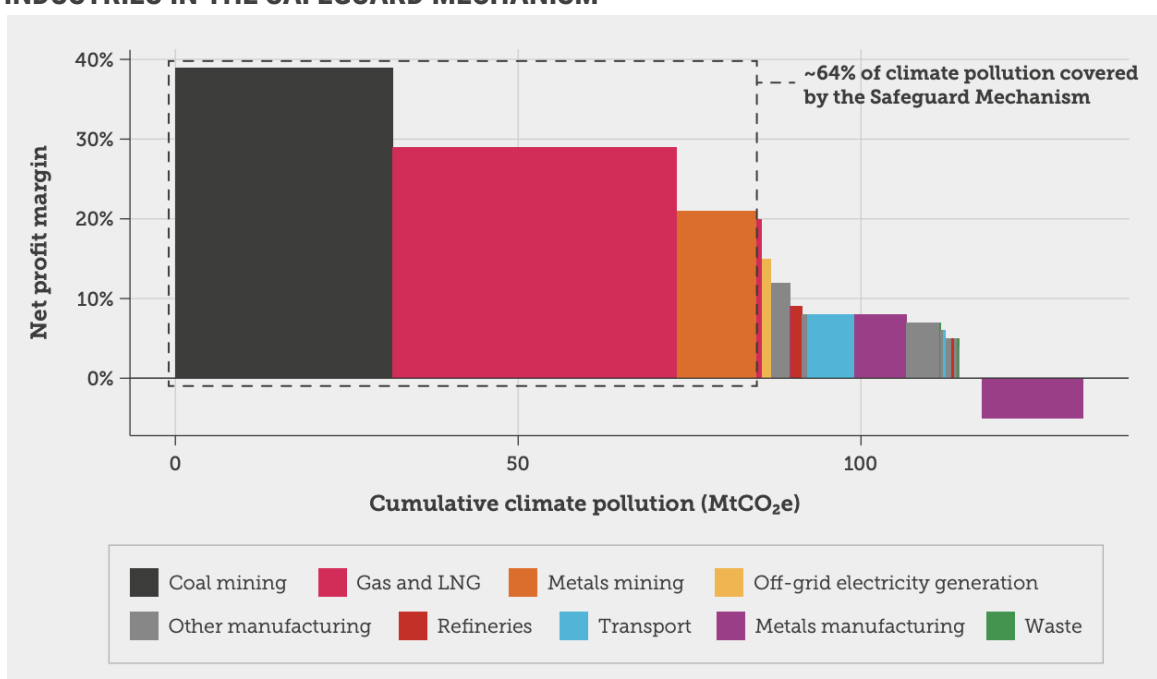
- Best-practice emissions intensities recognise that new projects can invest in best-practice technology and should face tighter limits accordingly.
- Zero-baseline rules for reservoir CO<sub>2</sub> from LNG backfill projects reflect greater access to abatement options, with carbon capture and storage and the availability of low-CO<sub>2</sub> gas fields cited as the justification.

## Where differentiation is warranted.

Several factors support higher decline rates in the resources sector, particularly coal mining, oil and gas extraction, LNG export and metal ore mining.

*Financial capacity.* While some industries operate on tight margins, 64% of the scheme's pollution comes from three sectors with net profits above 20%: coal mining at 39%, oil and gas extraction and export at 29%, and metal ore mining at 21% (ATO 2026; Climate Council 2026ap. 28). As shown in Figure 4, other covered sectors typically enjoy margins well below this level..

**FIGURE 4: COAL, GAS AND MINING ARE HIGHLY-POLLUTING AND THE MOST PROFITABLE INDUSTRIES IN THE SAFEGUARD MECHANISM**



*Technical opportunity.* These industries hold some of the best available abatement options. About one-thirds of gross emissions from coal, oil and gas extraction and export can be abated at low-cost, along with one-fifth of the emissions from other mining – three and two times more than manufacturing respectively (IGCC 2026).

Mining fleets can be electrified, and Fortescue plans to eliminate fossil fuels from its Pilbara iron ore operations by 2030, saving close to \$1 billion a year in diesel costs (Fortescue 2026). Around half of coal mine methane can be abated with existing capture, flaring and oxidation technology (IEA 2026). Around three-quarters of oil and gas methane can be abated with existing technology, much of it at little net cost because the captured gas can be sold (IEA 2026).

Because the resources sector is responsible for about two-thirds of the scheme's pollution, a higher decline rate applied to them allows the scheme to be more accommodating of other sectors

Climate Council estimates that increasing decline rates for the resources sector by one percentage point would lead to an 8.6 – 9.4 Mt reduction in net climate pollution. For other sectors, one percentage point only leads to a 2.7 – 3.0 Mt reduction. As a result, setting a strong decline rate for sectors with the greatest capacity can create significant space for other sectors:

- Between 2031 and 2035 setting a 7.4 – 7.7% decline rate to the resources sector would align with the top-end of Australia's 2035 target, while keeping other sectors on the current 4.9% decline rate.
- Alternatively, setting an 8.0 – 8.4% decline rate to the resources sector would align with the top-end of Australia's 2035 target, while allowing other sectors to drop back to the current default post-2030 decline rate, of 3.285%.

These estimates reflect a desktop-assessment based on current SGM settings, including a consideration of the varied impact of TEBA for different classes of facilities.

It is important that differentiation aims to increase aggregate scheme ambition, delivering settings consistent with at least the high end of the 2035 target, with potential for overachievement. Differentiation is not a mechanism for redistributing a weak abatement task.

Selection of higher-rate sectors should rest on objective and verifiable factors: relative gross sectoral pollution, including methane on a GWP20 basis; average profit margins and other reported capacity-to-pay measures; and the availability of abatement technology.

**Recommendation 19**

Align the mechanism with the top end of Australia's 2035 climate target – a 6.8-7% overall decline rate across the scheme, under current settings.

**Recommendation 20**

Apply stronger decline rates to highly-profitable and highly-polluting industries with the greatest capacity to cut climate pollution, with a moderated decline rate for industries with lower capacity.

## 5. Supporting policies

**The diesel fuel tax credit directly undermines the Safeguard Mechanism.**

Diesel use by iron ore and coal mining for haulage and electricity generation represents up to 19 Mt of climate pollution covered by the scheme.

That pollution is subject to the diesel fuel tax credit, a tax-break which represents an effective subsidy on off-road diesel, relative to the prevailing cost of diesel. The credit, which is provided as a direct cash rebate, is more than five times the SGM's current price signal. It will continue to impact the investment case for electrification or fuel switching, regardless of how the SGM is reformed.

The credit should be reformed so that it supports the SGM's Objects. Reforms should prioritise the largest beneficiaries, with savings reinvested in support for industrial electrification. Capping claims at \$50 million per year per corporate group would provide \$2.5 billion per year for reinvestment in abatement, while affecting only a small number of large corporations. Doing so would drive on-site abatement but also, importantly, a substantial reduction in diesel dependence, enhanced competitiveness for Australian mining, and improved energy security more broadly.

## Conclusion

Australia is cutting climate pollution, but our progress is lopsided. Households and the renewable energy sector are making strong progress. But the first two years of data show the reformed Safeguard Mechanism delivering 0.4% in genuine cuts at continuing facilities, rising pollution from fossil fuel facilities, and a 49% jump in offset and credit use in a single year.

This review is the opportunity to fix that. The Climate Council urges Government to align the scheme with the top of Australia's 2035 target range, to set decline rates that reflect each sector's capacity to cut pollution, to phase offsets down so that genuine cuts take their place, to make price signals stronger and more predictable, and apply fair rules to all new, expanded and extended projects – including zero baselines for new and expanding fossil fuel projects.

These reforms would better protect Australians from escalating climate harm, deliver a fairer and more effective mechanism, set Australian industry on a path to permanently cut its pollution, and secure the clean industries that will underpin Australia's prosperity.

We thank the Department for the opportunity to contribute and would welcome further discussion of this submission and its recommendations.

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