

2026 ANNUAL PROGRESS ADVICE | CONSULTATION PAPER

Australian Energy Producers | 14 August 2026

Australian Energy Producers welcomes the opportunity to input to the Climate Change Authority's 2026 Annual Progress Advice consultation paper. The Australian oil and gas industry is committed to net zero across the economy by 2050 and meeting the objectives of the Paris Agreement.

Natural gas is essential to large-scale industrial decarbonisation and to meeting national and regional climate obligations. Natural gas provides the firm, dispatchable energy needed to scale up renewable power, supports industry's transition away from coal, and remains the largest energy source for Australian manufacturing. Australian gas also supports regional decarbonisation and is leading the deployment of carbon capture, utilisation and storage (CCUS) – one of the few technologies available to materially reduce emissions from many hard-to-abate industries.

In 2024–25, the oil and gas sector delivered the largest reduction in emissions covered by the Safeguard Mechanism, with the Santos and Beach Energy Moomba CCUS project accounting for one third of all emissions reductions achieved under the Safeguard Mechanism during the period.

Increasing the emissions reduction burden on the oil and gas sector puts Australia's energy security, economic growth and international competitiveness at risk. Australian industry already faces some of the most ambitious emissions reductions obligations in the world, with natural gas projects facing additional requirements, including net zero reservoir emissions requirements for new fields supplying existing LNG facilities. Further increasing the sector's burden would raise costs and deter the investment needed to reduce industrial emissions, maintain energy security and support Australia's economic growth and competitiveness.

Recommendations:

- 1. The post-2030 baseline decline rate must be technically achievable and economically sustainable and not increase the emissions reduction burden on industry.** A realistic decline rate – set no higher than current levels – will support continued emissions reductions while maintaining competitiveness, energy security and investment.
- 2. The Safeguard Mechanism baseline decline rate must remain consistent across all covered sectors.** A uniform decline rate across all sectors will preserve competitive neutrality and investment certainty, while supporting least-cost emissions reductions. Baseline adjustments for trade exposed facilities must remain facility based.
- 3. Unrestricted access to high-integrity carbon offsets is essential to flexible, least-cost industrial decarbonisation.** Australian Carbon Credit Units, Safeguard Mechanism Credits and, in the future, verified high-integrity international credits provide compliance flexibility and can help deliver least-cost abatement across the economy.
- 4. Safeguard Mechanism settings must remain stable and market based.** Stable, market-based policy settings support long-term investment and build investor confidence.
- 5. Least-cost abatement must remain central to the design and implementation of the Safeguard Mechanism.** Facilities should retain the flexibility to choose the most efficient mix of abatement options, including onsite abatement and offsets.
- 6. Policies that support new gas supply, coal-to-gas switching, gas-powered generation and CCUS are essential to a reliable and least-cost energy transition.** Policies and programs must recognise the significant contribution that natural gas and CCUS can play in reducing Australia's emissions.

Further comments and recommendations are provided below.

NATURAL GAS IS ESSENTIAL TO ACHIEVING EMISSIONS REDUCTION OBJECTIVES

Natural gas is essential to large-scale industrial decarbonisation and to meeting current and future climate obligations. Natural gas supports the transition away from coal, providing the firming dispatchable energy required to unlock large-scale renewable energy deployment. The Australian Energy Market Operator's (AEMO) Integrated Systems Plan (ISP) highlights that the least-cost energy transition pathway for the National Electricity Market "is a system built around renewable energy, connected through transmission and distribution networks, firmed with storage and backed by gas."¹ In Western Australia, Government owned Synergy has recently announced a formal feasibility study to build a new gas-fired generator as a replacement to its coal fleet in 2030.²

Natural gas is likewise critical to the manufacturing sector, providing around 37 per cent of the energy used by the sector – more than any other energy source.³ Coal to gas fuel switching is central to the emissions reduction pathway for a number of sectors, including for iron and steel production.⁴ The Australian Steel Institute's submission to the Future Gas Strategy consultation highlights "A 60% reduction in greenhouse gas emissions can be achieved by switching from [coal-based] blast furnace ironmaking to direct reduction using reformed natural gas." Coal-to-gas fuel switching is also highlighted as the key driver of emissions reductions in the BlueScope Climate Action Report.⁵

Australian natural gas is critical for emissions reductions in the region. In the same way that natural gas plays a key role in emissions reductions in Australia, it is also critical to emissions reductions in the region including to back up renewables, transition away from coal and fuel industry. LNG has been estimated to reduce lifecycle carbon intensity in our region by 47 per cent compared to coal, providing substantial emissions reduction potential.⁶ Australia's major trading partners including China, Japan, Singapore and South Korea are actively pursuing both energy security efforts and the decarbonisation of their economies through an energy mix including LNG. This effort is reflected in demand forecasts - Wood Mackenzie forecasts global LNG demand to rise 58 per cent by 2050, with Asia Pacific's share of demand rising from 63 per cent to 75 per cent.⁷ Further, as demonstrated through this year's fuel security crisis, Australian LNG is also critical to regional and domestic energy security, with reliable gas exports helping the Australian government secure imports of petrol, diesel and aviation fuel.

The oil and gas sector is delivering large-scale emissions reductions today. The Clean Energy Regulator, in its 2024-25 Safeguard Insights report, found the "*oil and gas sector had the largest covered emissions reduction in 2024-25*". The report also highlighted that the "*successful implementation of carbon capture and storage (CCS) at the Moomba Plant facility*" accounted for one third of all emissions reductions achieved under the Safeguard Mechanism (SGM) during the period.

¹ Australian Energy Market Operator (2026), *Integrated Systems Plan*. The ISP highlights that new flexible gas-powered generation plants will be needed to "provide critical back-up power supply during peak demand events... as well as supporting grid security as coal plants withdraw." To achieve this, around 17 GW of flexible gas-powered generation capacity will be required by 2050 to back up renewable generation and support system reliability.

² Synergy (July 2026), [Replacement Gas Feasibility Study](#).

³ DCCEEW (August 2025), *Australian Energy Statistics*.

⁴ See for example DISR and DCCEEW (September 2025), *Industry Sector Plan*, p. 24

⁵ Blue Scope (2025), [Climate Action Report](#)

⁶ See S&P Commodity Insights (2025), *Pathways to Accelerate Power Emissions Reduction in Asia*. The study considered the supply of LNG from Australia, the US and Qatar to Japan, Vietnam and the Philippines.

The Santos and Beach Energy Moomba project and the Chevron Gorgon project represent two of the largest CCUS projects operating globally today. Together, these projects deliver 3-4 times more emissions reductions per year than all green hydrogen produced globally. The International Energy Agency estimates that the methane emissions intensity of Australian natural gas production is the second lowest of any country globally, behind only Norway.⁸

AUSTRALIAN INDUSTRY FACES SOME OF THE MOST AMBITIOUS EMISSIONS REDUCTIONS OBLIGATIONS IN THE WORLD

“Australia’s Safeguard Mechanism imposes more ambitious abatement obligations on heavy industry than any other country” EY *Australian carbon market outlook 2026*. The SGM requires Australia’s largest industrial facilities to reduce emissions by about 4.9 per cent annually. Recent analysis from EY finds that this is among the most demanding mandatory reduction rates imposed on heavy industry anywhere in the world, establishing medium-term requirements that are more ambitious than comparable schemes in the European Union, North Asia and China.

The oil and gas sector faces additional emissions reduction requirements beyond the broader Safeguard obligations. These include net zero reservoir emissions requirements for new fields supplying existing, net zero scope 1 requirements on the Beetaloo Basin developments, and disproportionately stringent international best practice emissions intensity benchmarks for new oil and gas facilities. Australia is also one of the only LNG exporters globally that places binding annual emissions reductions obligations on LNG export facilities.

Changes to the SGM must not increase the emissions reduction burden on the oil and gas sector and undermine investment needed in new supply. The sector already faces some of the world’s most ambitious emissions reduction obligations while delivering substantial abatement. Additional requirements risk increasing costs and deterring investment in the gas supply, firming generation and CCUS needed to support industrial decarbonisation, energy security and Australia’s international competitiveness.

SAFEGUARD MECHANISM SETTINGS MUST REMAIN STABLE AND MARKET BASED

“The first two years of operation show the mechanism is working as intended”⁹ Climate Change and Energy Minister Chris Bowen. Minister Bowen has highlighted that Safeguard emissions are declining and the mechanism is on track to “*deliver its proportionate contribution to Australia’s legislated 2030 emissions reduction target.*” This is consistent with the Clean Energy Regulator’s assessment that the SGM is delivering on its objectives. At the same time, the CCA acknowledges that “it is too early to draw firm conclusions about the precise impact of the reforms on onsite abatement”¹⁰ and that their full effect will only be observable over time.

Stable, market-based policy settings that continue the existing SGM framework beyond 2030 will support long-term investment and investor confidence. Delivering further industrial emissions reductions will increasingly depend on significant, long-lived capital investments. Stability and consistency in the policy framework are therefore critical to supporting these investments, while

⁸ International Energy Agency (2026), [Global Methane Tracker](#)

⁹ The Hon Chris Bowen MP Media Release (7 August 2026), *Keeping industry competitive while cutting emissions*.

¹⁰ Climate Change Authority (2026) *2026 Annual Progress Advice*, p.37.

repeated changes that materially alter facility economics risk increasing costs, undermining investor confidence and making emissions reduction projects more difficult to deliver.

THE POST-2030 DECLINE RATE MUST BE TECHNICALLY ACHIEVABLE AND ECONOMICALLY SUSTAINABLE

The 2030-35 SGM baseline decline rate should be set no higher than the current 4.9 per cent.

The current Safeguard Mechanism's annual industrial emissions reductions requirements are amongst the most ambitious in the world. Increasing the decline rate from 2030 would impact Australia's competitiveness without necessarily reducing onsite emissions where practical options are constrained. For example, a steeper decline rate cannot overcome barriers impacting annual emissions reductions efforts, including technology readiness, regulatory frameworks, facility integration, plot space limitations, tie-in requirements, shutdown availability, process safety considerations, reliability impacts, extended lead times, project approval times and significant execution risk. The roll-out of capital-intensive, long-lead time emissions abatement projects also depend on access to affordable carbon offsets to meet annual emissions reductions obligations while projects are under development.

The current baseline decline rate will be materially harder and more costly to achieve if Safeguard flexibility is reduced or access to offsets is restricted. Constraining how facilities can comply with the current decline rate would increase compliance costs, reduce investment and undermine Australia's competitiveness.

THE SGM BASELINE DECLINE RATE MUST REMAIN CONSISTENT ACROSS ALL COVERED SECTORS

A consistent decline rate across sectors is essential to ensuring competitive neutrality, providing investment certainty and supporting economy-wide, least-cost emissions reductions. Australia's Nationally Determined Contribution under the Paris Agreement and net zero targets are economy-wide objectives, not sectoral targets. The foundational role of the SGM is to establish a consistent and predictable emissions constraint while allowing trading and crediting mechanisms to identify the lowest-cost sources of abatement. These are important fundamentals because of the inherent uncertainty in forecasting abatement pathways, abatement costs, and market dynamics driving the supply and demand of products. Sector-specific decline rates would effectively impose an administrative judgement about which sectors should contribute emissions reduction, potentially displacing market signals, increasing the cost of achieving national targets, and disproportionately impacting some sectors. Sector-wide differentiated decline rates would also overlook material differences between facilities.

Any baseline adjustments for trade-exposed facilities must remain facility-based and reflect each facility's emissions intensity, cost structure and exposure to international competition.

Sector-specific decline rates would undermine the foundational principles of the SGM and the Climate Change Authority's approach. The Explanatory Memorandum to the latest SGM reforms suggested the mechanism is intended to be a "supportive policy framework for industry... with the right signals to drive investments in emissions reductions, and flexibility so that businesses find the lowest cost abatement, wherever it occurs."¹¹ The Explanatory Memorandum envisages a supportive

¹¹ The Parliament of the Commonwealth of Australia (2023), [Safeguard Mechanism \(Crediting\) Amendment Bill 2023](#)

framework for all industry, not some industries, and foresees the ongoing pursuit of lowest cost abatement. The Minister for Climate Change and Energy similarly framed the need for facility-level flexibility and abatement pathways, economy-wide least-cost abatement, and proportionate contribution by all large emitters.¹²

In addition to these objectives, the Statutory Principles of the Climate Change Authority Act can also guide the approach to differential decline rates:¹³

- **Equity** | differential decline rates would require some facilities to bear a greater share of Australia's emissions-reduction task and could unfairly advantage or disadvantage particular sectors.
- **Economically Efficient** | differential rates would increase complexity, compliance costs and investment uncertainty, undermining least-cost abatement.
- **Environmentally Effective** | differential decline rates would shift the focus from maximising least-cost abatement to requiring reductions in particular sectors, with less regard for overall emissions-reduction outcomes.
- **Public Interest** | higher costs for oil and gas producers could affect energy supply and affordability, manufacturing and Australia's transition to net zero.¹⁴
- **Foreign Policy and Trade Objectives** | Additional burdens could increase sovereign risk and weaken Australia's role as a reliable regional LNG supplier and its reciprocal energy-trade relationships.

Differential decline rates represent a major change to the SGM framework and would introduce significant investment risk. Investment requires predictable policy settings, with baselines declining over time in a gradual and foreseeable way. Differential decline rates would shift the SGM from a predictable, market-based emissions constraint towards a framework in which administrative judgements determine the relative emissions reduction burden imposed on different sectors.

HIGH-INTEGRITY CARBON OFFSETS ARE ESSENTIAL TO FLEXIBLE, LEAST-COST INDUSTRIAL DECARBONISATION

Independent analysis demonstrates the role of high-integrity offsets in delivering least cost emissions reductions. The Productivity Commission clearly states that the use of carbon credits should not be restricted as a way of driving onsite abatement and that lowest cost abatement should be pursued to meet national emissions targets.¹⁵ EY estimate that the access to high-integrity carbon offsets – Australian Carbon Credit Units (ACCU) – and the cost containment guarantee reduces system-wide costs by over 60 per cent or more than \$240 billion to 2050.¹⁶ These additional costs would ultimately be borne by Australian industry and the broader economy, impacting investment, competitiveness and the cost of Australia's transition to net zero.

¹² Commonwealth of Australia Parliamentary Debates (27 March 2023), *Safeguard Mechanism (Crediting) Amendment Bill 2022 Second Reading*, pp.2313-2314.

¹³ Climate Change Authority Act 2011 (Cth), Section 12.

¹⁴ For example, see Australian Energy Market Operator (2026), *Integrated Systems Plan*; Department of Industry Science and Resources (2024), *Future Gas Strategy*.

¹⁵ Productivity Commission (2026), *Investing in cheaper, cleaner energy and the net zero transformation*.

¹⁶ EY (2026), *A time for clarity and confidence: Australian Carbon Market Outlook 2026*, p. 18.

“One ACCU represents one tonne of carbon dioxide equivalent that would have otherwise been released into the atmosphere” Clean Energy Regulator.¹⁷ One high-integrity ACCU represents one tonne of CO₂e avoided or removed from the atmosphere, just as one tonne of onsite abatement represents one tonne of CO₂e avoided. Provided the carbon offset abatement is high-integrity prioritising onsite abatement over offsets does not increase the emissions reduction achieved – it simply determines where that reduction occurs. The CCA should clearly recognise that one tonne of CO₂e reduced through an ACCU delivers the same climate outcome as one tonne of CO₂e reduced onsite. Any other position would undermine efforts to improve the integrity and credibility of the ACCU scheme to reinforce the principle of treating each tonne of abatement equally.

Restricting or discounting ACCUs will not address technological and commercial challenges faced by hard-to-abate facilities as they pursue onsite abatement options. Material emissions reductions in the oil and gas sector often require large, capital-intensive projects that carry significant integration risks and are planned and executed over several years. The feasibility and cost of abatement opportunities also vary considerably between facilities due to differences in design, operating conditions, and geographic location, with some facilities facing limited or prohibitively expensive onsite options. Restricting the use of ACCUs does not overcome these practical constraints – rather it would increase compliance costs and could lead to cost pass through, deferral of investment, or the diversion of capital to other jurisdictions.

Safeguard Mechanism Credits (SMCs) should continue to be a feature of the SGM and their role in decarbonisation should be enhanced. Pre-2030 SMCs should be allowed to be used in the post-2030 period. Restricting their future use would reduce the value of credits earned under the existing framework and could create a perverse incentive to defer abatement activity until 1 July 2030 to maximise the value of the SMCs generated. Preserving the value and bankability of SMCs would recognise early abatement, maintain confidence in the stability of the Safeguard Mechanism and strengthen investment incentives for future emissions reduction projects. It is also important to recognise the legitimacy of SMCs as property assets earned under the laws and regulations applying at the time. Restricting their future use for compliance purposes would effectively erode their functional value, introducing sovereign risk and undermining confidence in the predictability of the Safeguard Mechanism. The CCA should therefore consider longer-term SMC bankability as a means of supporting investment in early abatement.

Introducing the use of high-integrity international credits is a further way to minimise costs while meeting Paris Agreement objectives. The CCA should consider the framework and processes needed to introduce the use of eligible high-integrity international offsets into the SGM. This could include government initially purchasing international offsets for the purpose of strengthening the cost containment mechanism. While the ACCU market has sufficiently supplied the Australian market to-date, industry is concerned that demand will exceed supply ahead of government estimates. Given the lead times and international arrangements required, Australia should establish the necessary architecture now so that access to international credits is available if needed to support market liquidity and contain future compliance costs.

¹⁷ Clean Energy Regulator, Australian carbon credit units, website (accessed August 2026)

COMPLEMENTARY POLICIES ARE NEEDED TO SUPPORT LOWER-COST ONSITE ABATEMENT AND LOWER-CARBON INDUSTRIES

Oil and gas facilities covered by the SGM continue to invest in onsite abatement opportunities, but external barriers remain. CCA analysis on how complementary initiatives and infrastructure delivery outside of the SGM can support the timeliness and cost reduction of onsite abatement is welcome. Access to electricity is an important prerequisite underpinning several facility abatement options, and therefore availability will impact abatement feasibility, timeframes, and costs. However, electricity supply and critical network infrastructure required to connect industry to existing or new generation is inconsistent across Australia. The SGM also does not incentivise replacing onsite power generation with lower carbon offsite power. The CCA has previously noted “there are limited incentives to replace electricity generated onsite through combustion of fuels with imported renewable electricity... as only scope 1 emissions generated within a facility boundary are included within the baseline, importing renewable electricity would result in a facility’s gross emissions and baseline both reducing.”¹⁸ This remains an ongoing barrier to decarbonisation and the CCA should consider how facilities can be better incentivised to reduce emissions through imported electricity.

Coal-to-gas switching, gas-powered generation and CCUS are largely excluded from programs supporting Australia’s transition and emissions reduction goals. Achieving Australia’s climate objectives will require all available technology pathways, yet government support for their deployment remains uneven, with natural gas and CCUS continuing to be excluded or inconsistently recognised across key climate, energy and industry programs. Such exclusions include the Capacity Investment Scheme, programs administered by the Clean Energy Finance Corporation, ARENA, Future Made in Australia Initiatives, and the Hydrogen Head Start program. Natural gas investment is also increasingly discouraged through initiatives such as the Treasury-led Sustainable Finance Taxonomy. In addition, there is no national CCUS strategy, which could promote coordination across industries, support shared infrastructure planning, provide targeted policy support to scale-up investment, and identify and remove regulatory barriers to CCUS deployment. While Australia is progressing bilateral government-to-government agreements to facilitate the cross-border transport of CO₂, progress remains slow and Australia risks losing-out to regional competitors. Overlooking the role of natural gas and CCUS will make reaching net zero in Australia harder and more expensive. It also creates inconsistencies for decarbonisation costs and timeframes between sectors and facilities.

Lower-emissions industries face significant commercial, investment and regulatory barriers that continue to constrain project development and deployment. Large-scale emissions reduction projects are capital-intensive and high risk, while investment capital is finite and globally competitive. The oil and gas sector continues to face a range of barriers to lower emissions investments, including:

- Customers are often unable or unwilling to pay a premium for lower-carbon products, limiting demand and project viability.
- High costs and immature markets continue to challenge the commercial viability of lower-emissions projects.
- Government support, where available, does not always sufficiently de-risk emerging projects or mobilise private investment.

¹⁸ Climate Change Authority (September 2024), *Sector Pathways Review*, p.121.

- Lengthy approval processes and regulatory requirements increase project costs and delay investment.

Australian Energy Producers supports a durable and least-cost transition to net zero, underpinned by policy settings that maintain investment certainty, energy security and Australia's industrial competitiveness. Early evidence indicates the SGM is contributing to emissions reductions, including through material reductions from the oil and gas sector, but the full impact of the 2023 reforms is still emerging. Post-2030 settings should therefore maintain an achievable and uniform decline rate, preserve unrestricted access to high-integrity offsets and retain the stable, market-based architecture of the SGM. Complementary policies should focus on enabling the gas supply, CCUS, infrastructure and investment needed to deliver deeper emissions reductions.