

SAFEGUARD MECHANISM REVIEW | CONSULTATION PAPER

Australian Energy Producers | 18 September 2026

Australian Energy Producers welcomes the opportunity to provide input to the Department of Climate Change, Energy, the Environment and Water's (DCCEEW) Review of the Safeguard Mechanism.

The oil and gas sector is essential to industrial decarbonisation and is delivering large-scale emissions reductions today, reflecting its commitment to net zero across the economy and meeting the objectives of the Paris Agreement. 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”, highlighting the “successful implementation of carbon capture and storage (CCS) at the Moomba Plant facility”, which delivered almost one-third of Safeguard Mechanism (SGM) emissions reductions last year.

Natural gas provides the firm, dispatchable power needed to scale up renewable power, supports industry's transition away from coal, and remains the largest energy source for Australian manufacturing. Australian LNG is also critical to reducing emissions in the region. Carbon capture, utilisation and storage (CCUS) is one of the few technologies available for large scale emissions reductions for many hard-to-abate industries. Australia is home to two of the world's largest CCUS projects – the Chevron Gorgon project and the Santos and Beach Energy Moomba project – which together are storing emissions equivalent to taking around one million cars off the road each year.

The Safeguard Mechanism is one of the world's most ambitious emissions reductions programs. Independent analysis from EY found that the SGM imposes some of the most ambitious emissions reductions obligations on heavy industry anywhere in the world. The SGM imposes stricter requirements on the oil and gas sector over and above other sectors, including net zero reservoir emissions for new gas fields supporting LNG projects and net zero for Beetaloo Basin gas developments. All new oil and gas facilities also face disproportionately strict emissions requirements relative to other sectors based on selective international benchmarks. As a result, new oil and gas facilities are expected to have lower emissions than comparable operations anywhere in the world today.

The SGM review must provide policy certainty and promote investment competitiveness. Minister Bowen has highlighted that “the first two years of operation show the mechanism is working as intended.” The *SGM Review Consultation Paper* emphasises that “Maintaining stable policy settings and a measured and predictable emissions reduction trajectory to net zero underpins long-term investment decisions.” The 2023 reforms also reinforced a technology-neutral, market-based approach focused on achieving *net* emissions reductions, as reflected in the SGM's legislative objectives and supporting materials. Proposed changes such as restricting ACCU use or introducing sectoral decline rates would represent a fundamental change to the SGM and a departure from its underlying principles and objectives.

This review must recognise that Australia's oil and gas sector is already doing a lot of the heavy lifting to reduce emissions. Increasing the emissions reduction burden on the oil and gas sector 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. **Ensure the 2035 SGM emissions reduction target is technically achievable and economically sustainable, with the annual baseline decline rate set no higher than current levels.** Imposing an unachievable emissions reductions burden on industry risks undermining jobs, investment, and Australia's international competitiveness.
2. **Maintain unrestricted access to high-integrity offsets and explicitly defend the integrity and robustness of the Australian Carbon Credit Unit (ACCU) Scheme.** Any restrictions or discounting of the use of ACCUs would reduce compliance flexibility, make addressing industrial emissions more expensive, increase the risk of non-compliance, and further undermine confidence in the ACCU Scheme.
3. **Maintain a consistent default baseline decline rate across all covered sectors, with any Trade Exposed Baseline Adjustments (TEBA) remaining targeted and facility-based.** A uniform decline rate across all sectors preserves competitive neutrality and investment certainty, while supporting least-cost emissions reductions.
4. **Ensure the emissions-reduction burden arising from TEBA adjustments or other concessions is shared across the economy, not carried solely by other SGM facilities.** Any shortfall created by facility-level TEBA or other concessions should be accommodated through a proportionate reduction in the SGM's share of the national emissions-reduction task, not carried solely by other SGM facilities.
5. **The SGM must remain focused on delivering least-cost emissions reductions and not be used to pursue industry policy objectives.** Facilities should retain the flexibility to choose the most efficient mix of onsite abatement and high-integrity offsets. Using the SGM to favour specific industries, technologies or abatement pathways would increase complexity, compliance costs, and undermine least-cost emissions reductions.
6. **Ensure stable and predictable SGM settings.** Unnecessary changes to SGM settings, including establishing frameworks that enable settings to be changed in the future, would create policy uncertainty, increase costs and delay investment in energy, industrial and emissions-reduction projects.
7. **Complementary policies should help reduce the technical, commercial and regulatory barriers that constrain large-scale industrial abatement.** Complementary policies should reduce project risks, accelerate approvals and support investment in the infrastructure and technologies needed to deliver material emissions reductions.
8. **Policies and programs must recognise and support emissions reductions achieved through coal-to-gas switching, gas-powered generation and CCUS.** SGM targets will be harder and more expensive to achieve without policies that support new gas supply and the deployment of CCUS.

TRACKING PROGRESS TO 2030

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, firming 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 powering 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. 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.⁷

The oil and gas sector is delivering large-scale emissions reductions today. The Clean Energy Regulator has highlighted that the sector "*had the largest covered emissions reduction in 2024–25*". The Santos and Beach Energy Moomba project (see Case Study One) and the Chevron Gorgon

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.

⁷ See for example [Australian Financial Review \(2026\), Australia may exploit LNG 'leverage' to secure oil from Asia](#). As Executive Director of the International Energy Agency Dr. Fatih Birol stated as he considered the fuel security crisis - "for years and years Australia has been one of the cornerstones of regional energy security... and now it is more important and vital than ever."

Case Study One: Moomba CCS – delivering large-scale emissions reductions under the Safeguard Mechanism

The Santos and Beach Energy Moomba CCS Project captures CO₂ associated with gas processing operations and permanently stores it in a depleted gas reservoir.

Moomba CCS is one of the largest onshore CCS projects in the world, with Phase 1 capacity to store up to 1.7 million tonnes of CO₂e per year. Initially designed to store CO₂ from joint venture operations, the project has the potential to use surplus storage capacity for third-party emitters, positioning Moomba as a potential regional CO₂ storage hub.

The project is already delivering significant emissions reductions under the SGM. The Clean Energy Regulator highlighted the “*successful implementation of carbon capture and storage (CCS) at the Moomba Plant facility*”, with Moomba alone contributing around one-third of emissions reductions under the SGM.

project represent two of the largest CCUS projects operating globally today. Together, these projects reduce emissions to the equivalent of taking around one million cars off the road each year. 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

Policy and regulatory uncertainty, rising costs and approval delays are weakening investment in Australian gas, risking emissions-reduction efforts in Australia and the region. Wood Mackenzie found that global investment in gas exploration grew by nearly 30 per cent over the five years to 2025, compared with only 15 per cent growth in Australia. Australia’s share of the investment portfolios of major international oil and gas companies also fell from around 40 per cent to 15 per cent over the preceding decade. Further increases in costs or policy uncertainty under the SGM would compound these investment challenges.

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.⁹ Australia should therefore consider a baseline decline rate aligned with global action.

The oil and gas sector faces additional emissions reduction requirements beyond the broader SGM obligations. These include net zero reservoir emissions requirements for new fields supplying existing processing facilities, 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.

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

⁹ EY (2026), *Australian carbon market outlook 2026*.

Changes to the SGM must not increase the emissions reduction burden on the oil and gas sector and undermine investment needed in new supply. 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.

SGM settings must remain stable and market based

"The first two years of operation show the mechanism is working as intended"¹⁰ **Climate Change and Energy Minister Chris Bowen.** Minister Bowen has highlighted that SGM 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 Climate Change Authority (CCA) acknowledges that "it is too early to draw firm conclusions about the precise impact of the reforms on onsite abatement"¹¹ 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 repeated changes that materially alter facility economics risk increasing costs, undermining investor confidence and making emissions reduction projects more difficult to deliver.

The SGM is intended to provide 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" **2023 Explanatory Memorandum.**¹² The SGM is a market-based climate policy designed to reduce emissions from Australia's largest industrial facilities at least cost. Its framework allows facilities to select the most efficient mix of abatement options and directs investment towards the least-cost emissions reductions. Using the SGM to favour particular sectors, products, technologies or abatement pathways is contrary to the intent of the SGM. Such an approach would distort market incentives, increase compliance costs and shift a disproportionate burden onto other facilities.

Additional support for industries should be delivered through separate and transparent industry policy measures. The Consultation Paper uses the term "strategic industries" in considering competitiveness challenges and economic opportunities for some SGM facilities. However, the Government priorities for particular industries and products will change over the pathway to net zero. Embedding these preferences within the SGM would create policy uncertainty and undermine the scheme's consistent, long-term framework. Support for selected industries should instead be delivered through separate and transparent industry policy measures.

¹⁰ The Hon Chris Bowen MP Media Release (7 August 2026), *Keeping industry competitive while cutting emissions*.

¹¹ Climate Change Authority (2026) *2026 Annual Progress Advice*, p.37.

¹² The Parliament of the Commonwealth of Australia (2023), [SGM \(Crediting\) Amendment Bill 2023](#)

MEETING THE 2035 TARGET

Ensure the 2035 SGM emissions reduction target is technically achievable and economically sustainable, with the annual baseline decline rate set no higher than current levels.

The annual baseline decline rate should be technically achievable and economically sustainable. SGM facilities are among the hardest parts of the Australian economy to decarbonise, with emissions reductions generally more technically complex and costly than in many other parts of the economy. Further, in many cases decarbonisation is dependent on developments beyond individual facilities' direct control, including the rollout of lower-emissions generation, transmission infrastructure, reliable gas supply where fuel switching can reduce emissions, and shared CO₂ transport and storage infrastructure. The 2035 SGM emissions reduction target should reflect both the inherent difficulty of abating industrial emissions and SGM facilities' dependence on enabling investment and infrastructure across the broader economy.

The 2030–35 SGM baseline decline rate should be set no higher than the current 4.9 per cent. The SGM's annual industrial emissions reduction requirements are already amongst the most ambitious in the world. Increasing the decline rate from 2030 would impact Australia's competitiveness without necessarily delivering additional onsite emissions reductions where options are constrained. A steeper decline rate cannot overcome practical barriers to abatement, including technology readiness, facility integration, plot-space limitations, tie-in requirements, shutdown availability, process safety and reliability considerations, extended lead times, project approval timeframes and significant execution risk.

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.

Domestic climate policy should reflect changing global policy settings. Since the 2023 SGM reforms, climate policy among Australia's competitors and trading partners has become increasingly divergent. The United States has reversed or relaxed several measures affecting oil and gas producers, while Canada and the European Union have moderated aspects of their carbon-pricing frameworks to address competitiveness, affordability and energy-security concerns. Australia's post-2030 emissions-reduction policies, including the SGM, should remain broadly aligned with international action and account for the obligations faced by competing industries. Moving materially ahead of comparable jurisdictions risks shifting production, investment and emissions overseas without reducing global emissions. Imposing materially higher costs on Australian facilities than their international competitors would risk Australia's international competitiveness and investment attractiveness, potentially shifting production, investment and emissions overseas without reducing global emissions.

FLEXIBLE COMPLIANCE

Maintain unrestricted access to high-integrity offsets.

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.¹³ A change in approach would undermine the technology-neutral, market-based framework that underpinned the Productivity Commission's assessment of the SGM as an effective and efficient policy. EY estimates that access to high-integrity carbon offsets – ACCUs – and the cost containment guarantee reduces system-wide costs by over 60 per cent or more than \$240 billion to 2050.¹⁴ Restricting access to offsets would therefore increase the cost of meeting emissions-reduction targets, with these additional costs ultimately borne by Australian industry and the broader economy, impacting investment, competitiveness and the cost of Australia's transition to net zero.

“One ACCU represents one tonne of carbon dioxide equivalent that would have otherwise been released into the atmosphere” Clean Energy Regulator.¹⁵ 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. Prioritising onsite abatement over high-integrity offsets delivers no additional emissions reduction benefit. It only changes the location of the abatement. The Government 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.

The SGM already provides strong incentives for facilities to pursue onsite abatement. Baselines decline each year, compounding the compliance obligation for facilities that do not reduce their emissions intensity. Onsite abatement can reduce current and future compliance costs and, where a facility performs below its baseline, enable the creation of SMCs. Facilities therefore already have a ratcheting commercial incentive to identify and bring forward viable onsite abatement. They should retain the flexibility to assess these incentives against facility-specific risks, costs and abatement opportunities, and to determine the most efficient mix of avoiding, reducing and offsetting emissions.

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. This diversion of capital would also reduce

¹³ Productivity Commission (2026), *Investing in cheaper, cleaner energy and net zero transformation*.

¹⁴ EY (2026), *A time for clarity and confidence: Australian Carbon Market Outlook 2026*, p. 18.

¹⁵ Clean Energy Regulator, Australian carbon credit units, website (accessed August 2026)

Case Study Two: Sunnyside Carbon Farm – building capacity through ACCUs.

ACCU projects can deliver benefits well beyond emissions reductions, creating local jobs, skills and economic opportunities.

The Sunnyside carbon farm near Balingup in Western Australia is a reforestation project that generates ACCUs by establishing permanent native vegetation on previously cleared agricultural land.

The project is creating direct opportunities for local Traditional Owners, with Gnaala Karla Booja Aboriginal Corporation (GKB) Rangers involved in project delivery and fencing works awarded to GKB Impact, a social enterprise supporting economic development, cultural heritage protection and community empowerment.

Alongside delivering emissions reductions, the project is building local land management skills, capability and economic opportunities.

the broader co-benefits delivered by ACCU projects, including capacity-building and economic opportunities in regional communities, as outlined in Case Study Two. It could also distort the ACCU market by delaying new supply and bringing forward demand as facilities seek to manage the risk of future scarcity. The resulting uncertainty would make investment decisions more difficult and leave less capital available for onsite abatement.

Introducing a framework to restrict or discount ACCUs use in the future would increase risks to SGM objectives, even if changes were not immediate. It may delay project development as suppliers hold out for higher future prices, while buyers accelerate purchases to avoid potential scarcity. For new projects, it creates significant investment uncertainty and further disadvantages new entrants

relative to existing facilities. Higher compliance costs would also reduce capital available for onsite abatement, while limits on ACCU use could leave hard-to-abate facilities unable to meet compliance obligations.

Recent decisions reinforce a perceived shift in sentiment towards offsets, risking further erosion of confidence in the ACCU market. The recent decision to restrict credits from the Improved Native Forest Management (INFM) method – which required federal legislation and will be administered by the Clean Energy Regulator – sets a concerning precedent for access to ACCUs. Further measures to discount or restrict ACCUs would reinforce this trend and be inconsistent with the underlying rigour, integrity and transparency of the ACCU Scheme.

Future ACCU supply remains uncertain and may be lower than historical issuance suggests. Supply from some historically significant methods will decline, while the development and uptake of replacement methods takes time. Forecast issuance also depends on project performance, audit outcomes and regulatory approval, contributing to material differences between publicly available supply forecasts.¹⁶ These uncertainties reinforce the need for a credible, forward-looking assessment of ACCU supply and demand, and indicate it is too early to introduce discounting or restrictions.

Greater transparency about future ACCU supply and demand would benefit all market participants, but mandatory facility-level abatement or compliance plans are not the

¹⁶ See for example ERM (1 September 2026), *Is future ACCU supply overstated*. The Climate Change Authority also noted challenges with developing new methodologies and has recommended the government develop a roadmap for prioritizing the timely delivery of new methods.

appropriate mechanism. Instead, the Government should develop a forward-looking ACCU market outlook, informed by aggregated information from market participants. The outlook should assess expected demand, the volume and timing of new supply, emerging supply-demand risks and the contribution of new ACCU methods. This would provide the Government and industry with a shared evidence base, complement the Clean Energy Regulator's historical data and allow emerging market risks to be identified and addressed earlier. An aggregated outlook would also be less onerous, more technically feasible and less commercially sensitive than requiring facilities to disclose individual abatement or compliance plans.

International offsets

Introducing the use of high-integrity international credits is a further way to improve market resilience while meeting Paris Agreement objectives. Robust international offsets would provide an additional source of flexible compliance, improve market resilience and reduce the risk that domestic supply constraints lead to unnecessarily high costs. While the ACCU market has met domestic demand to date, demand could exceed supply earlier than government forecasts. Given the lead times required to negotiate international arrangements and establish robust eligibility and accounting rules, the Government should develop the necessary architecture now so international units can be accessed if required. As an initial step, the Government could consider acquiring eligible international units to strengthen the Cost Containment Measure before permitting broader use by Safeguard facilities.

Early engagement in international carbon markets would also allow Australia to help shape emerging integrity and accounting standards. The Government should:

- establish authority and processes to negotiate Article 6.2 arrangements, including requirements for host-country authorisation and corresponding adjustments;
- engage industry on potential sources and uses of Article 6.2 and Article 6.4 units;
- assess interactions with the ACCU market; and
- develop eligibility criteria covering unit type, quantity, vintage, additionality, permanence, leakage, safeguards and avoidance of double counting.

Only units meeting robust integrity requirements and of a quality comparable to ACCUs should be eligible for use under the SGM.

Technical, commercial and regulatory barriers continue to constrain large-scale industrial abatement

Oil and gas facilities covered by the SGM continue to invest in onsite abatement opportunities, but external barriers remain. DCCEE analysis on how complementary initiatives and infrastructure delivery outside of the SGM can support the timeliness and reduce the cost of onsite abatement is welcome. The CCA has previously recognised that the ability of SGM facilities to reduce onsite emissions is influenced by factors outside the SGM, including the availability of enabling infrastructure and complementary government policies. Addressing these external barriers can bring forward abatement and reduce its cost without increasing the compliance burden imposed through the SGM itself. Access to electricity is an important example. Electrification is a potential abatement pathway for several industrial facilities, but its feasibility depends on access to sufficient electricity generation and the transmission and network infrastructure required to connect facilities to it. The

availability, timing and cost of this infrastructure varies significantly across Australia, directly affecting the feasibility, timing and cost of onsite abatement.

The Government should ensure policies are in place to support onsite abatement from coal-to-gas switching, gas-powered generation and CCUS. 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 as highlighted in Case Study Three, the Government's 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, the Australian Renewable Energy Agency (ARENA), Future Made in Australia Initiatives, and the Hydrogen Headstart 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.

Complementary policies should support the development and deployment of emerging industrial abatement technologies. Targeted support for research, demonstration and early deployment can help reduce technical and commercial risks where viable emissions-reduction technologies are not yet available at scale.

Global estimates of oil and gas abatement potential do not necessarily reflect the opportunities remaining at Australian facilities. Many technically simpler and lower-cost measures have already been implemented or avoided through facility design. The cost and feasibility of remaining opportunities depend on facility-specific factors, including existing plant design, age, location, reservoir characteristics, operating conditions and access to enabling infrastructure. Modelling based on international benchmarks may not adequately account for these differences. The Investor Group on Climate Change, for example, acknowledges that its estimates of abatement options and costs are generally based on international data rather than detailed analysis of Australian facilities.¹⁷ Australian operator experience indicates that the remaining abatement opportunities are often smaller and more expensive than these models suggest. This is consistent with International Energy Agency estimates that Australian natural gas production has the second-lowest methane emissions intensity globally, behind only Norway.¹⁸ SGM settings should therefore be informed by Australian facility-level evidence and should not assume that global estimates of low-cost abatement can be replicated across Australian operations. Applying such assumptions would increase compliance costs without necessarily delivering additional onsite abatement.

The technical feasibility of delivering emissions reductions safely and reliably within operating brownfield environments is a paramount consideration for delivering onsite abatement. Case Study Four demonstrates an example of an abatement project progressing after addressing several technical challenges. It is also an abatement option not universally available because other facilities are designed with dry gas seals and therefore designed out this emissions source. Similarly, Case

¹⁷ IGCC (2026), p.64.

¹⁸ International Energy Agency (2026), [Global Methane Tracker](#)

Study Four: Woodside Boil Off Gas Compressor Dry Gas Seal Retrofit

Woodside's project upgrades wet seals on BOG compressors to dry gas seals, reducing methane vented through compressors seals by an estimated ~24ktCO₂e per annum.

Scheduled for completion in 2027, this abatement project is technically complex, requiring equipment, piping, controls, electrical and civil works to safely install and integrate the new system.

The project has taken four-to-five years to progress through engineering planning and site implementation to get to this point. This demonstrates that onsite abatement requires long-term planning to address technical challenges and be executed safely and effectively.

Study One outlines the success of Moomba CCS, but this technology pathway will not always be technically feasible due to integration challenges, ready access to a storage site, or production profile.

Abatement projects have long-lead times and need to align with maintenance schedules and planned shut-downs. Case Study Four also gives insight into the length of time needed to plan and execute abatement projects. This example has taken four to five years to plan – and while it is important – more material options like CCUS or electrification involve greater technical integration challenges and therefore longer lead times. Given long-lead times, projects like these have not had the

opportunity to deliver emissions reductions and will not be reflected in existing SGM data.¹⁹ Adjustments to SGM settings so soon post-reform introduce undue uncertainty and risk.

Greater availability of electricity generation and transmission infrastructure remains important to enabling abatement pathways across the economy. Case Study Five highlights the challenge of delivering transmission infrastructure in the Pilbara, and raises the challenge of inconsistent access to national infrastructure and the costs of delivering infrastructure in different parts of Australia. This is a complex task that requires government and industry to work collaboratively to manage significant project-on-project risk.

The Government should consider how the SGM can better incentivise abatement through decarbonisation via imported electricity. 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.”²⁰ This remains an ongoing barrier to decarbonisation and the Government should consider how facilities can be better incentivised to reduce emissions through imported electricity, such as a baseline uplift.

The Moomba CCS project has made a substantial contribution to SGM objectives, but was made under different policy settings. Since its Final Investment Decision, the Government

¹⁹ Not all abatement pathways are available at all facilities. This is evidenced by Case Study Three – this is an abatement option pursued at one LNG facility, but other facilities built later were designed with dry gas seals and therefore designed-out this emissions source. Similarly, Case Study One outlines the success of Moomba CCS, but this technology pathway will not always be technically feasible due to integration challenges, ready access to a storage site, or production profile.

²⁰ Climate Change Authority (September 2024), *Sector Pathways Review*, p.121.

Case Study Five: Rewiring the Nation in the Pilbara – enabling infrastructure constrains the pace of abatement

The availability of enabling infrastructure can materially constrain the timing and cost of onsite abatement and is not consistent across Australia. The Review should recognise these practical constraints when considering changes to SGM settings.

Rewiring the Nation (RtN) was announced in 2022 to support investment in electricity transmission infrastructure. In Western Australia, access to new grid infrastructure is particularly important for facilities seeking to electrify, including in Strategic Industrial Areas where opportunities to develop onsite renewable generation can be constrained.

The Pilbara demonstrates the long lead times involved. It has taken almost five years to establish State and Federal funding arrangements and identify priority transmission projects, while access to new transmission infrastructure remains years away and significant barriers to investment remain.

Abatement pathways, costs and timeframes vary materially between regions and facilities. Changes to SGM settings should therefore reflect the real-world availability and timing of enabling infrastructure and avoid relying on modelling assumptions that do not reflect the circumstances facing individual facilities.

changed the application of the CCS ACCU Methodology so it cannot be used at SGM facilities. The rationale is that abatement projects at SGM facilities can be rewarded with SMCs rather than ACCUs. However, there are several existing shortcomings of SMCs compared to ACCUs, which is detrimental to the investment case. For example, SMCs cannot be banked beyond a 5-year NDC period, there remains uncertainty of treatment post 2030, SMCs have limited use, and they are awarded on emissions below a facility's baseline.

The option to use measurement-based methods under the National Greenhouse and Energy Reporting (NGER) Scheme is an important prerequisite for allocating capital to methane abatement in the oil and gas sector. AEP supports the continued evolution of the NGER Scheme in partnership with industry and encourages practical and implementable measurement-based methods. This added flexibility is a complement to, not a replacement of, Method 1 approaches. For several methane sources, measurement-based reporting options are unavailable, unduly onerous or not fit-for-purpose. Approaches that use

engineering assumptions to appropriately scale measured emissions spatially and temporally are needed to enable further methane abatement where it is efficient and technically viable. Removing onerous re-baselining triggers could improve the uptake of these measurement-based methods.

TRADE EXPOSED AND STRATEGIC INDUSTRIES

Maintain a consistent default baseline decline rate across all covered sectors, with any Trade Exposed Baseline Adjustments (TEBA) remaining targeted and facility-based

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 (NDC) 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 across covered sectors, while

allowing trading and crediting mechanisms to identify the lowest-cost sources of abatement across all sectors.

Sector-specific decline rates would undermine the foundational principles of the SGM and be a substantive change. The Explanatory Memorandum to the latest SGM reforms states the mechanism is intended to be a “supportive policy framework for industry”, and does not contemplate less supportive frameworks for some industries covered by the SGM. 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.²¹

The Consultation Paper points to *competitive tensions* arising where some facilities within a sector qualify for TEBA while others do not. However, differential treatment is an inherent feature of a targeted, facility-based TEBA framework, not evidence of a design flaw. The mechanism is designed to provide targeted relief to facilities facing demonstrable emissions-intensive, trade-exposed risks. A sector-wide approach would weaken this principle by extending concessional treatment to facilities that have not demonstrated the characteristics that justify TEBA support. In doing so, it risks institutionalising competitive advantages for facilities that are not trade-exposed and diluting emissions reduction incentives. Rather than redesigning the framework around sectoral decline rates, the Government should consider whether any identified competitive tensions can be addressed through targeted adjustments that preserve the facility-level integrity of the current TEBA framework. Sector-specific decline rates would effectively impose an administrative judgement about which sectors should contribute to emissions reduction, potentially displacing market signals, increasing the cost of achieving national targets, and disproportionately impacting some sectors.

The Review should consider whether the distinction between manufacturing and extractive sectors should continue. TEBA currently uses different benchmarks for assessing competitiveness impacts between manufacturing and extractive sectors. This approach does not reflect the investment leakage pressures the oil and gas sector faces.

Ensure the emissions-reduction burden arising from TEBA adjustments is shared across the economy, not carried solely by other SGM facilities.

The emissions-reduction burden arising from facility-level TEBA adjustments should be shared proportionately across the economy, not transferred solely to non-TEBA SGM facilities. Any emissions reductions displaced by facility-based TEBA relief should be allocated proportionately across the broader economy, with the SGM’s aggregate share of the national emissions-reduction task reduced accordingly. Requiring non-TEBA SGM facilities to compensate through higher decline rates or additional compliance obligations would instead transfer competitiveness pressures from one group of SGM facilities to another. This concern will become increasingly material if, as the Government anticipates, more facilities seek TEBA relief.

Sharing the burden of TEBA relief proportionately across the economy would preserve TEBA as a targeted, facility-based measure. Supporting internationally competitive industries provides national benefits extending beyond the facilities receiving relief, including employment, investment,

²¹ Commonwealth of Australia Parliamentary Debates (27 March 2023), *SGM (Crediting) Amendment Bill 2022 Second Reading*, pp.2313-2314.

exports and supply-chain activity. The emissions-reduction burden associated with that relief should therefore be shared across the broader economy in proportion to its contribution to the national target.

Transferring additional obligations to non-TEBA SGM facilities would distort investment and abatement decisions. Higher decline rates and compliance costs could reduce the capital available for onsite abatement and other decarbonisation projects, undermining the objective of encouraging greater onsite emissions reductions.

Carbon Border Adjustment Mechanism

A Carbon Border Adjustment Mechanism would not remove the need for facility-level TEBA protection. As the Consultation Paper recognises, significant legal and design challenges arise in applying a Carbon Border Adjustment Mechanism to export-oriented industries. A mechanism imposed on imports into Australia would not address the competitiveness pressures faced by Australian exporters in international markets. Effective facility-level TEBA arrangements should therefore remain available while any Border Carbon Adjustment is developed.

INTER-TEMPORAL FLEXIBILITY AND THE COST CONTAINMENT MEASURE

Banking, borrowing and multi-year monitoring

Pre-2030 Safeguard Mechanism Credits (SMCs) should be allowed post-2030. The Consultation Paper notes an interest in organisations taking a forward-thinking approach to their decarbonisation pathway, and this is intrinsically linked to having flexible banking provisions. It would be contradictory if the Government expects forward planning and technical abatement while planning to limit access to SMCs. Restricting 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 SGM 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 SGM.

Borrowing provisions should remain a feature of the SGM because they provide flexibility to manage compliance costs across volatile cycles. Allowing facilities to borrow future emissions baselines helps smooth out financial impacts from short-term output spikes or unexpected disruptions.

Multi-year monitoring plans should continue to be a feature of the SGM. By assessing compliance over an extended period rather than in a strict annual window, this framework provides flexibility for single-year fluctuations and aligns compliance with long-term decarbonisation investments.

Cost Containment Mechanism

The Cost Containment Mechanism (CCM) may provide temporary price relief but does not currently provide a reliable or enduring ceiling on compliance costs. The Consultation Paper indicates that, by 2030, the CCM will contain less than one year of projected SGM compliance demand. If these units are exhausted during a period of market scarcity, facilities would still be required to obtain ACCUs or SMCs to meet their obligations, regardless of the market price. Any civil

penalty arising from non-compliance would not extinguish the underlying obligation. The CCM's limited volume therefore constrains its capacity to protect facilities against sustained supply shortages or extreme price increases.

The Government should clarify the CCM's intended role and strengthen it as a credible compliance backstop. This should include clear and predictable rules governing access, pricing, available volumes and replenishment. The Government should also consider how the reserve can be progressively expanded and diversified, including through the acquisition of eligible high-integrity international units. Proposed changes from a "least-cost" to a "value-for-money" purchasing principle would also allow the Government to procure credits from higher-cost projects that are not viable at prevailing ACCU prices. Used appropriately, this approach could support more complex methodologies, increase future supply and deepen the market as compliance and voluntary demand grow. This can be done in a limited and transparent way to complement the market and extend a forward price signal, rather than through direct trading in the ACCU market. As an alternative, the Government should consider implementing a compliance charge that acquits liability when ACCUs and onsite abatement options are unavailable.

Existing ACCU holdings should not be treated as readily available supply during periods of market scarcity. SGM facilities may hold ACCUs as part of prudent forward compliance strategies and cannot be assumed to release them when prices rise. The volume of units recorded in market holdings may therefore overstate the supply that would be available to meet an unexpected compliance shortfall.

INTERNATIONAL BEST PRACTICE EMISSIONS INTENSITIES

Ensure international best-practice benchmarks for new facilities are transparent, evidence-based and appropriate for Australian conditions. New oil and gas facilities face disproportionately stringent emissions requirements relative to other sectors, based on selective international best-practice benchmarks. As a result, new Australian oil and gas facilities are expected to achieve lower emissions intensities than comparable operations anywhere in the world today. While DCCEE has indicated it does not intend to revisit baseline setting or emissions intensities, the Consultation Paper notes that actual production emissions have been lower than assumed when the reforms commenced. This provides a basis for reviewing new-facility settings to ensure international best-practice benchmarks and associated decline rates remain appropriate and do not create unintended barriers to investment in Australia. The Review should ensure these benchmarks remain representative of genuine international best practice and appropriately reflect Australian operating conditions. Benchmark development and review should be transparent, with clear information on the underlying data, assumptions and methodologies used.

COVERAGE

Any changes to the coverage threshold should be guided by evidence, proportionality and a demonstrated material net benefit. Any proposed change should be subject to detailed consultation, supported by a demonstrated whole-of-economy approach to abatement, and announced with sufficient lead time for newly covered facilities to establish reporting systems, assess abatement opportunities and incorporate compliance obligations into investment plans.

As DCCEE recognises, any expansion must balance its potential benefits against the additional regulatory and compliance costs imposed on covered facilities. Lowering the threshold to 90 kt CO₂e

would add 16 facilities – an increase of around 7.7 per cent – while increasing covered emissions by only around 1 per cent. A threshold of 80 kt CO₂e would add 39 facilities – an increase of around 18.8 per cent – but increase covered emissions by only around 2.5 per cent. These facilities would predominantly come from sectors already subject to the SGM, with little basis to assume they have materially cheaper or more abundant abatement opportunities. Expansion is therefore unlikely to materially reduce scheme-wide compliance costs but would impose new administrative and compliance obligations on smaller facilities, and further concentrate the SGM emissions-reduction burden on a relatively small part of the economy. In addition to increasing costs on newly covered facilities, expansion may also increase costs on incumbents through burden sharing if a transitional period is applied. If the Government changes the coverage threshold, the cost of concessions such as transitional arrangements should be shared across the economy, rather than borne by existing SGM facilities.