

2025 ANNUAL PROGRESS REPORT | CONSULTATION

Australian Energy Producers | 2 September 2025

Australian Energy Producers welcomes the opportunity to provide comments on the Climate Change Authority's (CCA) *Issues Paper: 2025 Annual Progress Report*. The Australian oil and gas industry is committed to net zero across the economy by 2050.

Natural gas is critical to reaching net zero in Australia. The *Future Gas Strategy* (FGS) is clear that “*Under all credible net zero scenarios, natural gas is needed through to 2050 and beyond.*” Reaching net zero will also be virtually impossible without carbon capture, utilisation and storage (CCUS).

However, natural gas and CCUS are largely excluded from Australia's current climate and energy policies. Overlooking the role of natural gas and CCUS will make reaching net zero in Australia harder and more expensive. It will also compromise the delivery of reliable, secure and affordable energy, which is the foundation of a successful transition to net zero.

To support and enable the least-cost and least-disruptive transition to a net zero economy, **Australian Energy Producers recommends:**

- Australia's energy and climate policies must **recognise the critical role of natural gas and CCUS** in achieving net zero while delivering secure, reliable energy
- Australia's **2035 emissions reductions target must balance ambition with achievability**, taking into account the resource-intensive, trade-dependent nature of Australia's economy.
- The **Safeguard Mechanism must remain fit-for-purpose**, with a focus on delivering least-cost emissions reductions across the economy.

Further detail on each of these recommendations is provided below.

Australia's energy and climate policies must recognise the critical role of natural gas and CCUS in achieving net zero while delivering secure, reliable energy

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 sees gas power generation increasing by 170 per cent from current levels over the next two decades in the Orchestrated Step Change scenario. The AEMO Chief Executive has stated that “Flexible gas-powered generation will remain the ultimate backstop in a high-renewable power system.”¹ Natural gas also fuels Australian industries across the economy including those necessary for net zero. Natural gas demand in manufacturing is higher in the Orchestrated Step Change scenario than in the less ambitious Progressive Change scenario.

Australian liquified natural gas (LNG) exports are playing a critical emissions reductions role in the region, supporting partner countries transition away from coal, roll-out renewables, and power their net zero transformation. The Australian Government estimates Australian LNG has the potential to reduce global emissions by up to 166 million tonnes per year by displacing the use of coal and other more emissions-intensive fuels in the region.²

Similarly, Australia cannot reach net zero without CCUS. CCUS plays a unique role among a portfolio of emissions reduction technologies as it can address emissions from existing facilities, mitigate emissions from hard-to-abate industry and underpin large-scale carbon removal. Australia is a world leader in CCUS technology, hosting two of the world's largest CCUS projects – the Chevron Gorgon CCS Project and the Santos and Beach Energy Moomba CCS Project – which together are safely and permanently capturing and storing over three million tonnes of CO₂ per year. Natural gas

¹ AEMO, [Investment needed to fill forecast gas supply gaps](#), 2025

² Australian Government, *Australia's Long-Term Emissions Reduction Plan 2021*, 2021

combined with CCUS is also currently the lowest cost and most technically advanced pathway to low-carbon hydrogen production.

However, natural gas and CCUS are largely left out of Australia's climate and energy policies. Natural gas is consistently excluded from programs to support Australia's transition and emissions reduction goals, such as the Capacity Investment Scheme, the Clean Energy Finance Corporation 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. Overlooking the role of natural gas and CCUS will make reaching net zero in Australia harder and more expensive.

Australia's 2035 emissions reductions target must balance ambition with achievability

Australia's 2035 emission reductions target must be built on a technical and economic evidence base. This includes consideration of Australia's resource-intensive, trade-dependent economy which requires long-lead time investments in technologies such as natural gas, CCUS, renewable energy and low-carbon hydrogen, to deliver large-scale emissions reductions. Given current approval times in Australia, commercial deployment of these technologies can take five to ten years or longer to move from concept to emissions reductions. Australia's 2035 target must also be designed in parallel with delivering reliable, secure and affordable energy to Australian households and businesses.

Unachievable emissions reductions targets risk undermining industrial development in Australia and leading to carbon leakage – driving investment away from Australia to international jurisdictions with limited emissions reductions restrictions and enforcement. Further, unachievable targets that compromise energy security, energy affordability or economic development in Australia will only undermine social licence for deep emissions reductions. Setting a 2035 target that balances ambition with achievability is far better than an overly ambitious target that undermines the credibility of Australia's climate policies.

The Safeguard Mechanism must remain fit-for-purpose, with a focus on delivering least-cost emissions reductions across the economy

Actions are required to ensure the Safeguard Mechanism remains fit-for-purpose, including:

- *Careful calibration of post-2030 baselines.* A 2035 target of between 65 to 75 per cent below 2005 levels would require a significant increase in Safeguard Mechanism baseline decline rates to between 8 and 14 per cent per year between 2030 and 2035, based on the current approach. Without a careful calibration of post-2030 baselines, many facilities may be forced to deter investments or increase the reliance on offsets.
- *Revision of International Best Practice Emissions Intensity (IBPEI) thresholds.* Several gas sector IBPEI baseline thresholds are not technically or commercially achievable. They require new facilities to commence operations at substantially lower emissions intensity than comparable incumbent facilities or to acquire and acquit large volumes of offsets to remain compliant. These settings create barriers to investment, weaken the sector's role in supporting the net zero transition and system reliability, and reduce Australia's capacity to deliver secure and affordable energy.
- *Ensuring access to high-integrity national and international offsets.* Access to Internationally Transferred Mitigation Outcomes (ITMOs), in addition to ACCUs and Safeguard Mechanism Credits, would enhance compliance flexibility and support lowest cost compliance.
- *Enabling a broad, market-based approach to emissions reductions.* A comprehensive, economy-wide approach to emissions reductions enhances the efficiency of the market in identifying and facilitating least-cost abatement.