

Safeguard Mechanism Review: Consultation Paper

22 September 2026

About ACOSS

The Australian Council of Social Service (ACOSS) is a national voice in support of people affected by poverty, disadvantage and inequality and the peak body for the community services and civil society sector.

ACOSS consists of a network of approximately 4000 organisations and individuals across Australia in metropolitan, regional and remote areas.

Our vision is an end to poverty in all its forms; economies that are fair, sustainable and resilient; and communities that are just, peaceful and inclusive.

Summary

ACOSS welcomes the opportunity to make a short submission to the Safeguard Mechanism Review: Consultation Paper. ACOSS has previously supported an economy wide carbon price as an efficient and effective way to reduce Australia's emissions (alongside complementary measures).

The Safeguard mechanism, which replaced the economy-wide carbon price, is a key policy to achieve Australia's emissions reductions. It requires Australia's largest industrial climate polluters (excluding farming, land clearing and grid-connected electricity) to reduce their emissions intensity or to buy and surrender carbon offsets. This includes more than 200 polluters, which in 2023-24 accounted for around 31% of Australia's total domestic pollution.

To achieve Australia's 2030 and 2035 emissions reductions targets and keep the 1.5-degree pathway within reach, the Federal Government must configure the Safeguard mechanism to meet its highest possible ambition and remove loopholes currently undermining the scheme and Australia's ability to achieve emissions reduction targets.

The design of the Safeguard Mechanism also has important implications for equity. Delaying emissions reductions increases the risk of greater climate damage, higher adaptation and disaster-recovery costs, and a more disruptive transition later. These costs are not borne equally. People on low and modest incomes generally have fewer resources to absorb higher costs, recover from climate-related disasters or invest in energy-saving technologies. Accelerated emissions reductions

by large industrial emitters should therefore be accompanied by measures that ensure the costs and benefits of the transition are shared fairly.

The scheme must be redesigned to drive significant on-site abatement, reduce reliance on offsets, set stronger declining rates for fossil fuel and metal mining and extraction and ensure people on modest and low incomes are protected from any adverse impacts on cost of living.

ACOSS is calling for a package of reforms that would enhance integrity and equity, with seven key recommendations summarised below:

- Set the decline rate at a level consistent with the 70% end of the 2035 target range.
- Prioritise on-site abatement and close loopholes for new and expanded facilities.
- Phase-down offsets and maintain the prohibition on international offsets.
- Apply stronger decline rates to high-polluting, high-capacity industries such as coal, oil and gas extraction and metals mining.
- Develop a complementary mechanism for orderly coal closure and replacement investment.
- Protect low- and modest-income households from any significant cost-of-living impacts.
- Phase out the Diesel Fuel Tax Credit for mining to remove a contradictory incentive and support electrification.

Discussion

Safeguard Mechanism should be aligned with the top-end of Australia's 2035 climate target range - a 70% reduction in emissions below 2005 levels.

The Safeguard Mechanism should be configured to make a substantial and credible contribution to Australia's 2035 emissions reduction target. The Government has committed to reducing Australia's emissions by 62–70% below 2005 levels by 2035. The Climate Change Authority has emphasised that achieving the 2035 target will require Australia to more than double its current rate of decarbonisation and that the Safeguard Mechanism will need to reduce emissions from industry and resources by almost a third.¹

The post-2030 decline rate should reflect the stronger emissions reductions now required across the economy and ensure that large industrial emitters make an appropriate contribution. The current review provides an important opportunity to establish a clear and credible trajectory to 2035, giving businesses certainty while

¹ <https://www.climatechangeauthority.gov.au/2035-emissions-reduction-targets-faqs>

ensuring that emissions reductions are delivered early enough to avoid greater costs and disruption later.

Research commissioned by the Investor Group on Climate Change (IGCC)² finds that a 5 -7% decline rate from 2031 to 2035 is consistent with the 2035 target range. According to the report, implementing a 7% decline rate would drive around 15 Mt increased average annual abatement, with around 61% of abatement delivered onsite.

Aligning the Safeguard Mechanism with the top end of the 2035 target would also reduce the risk that insufficient action by large industrial emitters places greater pressure on other sectors of the economy, including households and less emissions-intensive industries, to deliver the reductions required. A credible trajectory for large industrial emitters is therefore important not only for meeting Australia's climate commitments, but for supporting an orderly, efficient and equitable transition to a low-emissions economy

ACOSS Recommendation 1: The Safeguard Mechanism should be aligned with the top-end of Australia's 2035 climate target range - a 70% reduction in emissions below 2005 levels, to deliver on our domestic and international commitments, and keep Australians safer from climate harm.

Onsite abatement should be prioritised

The Safeguard Mechanism should prioritise actual reductions in pollution at the source. Unlimited access to relatively low-cost offsets can weaken the incentive for facilities to invest in the technologies, infrastructure and operational changes needed to permanently reduce their emissions. This is particularly problematic where commercially and technically feasible opportunities for on-site abatement already exist.

There is no evidence that facilities are reducing their emissions in line with the scheme and are instead relying on buying and surrendering offsets, many using dubious methods to do so.³

Research commissioned by IGCC⁴ and the Climate Council,⁵ finds the scheme is not capturing significant existing opportunities for emissions reductions because the carbon signal sits below the cost of most on-site abatement. Facilities therefore offset their emissions by purchasing Australian Carbon Credit Units (ACCUs).

² IGCC (2026) Futureproofing Industry: Investors priorities for a reformed Safeguard mechanisms [EY-IGCC Safeguard Mechanism Reforms Combined.pdf](#)

³ The Australian Institute (2026) Safeguarding the Fossil Fuel Industry? How Carbon Offsetting Undermines the Safeguard Mechanism [P2030-Safeguarding-the-Fossil-Fuel-Industry.pdf](#)

⁴ IGCC (2026) Futureproofing Industry: Investors priorities for a reformed Safeguard mechanisms [EY-IGCC Safeguard Mechanism Reforms Combined.pdf](#)

⁵ Climate Council (2026) Free Ride: How our Biggest Polluters are dodging their Fair Share [Free Ride: How our biggest polluters are dodging their fair share](#)

The Climate Council's report finds facilities have only reduced pollution by 0.4%, falling far short of the 4.9% cut set out in the Safeguard Mechanism. And fossil fuel corporations have increased their pollution by an average of 0.2%, rather than cut.

The Investor Group on Climate Change finds that a stronger decline rate alone will not necessarily deliver sufficient additional on-site abatement if facilities can continue to rely heavily on offsets. There are a number of ways you can change the balance between cost of abatement and cost of ACCUs, for example:

- Place a levy or royalty on ACCUs to make them more expensive.
- Change the ACCU multiplier to require a greater number of ACCUs to abate 1 ton of carbon i.e. 1 tone of carbon is 1.25 ACCU.
- Or apply a combination of those above two measures.

ACOSS does not at this stage have a view as to which model is preferable.

ACOSS does support progressively reducing the role of ACCUs in Safeguard Mechanism compliance, with offsets ultimately reserved for emissions that cannot yet be technically or economically eliminated.

International offsets should continue to be excluded from the Safeguard Mechanism. Allowing facilities to meet their obligations through cheaper international units could further weaken the incentive for domestic industrial decarbonisation and make it more difficult to ensure that the reductions required under Australia's 2035 target are actually delivered within Australia. The Climate Change Authority has advised that Australia should not need international offsets to meet its 62–70% target by 2035.

Maintaining the prohibition on international offsets is therefore appropriate for the Safeguard Mechanism's compliance framework. Australia's domestic emissions reduction target should primarily be met through domestic action, while Australia's international climate finance and cooperation efforts should support additional emissions reductions overseas rather than substitute for reductions by Australian facilities.

In addition, Loopholes that allow new developments, major expansions and extensions to shirk the tighter 'best-practice' pollution limits given to new projects should be closed.

ACOSS Recommendation 2:

- Onsite abatement should be prioritised using a combination of measures of increasing the decline rate and effectively increasing the price of ACCUs.
- The use of offsets (ACCUs) should be phased out over time to encourage cutting pollution at the source and reserved for climate pollution that cannot yet be cut entirely.
- The prohibition of international offsets should be maintained, consistent with Australia's commitments under the 2035 target and Climate Change Authority's advice.

A stronger decline rate should be set for coal mining, oil and gas extraction

The IGCC report finds the current single decline rate, applied across all industries, transfers value from manufacturing to extractive industries, which have 2.5 times the additional abatement available under \$120/t than manufacturing companies do. The report suggests that providing different emissions decline rates for different industries would more equitably share the compliance burden in the scheme.

The Climate Council report further notes that coal, gas and mining corporations are the highest polluters and have many proven and affordable options to cut pollution today with the financial means to do so. The Climate Council report argues these corporations should face a stronger decline rate.

ACOSS supports the use of a stronger decline rate for coal mining, oil, gas extraction, LNG export and metals mining.

ACOSS Recommendation 4: A stronger decline rate should be set for coal mining, oil and gas extraction, LNG export and metals mining industries, acknowledging their greater financial and technological capacity to cut climate pollution.

Mechanism needed for orderly coal closure, replacement renewable energy and just transition

IGCC in their research on *Futureproofing Industry: Investors priorities for a Reformed Safeguard Mechanism*,⁶ notes that the stalling renewable rollout and uncertainty of coal closure dates may necessitate additional policy.

Greater certainty around coal closure dates is important for both emissions reduction, the orderly development of replacement capacity, and a just transition for workers and communities.

Grattan Institute research *Bills Down, emissions down: A practical path to net-zero electricity*,⁷ highlighted the risks created when coal closure timelines change or occur without sufficient replacement capacity being developed, including potential implications for reliability and affordability, noting current policies have a use-by date.

⁶ IGCC (2026) Futureproofing Industry: Investors priorities for a reformed Safeguard mechanisms [EY-IGCC Safeguard Mechanism Reforms Combined.pdf](#)

⁷ Grattan (2025) [Bills down, emissions down: A practical path to net-zero electricity](https://grattan.edu.au/wp-content/uploads/2025/10/Bills-down-emissions-down-A-practical-path-to-net-zero-electricity-Grattan-2025.pdf)
<https://grattan.edu.au/wp-content/uploads/2025/10/Bills-down-emissions-down-A-practical-path-to-net-zero-electricity-Grattan-2025.pdf>

Both IGCC's report⁸ and the Grattan report suggested the government should examine whether to include the electricity sector in the Safeguard Mechanism.⁹

Gratton modelled a ring-fenced baseline and credit scheme for the electricity sector, which would provide offsets for coal and gas generators to purchase renewable energy, for example. The scheme would have a small impact on electricity prices.

There are other potential ways to bring the electricity sector in, for example, by requiring the purchase offsets to continue operating coal power stations after the pre-determined closure date.

There are also potential mechanisms outside of the Safeguards Mechanisms that could be utilised, for example by requiring generators to nominate closure dates and providing financial incentives for orderly retirement, as suggested by Grattan.¹⁰ The government should be exploring all mechanisms.

ACOSS notes that extending the Safeguard Mechanism to the electricity sector could have implications for electricity prices and should therefore be accompanied by careful modelling of distributional impacts on households. Any material cost impacts should be addressed through a robust, legislated income support scheme for households on low and modest incomes.

ACOSS Recommendation 5: The Government should consider what additional mechanisms are needed to provide certainty around coal closure dates.

Households with low and modest incomes should be protected if mechanism increases cost of living

Modelling should be conducted to assess the likely impacts of any strengthening of the safeguard mechanism on living costs of different households, and, if significant, compensation should be provided via the income support system for those on low or modest incomes.

ACOSS Recommendation 6: Modelling should be conducted alongside the stronger reforms to identify whether there would be any potential impact of the changes on living costs of different households, and to the extent that the latter is significant, reforms should be underpinned by a robust, legislated income support scheme for households with low and modest incomes.

⁸ IGCC (2026) Futureproofing Industry: Investors priorities for a reformed Safeguard mechanisms [EY-IGCC Safeguard Mechanism Reforms Combined.pdf](#)

⁹ The Grattan report also recommends federal and state governments should at the same time maintain and extend programs to ensure the benefits of electrification are available to all households by ensuring renters, low-income households, and multi-unit dwellings have access to rooftop solar, batteries, electric vehicles, and all-electric appliances.

¹⁰ Grattan Institute (2019) Power Play: How governments can better direct Australia's electricity market – Report <https://grattan.edu.au/report/power-play/>

Phasing out Fuel tax credit for mining companies is also needed to reduce emissions in the mining sector and preserve the integrity of the Safeguard Mechanism.

It is important to note that the Diesel Fuel Tax credit is effectively working in the opposite direction to the Safeguard Mechanism. Mining companies receive a substantial tax benefit for diesel use while simultaneously facing incentives to reduce their emissions under the Safeguard Mechanism. Where the tax benefit from diesel use substantially exceeds the carbon price signal, the overall policy framework can discourage investment in electrification and other lower-emissions technologies.

According to the Climate Council,¹¹ diesel use by mining companies for haulage and electricity generation (about 30% of Australia's Diesel use) currently represents up to 19 million tonnes of climate pollution under the Safeguard Mechanism. The use of diesel is effectively subsidised by the Government via the Diesel Fuel Tax Credit, to the tune of more than \$190 per tonne, which is more than five times greater than the incentive to cut climate pollution provided by the Safeguard Mechanism (i.e. the price of purchasing an offset \$30-\$40).¹²

We do not expect the Safeguard Mechanisms will be reformed in the short to medium term in a manner that can offset the \$190 a tonne benefits the Diesel Fuel Tax credit provides.

Electrification in mining requires long-term investment decisions. Reforms to both the safeguard and the Diesel Fuel Tax credit must begin now, in parallel, to incentivise mining companies to begin the electrification journey. Ongoing delay will significantly impact our ability to achieve our emissions reduction targets, long-term international competitiveness and Australia's energy security.

Phasing out the Diesel Fuel Credit for mining will be important to improve the effectiveness of the Safeguard Mechanism.

ACOSS Recommendation 7: Phase out the Diesel Fuel Credits for mining, which disincentivise electrification and work in opposition to the Safeguard.

Contacts

Kellie Caught
Program Director – Climate and Energy
kellie@acoss.org.au

¹¹ Climate Council (2026) Free Ride: How our Biggest Polluters are dodging their Fair Share [Free Ride: How our biggest polluters are dodging their fair share](#)

¹² ibid