

Industrial transformation under the Safeguard Mechanism: creating credible pathways from emissions obligations to investment

AIDC policy position and response to the Climate
Change Authority's 2026 Annual Progress Advice
consultation

9 August 2026

Executive summary

The Australian Industrial Decarbonisation Council (AIDC) welcomes the Climate Change Authority's 2026 Annual Progress Advice consultation paper. Part I of this submission sets out AIDC's policy position on industrial transformation under the Safeguard Mechanism. Part II responds directly to the Authority's consultation questions.

AIDC considers the Safeguard Mechanism to be an essential and broadly sound policy approach. The fundamental issues addressed in this submission concern how its performance should be assessed, how aggregate scheme settings translate into physical change at covered facilities, and how the mechanism informs and interacts with broader climate and industrial policy.

Only two completed compliance years of the reformed Safeguard Mechanism are currently available for assessment, which is insufficient time to reach firm conclusions about the mechanism's effectiveness. More time and more data will be necessary, although they will not be sufficient on their own. The Australian Government must also be able to distinguish between reductions achieved through onsite abatement and those associated with lower production, closure or other changes in industrial activity.

The next phase of the Safeguard Mechanism should preserve the integrity of the net emissions task while improving the likelihood that Safeguard obligations and complementary policy produce investable onsite abatement, successor assets and new low-emissions production in Australia.

AIDC's central proposition is that industrial decarbonisation is a system problem wrapped around a real asset. Physical transformation occurs when a company decides to modify or replace an existing production system, or to build a new one. Those decisions concern identifiable facilities, projects and precincts and are made within capital cycles that create only a limited number of opportunities for fundamental change.

A stronger carbon obligation can improve the relative value of lower-emissions investment. It cannot, by itself, make a project technically deliverable, provide competitively priced energy, construct shared infrastructure, create customer demand, resolve technology risk or ensure that an Australian project receives capital within a global portfolio. Depending on the circumstances, a facility's response to increasing obligations may include onsite investment and operational improvements. It may also include capital deferral, lower production, investment elsewhere or closure.

Assessment of the Safeguard Mechanism's performance, and the design of future settings, should therefore begin with the scheme-wide emissions task and then test how that task is expected to be delivered across sectors and facilities. Where covered production has enduring economic, regional or strategic value, the obligations applying to it should be connected to credible and investable pathways for facility owners.

For the hardest-to-abate sectors, this will sometimes require government to coordinate or support key actions, particularly where critical enabling conditions cannot be secured by an individual facility owner. Such intervention should be based on a clear public interest case and accompanied by appropriate commitments from participating companies.

Australia is not starting from scratch. The Authority's Sector Pathways Review¹ already provides parts of the required architecture. The Authority's advice and the 2026-27 Safeguard Mechanism Review should connect those elements into a durable pathway from technology demonstration and project development through enabling infrastructure, market formation and commercial deployment.

The recommendations that follow establish a framework for assessing the mechanism's emissions, physical and investment outcomes; testing future settings against credible sector and facility pathways; coordinating complementary policy; and addressing competitiveness and leakage risks without weakening the scheme-wide emissions task. AIDC will work with members through the Australian Government's 2026-27 Safeguard Mechanism Review to develop more detailed policy positions required to apply this framework.

Recommendation 1: Assess the effectiveness of the Safeguard Mechanism against both its emissions task and its consequences for industrial capability in Australia, and test whether its sector pathways are capable of being delivered through investable facility pathways.

The effectiveness of the Safeguard Mechanism should be judged against two linked public interest tests: its contribution to Australia's national emissions targets; and whether it supports the transformation of, and continued investment in, valuable Australian production, including strategically important industrial capability.

This requires the Industry Sector Plan to be treated as a delivery proposition and tested against facility evidence. The Review should assess whether sector trajectories are consistent with facility investment and decision windows and whether the policy framework provides a credible process for identifying material technology, infrastructure, market and other enabling dependencies, resolving responsibility for them, and ensuring that government and industry decisions occur early enough to influence investment. Where these arrangements are absent or inadequate, the Review should recommend that they be established.

Recommendation 2: Evaluate and report separately on three principal outcomes of the Safeguard Mechanism.

Assessment of the mechanism should distinguish:

- 1. The scheme's net emissions outcome** and its contribution to Australia's national targets.
- 2. What covered facilities physically emit before unit surrender**, how they meet their obligations, and whether changes reflect onsite abatement, changes in production or closure.
- 3. Whether the mechanism is driving enduring investment in low emissions production in Australia**, through the transformation of existing facilities, successor assets or new production.

¹ Climate Change Authority (2024) *Sector Pathways Review*, September, see [Sector Pathways Review project | Climate Change Authority](#).

Recommendation 3: Establish a whole-of-government route for assembling tailored industrial transition packages.

The Australian Government should establish a clear pathway through which credible industrial projects can combine existing programmes, tailored funding arrangements, infrastructure commitments, project-specific commitments and, where standard approaches are insufficient, tailored investment structures. The resulting package should address the barriers preventing the next material decision and be proportionate to the public value and risk involved.

Government support should form part of a forward-looking industrial transition bargain. Government should address defined barriers that an individual project cannot reasonably resolve and for which there is a clear rationale for public intervention, including shared infrastructure, coordination failure or public benefits extending beyond the private return. This is not intended as a means of underwriting ordinary commercial returns or routine Safeguard compliance costs.

The company should retain responsibility for commercial risks within its control and make staged commitments to development, investment and emissions reduction. The respective commitments of government and the company should be clear and proportionate to the stage of the pathway.

Recommendation 4: Assess Safeguard settings against the facility investment decisions that determine whether industrial transformation occurs in Australia.

The Australian Government and the Climate Change Authority should examine how baseline obligations, ACCU and SMC settings, and complementary policies affect whether facility projects progress from technical development to final investment. Scheme-wide analysis should use transparent sectoral assumptions, representative facility evidence and clearly disclosed sensitivities.

Analysis should consider total capital requirements for major facility transformations, expected risk-adjusted returns and material project risks; the facility's capital cycle; competition from other projects and jurisdictions; and the timing at which policy can still influence corporate capital allocation. The purpose of this analysis is to understand likely investment and emissions outcomes while preserving the integrity of the scheme-wide emissions task.

The analysis should test whether the timing of facility capital decisions and enabling infrastructure is consistent with the transition phases assumed in the Australian Government's Industry Sector Plan.

Recommendation 5: Establish facility transition pathways as a selective evidentiary and planning instrument.

The Australian Government should enable facility transition pathways to inform differentiated treatment, public support and coordinated planning where deeper assessment is warranted. A pathway may be initiated by a facility or through targeted government engagement where existing evidence indicates an approaching material decision or a significant consequence for emissions, infrastructure planning or industrial capability. Pathways should be proportionate to a defined purpose and should not form part of routine annual compliance for every covered facility.

A pathway should substantiate the facility's physical options, external dependencies, investment timetable, owner commitments and expected emissions outcomes. It forms a foundation for discussions with government and does not create an entitlement to public support or provide a general basis for renegotiating a facility's baseline.

Recommendation 6: Use facility pathways to match government action to the barrier, timing and stage of investment.

The Australian Government should use facility pathways to identify the intended long-term industrial and emissions outcome, the next material decision or commitment required to keep that outcome achievable, and the barriers or uncertainties affecting it.

Government action should be matched to the nature and stage of the problem and may require a combination of existing programmes, project-specific commitments or tailored investment arrangements. Responsibilities, timing, evidence and consequences should be clearly identified. Where constraints accumulate or emerge during development, policy should support their resolution in sequence rather than expect a single intervention to carry the project directly to final investment.

Barriers shared across facilities should be addressed at precinct, sector or economy-wide level wherever possible; facility-specific action should be reserved for residual matters that cannot sensibly be resolved through common policy.

Recommendation 7: Establish a durable Safeguard architecture with predictable flexibility built into the rules.

The scheme-wide direction of the mechanism, the method for setting baseline decline rates, the treatment of ACCUs and SMCs, the principles governing differentiated treatment, and the timetable for formal reviews should be sufficiently stable to support long-lived investment. Where settings may need to change, the relevant triggers, criteria and processes should be published in advance.

Routine annual compliance should remain formulaic, data driven and consistently administered. More detailed consideration of a facility pathway should be reserved for circumstances in which it can materially affect an investment, emissions or public interest outcome, with any additional reporting and review proportionate to the differentiated treatment or targeted support sought.

Recommendation 8: Establish transparent and bounded principles for reciprocal responsibility in facility transition arrangements.

The Safeguard Mechanism Review should develop and publicly consult on a tiered framework for reciprocal responsibility where a facility seeks differentiated treatment, substantial public support or coordinated government action, or where a qualifying irreversible transition investment may be materially affected by a later policy change.

The framework should address the respective responsibilities of facilities and government, external dependencies, good faith changes in pathway and the consequences of material non-delivery. Its detailed application should be developed through the Safeguard Mechanism Review using facility

evidence. It should not create an open-ended entitlement to unchanged policy settings or transfer ordinary commercial risk to government.

Recommendation 9: Publish the modelling and analytical basis for alternative post-2030 baseline decline rates before the final trajectory is determined.

The Climate Change Authority and the Australian Government should publish the assumptions, scenarios and expected outcomes used to assess alternative baseline decline rates for 2031-2035. The analysis should use the Authority's Sector Pathways Review as a starting framework, report results against the three outcomes identified in section 2.2 and disclose the material assumptions and sensitivities on which those results depend.

Recommendation 10: Retain proportional share as a transparent starting point for setting the post-2030 Safeguard target, and test the baseline decline rate against a bottom-up assessment of credible sector and facility pathways.

The proportional-share approach should remain a transparent basis for identifying the aggregate contribution expected from Safeguard-covered facilities to Australia's national emissions task.

The baseline decline rate required to deliver that contribution should then be assessed against credible sector and facility pathways and the complete policy package. The analysis should consider technically and commercially deliverable abatement, infrastructure and energy availability, capital and asset cycles, risk-adjusted investment decisions, ACCU and SMC settings, production, competitiveness, new entry, contraction, leakage and closure.

The Authority should explain how the selected decline rate translates the aggregate Safeguard task into a credible delivery pathway. Where bottom-up evidence indicates a gap between the aggregate contribution sought and the abatement expected to be delivered under the proposed settings, the analysis should identify that gap and the additional policy, investment, timing or economy-wide contribution required to address it.

Recommendation 11: Establish a standing cross-government process for facility transition pathways and shared industrial barriers.

The Australian Government should establish a standing process across Commonwealth portfolios and with relevant state and territory governments to consider selective facility pathways and barriers shared across industry projects.

The process should:

- Maintain a high-level, periodically refreshed view of likely facility decision windows and shared dependencies using information already held across government, public disclosures and targeted engagement, and use that view to identify cases warranting deeper consideration. Relevant evidence already generated should carry across programmes, while barriers shared by several facilities should be resolved at the appropriate collective level.
- Respect the constitutional responsibilities and legitimate policy role of state and territory governments while pursuing mutual recognition, coherent administration and avoidance of unnecessary duplication.

- Establish agreed interface principles for additional state requirements applying to Safeguard-covered facilities, including identification of the gap being addressed and assessment of the combined effects on emissions, investment and competitiveness.
- For priority industrial precincts, governments should agree a coordinated plan identifying the infrastructure, policy and financing decisions within public control, the private decisions on which progress depends, and the points at which each must be revisited. Sector pathways and selective facility evidence should be used together to identify the dependencies, responsible parties and decision dates required to keep credible industrial transition options available.

Recommendation 12: Do not treat a border carbon adjustment as an automatic substitute for TEBA.

The Australian Government should recognise that TEBA affects the Safeguard obligation applying to eligible Australian production, including exported output, while a border adjustment principally addresses the carbon policy treatment of covered imports in the Australian market.

Export competitiveness and investment leakage should be treated as distinct policy design problems. Government should develop and model legally and administratively viable responses rather than assume that a domestic border measure resolves them. The effects on import competition, exports, downstream substitution, cash flow, decarbonisation investment and capital allocation should be assessed separately.

Any combination of TEBA, border measures and targeted industrial support should avoid double protection, respond to substantiated competitiveness or leakage risks, and remain linked to measurable decarbonisation outcomes.

Recommendation 13: Retain TEBA for facilities confronting material leakage or competitiveness risks until replacement competitiveness arrangements are demonstrably effective and any material remaining risks have been addressed.

TEBA should be materially reduced or replaced only where government has demonstrated that replacement arrangements are operating effectively, and where it has assessed and addressed material remaining export competitiveness and investment leakage risks. Any continuing TEBA treatment should remain conditional, time limited and subject to periodic review, with expectations tightening as relevant risks decline and technically and commercially deliverable abatement becomes available.

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Part I: AIDC positions

1. Introduction

The value of domestic industrial capability becomes clearest when global systems are under strain. Over the past five years, Australia has repeatedly seen how disruption elsewhere can affect the availability and cost of essential goods and industrial inputs. A strong domestic industrial base reduces Australia's exposure. Maintaining it also supports local employment and preserves skills and productive capabilities that, once lost, are difficult to recreate. The Australian Government must therefore decide which industries have a credible competitive future in Australia, which domestic capabilities must be retained for resilience and security even where they are not commercially competitive, and when public support is justified. The Future Made in Australia Act and National Interest Framework provide a foundation for those choices.

Decarbonisation policy is an instrument of modern industrial policy as well as climate policy. Its design can enable industrial investment in Australia or make that investment more difficult. Although the pace of global industrial decarbonisation has been inconsistent and subject to setbacks, the broader shift towards lower emissions production remains clear.

For Australia, industry needs to remain viable in today's conditions and those it will face tomorrow. It is in the public interest for key industries to choose Australia for their next generation of investment, and policy should actively seek to encourage this outcome. Building the next generation of cleaner industrial capacity here allows industrial capability and emissions reduction to advance together. However, this is not an easy task in a globally competitive environment, where companies and investors compare opportunities across countries when allocating capital.

The Safeguard Mechanism is central to the relationship between decarbonisation and industrial investment. As Australia's principal mechanism for placing a value on emissions from large industrial facilities, its effects extend well beyond annual compliance. It can enable investment, leave an investment decision unchanged, or make investment in Australia less likely. Its design and interaction with broader policy can therefore have important positive or negative consequences for the Australian public interest.

The Authority's Sector Pathways Review provides an important foundation for the current assessment of the Safeguard Mechanism. It recognises that industrial decarbonisation depends on facility assets and capital cycles, together with technology maturity, energy, feedstocks, infrastructure, approvals, workforce capability and markets. It also identifies roles for coordinated government action, low emissions industrial precincts, common user infrastructure and agreements with industry.

The present consultation paper carries some of that work forward by acknowledging long project lead times, uneven abatement opportunities and the consequences of stronger compliance settings for facilities with limited near-term options. However, its proposed analysis remains principally focused on aggregate emissions, credit demand, onsite abatement and compliance costs. Those measures cannot establish whether the mechanism is inducing physical transformation, deferral of investment, greater unit purchasing, reduced production, relocation or closure. Each has different consequences for the public interest.

In our view, the Authority should assess post-2030 settings against credible facility responses and the enabling conditions on which they depend. Its modelling should disclose effects on production, investment, onsite abatement, unit demand, competitiveness, carbon leakage, employment, closure and regional economies, together with assumptions concerning technology, electricity and infrastructure availability. Where barriers are shared across facilities or lie outside facility control, the analysis should also identify the complementary government action required to make the intended emissions pathway achievable.

Australia already has parts of the necessary architecture. The Sector Pathways Review and recent NSW EPA activity² provide starting points. The task now is to connect them through stronger coordination across Commonwealth portfolios and between governments. For industrial precincts, infrastructure and support cross facility boundaries and government responsibilities, making that coordination indispensable.

This submission sets out the principles and policy questions that AIDC considers should guide the Authority's advice. The framework is deliberately presented at the level of principle. AIDC will work with members through the Australian Government's 2026-27 Safeguard Mechanism Review to develop the facility evidence and more detailed policy positions required to apply it. That work will include further consideration of the interaction between Safeguard settings, complementary industrial policy, public finance, enabling infrastructure, trade exposure and the longer-term role of carbon units.

1.1 Connected risks and policy questions

Australia has an opportunity to undertake this work while the same tensions are playing out in the European Union. In July 2026, the European Commission proposed changes to the EU Emissions Trading System intended to ease the carbon cost pressure facing energy intensive industry. The proposal includes a slower annual decline in the emissions cap, continued free allocation, additional protection for some sectors covered by the Carbon Border Adjustment Mechanism and a progressively stronger connection between free allocation and decarbonisation investment.³

The EU Commission proposal responds to genuine concerns about facilities facing rising carbon costs before the infrastructure, technology and markets required for transformation are available. However, it may also lower the expected carbon price and weaken part of the business case relied upon by companies that invested earlier. The European debate therefore provides a live example of the need to accommodate genuine facility constraints while preserving pressure for decarbonisation and confidence in established policy settings. Section 4.2 addresses that case and considers its implications for policy durability, early investment and reciprocal responsibility.

Our analysis begins in section 2 by distinguishing the emissions and industrial outcomes of the Safeguard Mechanism and examining the role of carbon units and targeted support. Section 3 then explains how scheme-wide obligations intersect with facility pathways, investment windows and

² For example, see the NSW EPA: [Climate change requirements for licensees](#).

³ See European Commission (2026) 'Commission boosts Europe's competitiveness, decarbonisation and independence with Electrification Action Plan and ETS review', 17 July, Brussels, see [Commission boosts Europe's competitiveness, decarbonisation and independence](#)

unresolved barriers. Section 4 addresses the durable rules and coordinated government processes required to apply that approach, while section 5 considers its application to competitiveness, the use of the Safeguard's 'trade-exposed baseline-adjusted' (TEBA) status, and border adjustments.

The risks addressed through this framework are closely connected. A measure designed to make one facility's transition more manageable may change the carbon price, competitive position and investment incentives faced by others. Table 1 below maps those risks to the questions government must answer and the sections in which AIDC develops its position. The final column identifies the principal discussion of each issue; related evidence and consequences also arise elsewhere in the paper.

Risk requiring attention	Questions for government	Principal discussion
a) A scheme-wide obligation applies to facilities with very different assets, capital cycles and technical options.	What can the facility credibly do, over what period, and what are the public interest consequences of its likely response?	Sections 2.2 and 3.1-3.4
b) The post-2030 trajectory is selected before the assumptions and consequences of alternative decline rates are visible.	What emissions, abatement, production and investment outcomes does each rate assume, and what policy package is required to deliver them?	Sections 2.2 and 4.3
c) A stronger emissions cost reaches a facility before a credible physical pathway is investable.	Which barrier is preventing investment, can policy address it, and is the likely response physical abatement, unit purchasing, reduced production or closure?	Sections 3.3-3.5
d) Electricity, feedstock, infrastructure, approvals or customer demand are unavailable on the required timetable.	Which dependencies are within the facility's control, which require government or third party coordination, and what action can proceed while they are being resolved?	Sections 2.1, 3.2 and 3.5
e) Carbon units provide flexibility while also allowing capital investment to be deferred.	When is unit use supporting a credible transition pathway, and what evidence would indicate that it is prolonging avoidable delay?	Sections 2.3, 3.4 and 4.1
f) A facility seeks additional time, differentiated treatment or public support.	What capability is at risk, what evidence demonstrates a genuine constraint, what credible alternatives and immediate actions remain, and what commitments and milestones should govern any support?	Sections 1.2, 3.4-3.5 and 4.2
g) Changes intended to relieve constrained facilities alter the carbon signal and competitive conditions applying across the market.	Can the relief be targeted, and how should government assess its consequences for companies that have already committed capital?	Section 4.2
h) Engineering and commercial investigation changes the preferred pathway.	How should policy accommodate good faith learning while maintaining expectations of timely progress?	Sections 3.1, 3.4 and 4.2
i) A company makes an irreversible investment and government later changes the policy framework or	What degree of durability can reasonably be provided, and how should the consequences of a material change be assessed?	Section 4.2

Risk requiring attention	Questions for government	Principal discussion
fails to deliver an enabling condition.		
j) Detailed facility assessment creates administrative and compliance costs.	Which matters should remain subject to common rules, which can be resolved collectively, and which genuinely require facility-specific consideration?	Sections 1.2, 4.1 and 4.4
k) A facility covered by the Safeguard Mechanism becomes subject to an additional state or territory emissions framework.	What distinct gap does the additional requirement address, and how will conflict, duplication and adverse investment effects be prevented?	Sections 1.2 and 4.4

Table 1: Risks to be managed and questions for government

1.2 A proportionate response

A proportionate policy framework would place each issue at the level best able to resolve it. Routine compliance should remain clear and predictable. Deeper assessment and government coordination should be reserved for decisions with material consequences for emissions, investment or the public interest.

Some barriers arise from the particular characteristics and circumstances of an individual facility. Others are shared across a precinct, corridor or sector, or reflect economy-wide conditions such as energy costs, access to finance, trade exposure or the availability of low emissions product markets. As shown in Table 2, facility-specific treatment should be concentrated on the residual matters that cannot sensibly be resolved at those broader levels.

Level	Matters addressed	Policy and administrative response
Ordinary facility-level compliance	Baseline calculations, emissions reporting, unit surrender, routine enforcement and established forms of onsite abatement.	Formulaic, data driven and consistently administered rules with limited discretion.
Common precinct, corridor, sector or economy-wide issues	Shared electricity, feedstocks, infrastructure, workforce, product markets, finance and trade exposure.	Coordinated infrastructure planning, sector policy, common funding instruments, procurement, standards and market development.
Material facility-specific decisions	Major reinvestment, conversion, contraction or closure; differentiated treatment; substantial public support; or unusual technical and public interest considerations.	Proportionate facility assessment identifying the pathway, reciprocal responsibilities, unresolved dependencies and the consequences of different decisions.

Table 2: A tiered approach for climate policy and the Safeguard Mechanism

Determining the appropriate level of response also requires attention to the level at which regulatory authority is exercised. For facilities covered by the Safeguard Mechanism, Commonwealth and state requirements form a single policy environment and should be assessed for their combined effects on

emissions and investment. Complementary action may address identified gaps in the national framework, while separately developed obligations can expose the same facility to inconsistent expectations across jurisdictions and weaken the coherence of the national market.

Australia already has much of the relevant policy architecture. The Australian and state governments have developed public interest tests for industry support, sector pathways, regional planning processes, facility transition disclosures and conditional co-investment arrangements. A coherent process is now needed to connect these instruments to the Safeguard Mechanism and apply them before a material facility decision becomes an industrial crisis.

Bringing that process forward would materially improve the quality of government decision-making. Governments are often required to consider the future of a strategically important facility only after its owner has announced substantial losses, deferred essential investment or raised the prospect of closure. By that stage, the available options have narrowed, workers and regional communities face immediate uncertainty, supply may be at risk, and government may be negotiating under considerable time pressure.

The timetable set out in the Australian Government's Industry Sector Plan makes earlier engagement especially important. The Plan anticipates widespread deployment of commercially available technologies during 2030-35, together with the progressive development of the infrastructure, alternative feedstocks, supply chains and workforce required for deeper industrial transformation. Investments capable of delivering those outcomes will generally require substantial development and capital commitments before that phase begins. A pathway described in 2026 cannot produce widespread deployment from 2030 unless government and industry identify and act upon the necessary investment, infrastructure and policy decisions in time.

Documented facility pathways and decision windows would provide earlier visibility of emerging risks to industrial capability. Earlier engagement would also support a more deliberate approach to public assistance. Government may decide that maintaining a particular industrial capability is itself in the public interest, including where a complete decarbonisation pathway is not yet available or depends on enabling policy choices that government has not resolved. In those circumstances, the purpose of support should be explicit, and its form and conditions should be proportionate to the capability being preserved, the available transition options and the matters within the company's control. This framework would allow government to preserve strategically important options while ensuring that temporary assistance does not become an open-ended commitment or defer necessary decisions indefinitely. Importantly, government should not condition support on a transition pathway that it is unwilling or unable to enable.

These considerations frame the three policy themes developed in the following sections:

- A. Climate policy must recognise the consequences of facility decisions for the public interest and provide a framework for retaining and decarbonising strategically important industry in Australia.
- B. A scheme-wide emissions obligation must be translated into credible facility pathways and supported by the government coordination needed to make those pathways possible.

- C. Long term investment requires durable, transparent and workable rules that preserve accountability and allow policy to respond to changing circumstances.

Figure 1 shows how the three policy themes operate together, with location references to discussions in this submission. It also shows how the framework is applied to competitiveness, TEBA and border adjustments.

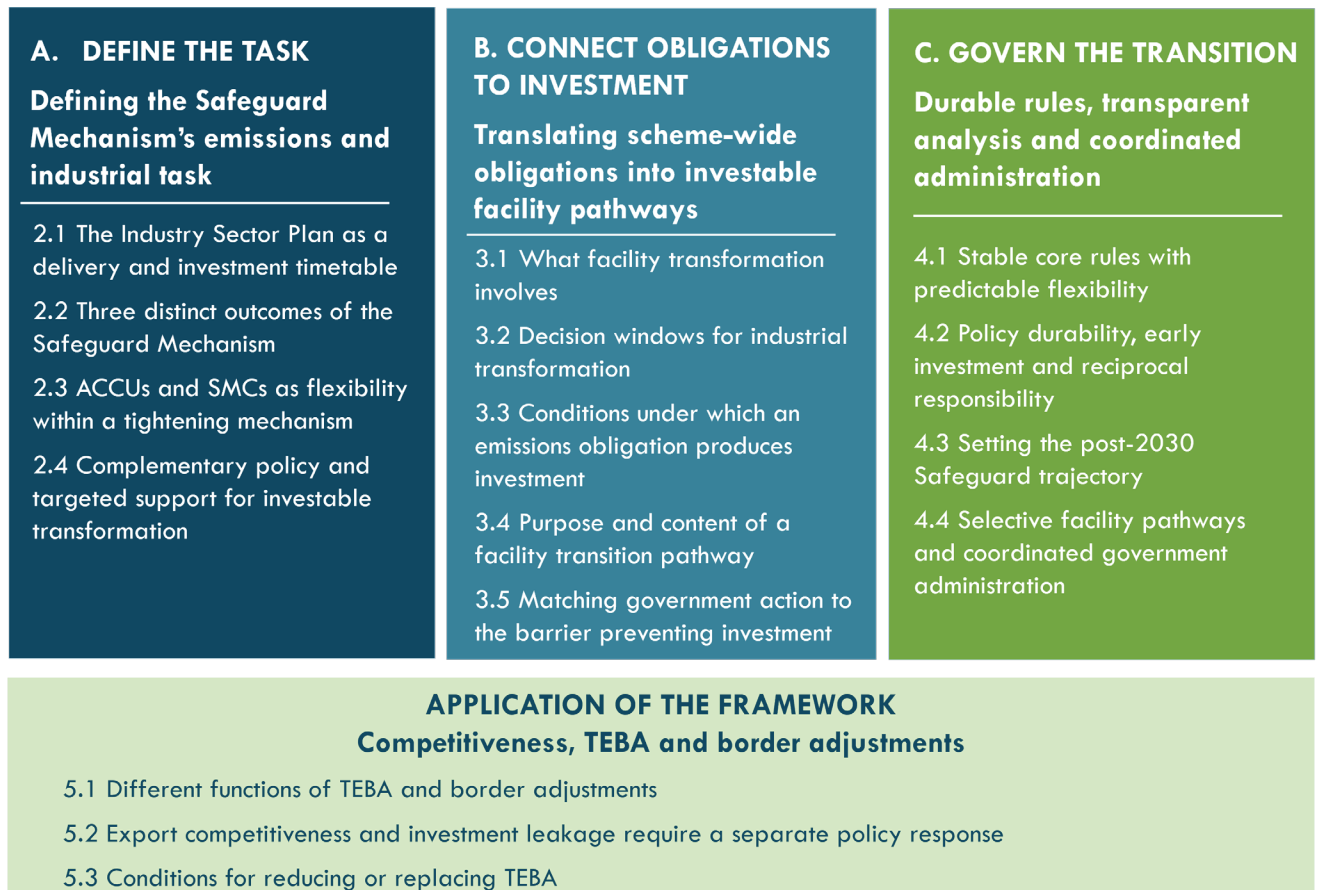


Figure 1: Architecture of AIDC's policy framework and its application to competitiveness, TEBA and border adjustments

2. Policy theme A: Defining the Safeguard Mechanism's emissions and industrial task

Australia requires a credible and progressively tightening constraint on industrial emissions. The Safeguard Mechanism should continue to make a substantial contribution to Australia's national emissions targets and provide covered facilities with a clear and durable signal that their emissions intensity must decline.

Covered facilities produce essential materials, anchor domestic supply chains and support regional economies. The design of the Safeguard Mechanism affects the future of Australian steel, aluminium, cement, chemicals, minerals processing and other emissions-intensive production, together with the downstream industries and communities that depend upon them. In some sectors, a single facility represents a significant share of Australia's entire industrial capability.

In our view, the Australian public interest objective for the Safeguard Mechanism should be to reduce gross and net industrial emissions **while enabling valuable Australian production to remain competitive through the transition to a low emissions global economy**. The mechanism should therefore be assessed according to both the emissions outcomes it secures and the industrial decisions it influences.

Its effectiveness ultimately depends on whether a tightening constraint changes the physical operation of industrial facilities. In some cases, the existing process can be improved; in others, major equipment or the production system itself must be replaced.

A carbon obligation can strengthen the economics of those choices, but the investment will proceed only if the required technology, energy, infrastructure, customers, finance and approvals are in place. Where they are, a stronger obligation can bring forward physical abatement. Where they are not, the company may rely on carbon units, delay investment, reduce production, direct capital elsewhere or allow the facility to close.

The relevant policy question is therefore whether tightening Safeguard settings are producing physical emissions reductions and enduring low-emissions industrial investment in Australia, and what complementary conditions are required for those outcomes to occur.

2.1 The Industry Sector Plan as a delivery and investment timetable

The Australian Government's Industry Sector Plan⁴ sets out a staged pathway for industrial decarbonisation, as follows:

- In the period to 2030, emissions reductions are expected to result principally from commercially available options, including energy efficiency, electrification where possible, fuel switching and alternative fuels.

⁴ Australian Government (2025) *Industry Sector Plan*, Department of Industry, Science and Resources, 18 September, p. 15, see [Industry Sector Plan](#).

- During 2030-35, the Plan anticipates widespread deployment of established net zero technologies, continued commercialisation of emerging technologies and the progressive development of the infrastructure, supply chains and workforce required for alternative inputs such as hydrogen and bioresources.
- Deeper transformation of hard to abate processes is expected between 2035 and 2050 as new production technologies and alternative inputs reach sufficient scale and cost.

This provides a valuable account of the expected sequence of industrial transition. It also makes clear that the emissions pathway depends on conditions extending beyond the Safeguard Mechanism. The medium-term transition assumes that cleaner production technologies become commercially available, renewable electricity and network infrastructure are delivered, alternative feedstocks reach sufficient scale and cost, and industries can secure the workforce, finance and markets required to deploy them.

The stated timetable creates an immediate investment question. Widespread deployment during 2030-35 depends on projects whose engineering, approvals, infrastructure arrangements, financing and corporate capital allocation must be substantially advanced before that period begins. Some of the relevant decisions are already approaching and others may already be underway. Policy developed during 2026-27 must therefore influence decisions being made now if it is to affect industrial outcomes from 2030.

At sector level, it is reasonable for the Plan to identify technologies, infrastructure, and the alternative inputs expected to become available. At facility level, however, the timing, cost and availability of each of these remain material project risks. A stronger emissions obligation may increase the cost of delaying abatement, but it cannot determine when electricity, hydrogen or shared infrastructure will be available, whether sufficient customer demand will emerge, or what government support will endure over the life of an investment. Without greater certainty, facilities may defer capital expenditure, purchase units, reduce production or invest elsewhere. The Plan's emissions trajectory may therefore remain formally intact while the physical transformation required to deliver it falls behind.

Providing investment confidence does not require government to guarantee a project's profitability or absorb commercial risks that properly belong to the company. It requires greater clarity about the industrial capabilities government seeks to retain, the shared enabling conditions it will help deliver, the criteria governing access to support, when necessary government decisions will be made, and how commitments will be treated if policy subsequently changes. In return, companies seeking coordinated action or material support should identify their proposed pathway, the next investment decisions, the risks within their control, their own commitments and the milestones against which progress can be assessed.

The Safeguard Mechanism Review should therefore test whether the Industry Sector Plan is a credible delivery proposition and whether the policy framework provides a sufficient process for translating its sector trajectories into investable facility pathways.

Recommendation 1: Assess the effectiveness of the Safeguard Mechanism against both its emissions task and its consequences for industrial capability in Australia, and test whether its sector pathways are capable of being delivered through investable facility pathways.

The effectiveness of the Safeguard Mechanism should be judged against two linked public interest tests: its contribution to Australia's national emissions targets; and whether it supports the transformation of, and continued investment in, valuable Australian production, including strategically important industrial capability.

This requires the Industry Sector Plan to be treated as a delivery proposition and tested against facility evidence. The Review should assess whether sector trajectories are consistent with facility investment and decision windows and whether the policy framework provides a credible process for identifying material technology, infrastructure, market and other enabling dependencies, resolving responsibility for them, and ensuring that government and industry decisions occur early enough to influence investment. Where these arrangements are absent or inadequate, the Review should recommend that they be established.

2.2 Three distinct outcomes of the Safeguard Mechanism

The Safeguard Mechanism involves three related outcomes that AIDC believes should be evaluated separately:

- **The scheme's net emissions outcome.** This is the mechanism's core environmental constraint and must remain consistent with Australia's national emissions targets.
- **What happens at covered facilities and how they meet their obligations.** This includes changes in their physical emissions, onsite abatement, the use of ACCUs and SMCs, and changes in production or utilisation.
- **Whether the mechanism contributes to lasting changes in Australian industrial production.** This includes investment in low emissions processes, new low emissions production and the transformation of valuable existing facilities.

The most recent Safeguard data⁵ demonstrate why these outcomes must be assessed separately. In 2024-25, covered emissions declined by 2.3 per cent, while net emissions declined by 5.5 per cent following the surrender of 10.8 million ACCUs and 2.6 million SMCs. Aggregate baselines declined by 7.3 per cent, substantially faster than covered emissions, resulting in 141 facilities exceeding their baselines by a combined 13.7 Mt CO₂-e. These results demonstrate that the mechanism is tightening and generating increasing compliance obligations, but do not by themselves establish how much physical abatement occurred at covered facilities or whether Australian production is being transformed.

This distinction also matters when considering measures intended to increase onsite abatement. Restricting access to ACCUs would increase the incentive for facilities to meet more of their obligations through other means. Where additional onsite abatement is technically and commercially deliverable,

⁵ Clean Energy Regulator (2026) *2024–25 Safeguard Mechanism data insights*, see [Safeguard data | Clean Energy Regulator](#).

this may accelerate physical emissions reductions. Where it is not, the immediate effect may instead be higher compliance costs, with consequences for production and investment. Any additional constraints on ACCU use should therefore be assessed against the abatement actually available to covered facilities and the timeframes in which it can be delivered.

Recommendation 2: Evaluate and report separately on three principal outcomes of the Safeguard Mechanism.

Assessment of the mechanism should distinguish:

- 1. The scheme's net emissions outcome** and its contribution to Australia's national targets.
- 2. What covered facilities physically emit before unit surrender**, how they meet their obligations, and whether changes reflect onsite abatement, changes in production or closure.
- 3. Whether the mechanism is driving enduring investment in low emissions production in Australia**, through the transformation of existing facilities, successor assets or new production.

2.3 ACCUs and SMCs as flexibility within a tightening mechanism

ACCUs and SMCs provide different forms of flexibility within the Safeguard Mechanism. ACCUs allow abatement undertaken elsewhere in Australia to contribute to a facility's obligation. SMCs reward facilities that operate below their baselines and allow that performance to contribute to compliance elsewhere within the Safeguard sector. Both provide flexibility in how facilities meet their obligations where the timing and location of physical abatement do not align with individual facility obligations.

This flexibility is important because major onsite changes can depend on long asset cycles, infrastructure delivery or technologies that are not yet commercially available at the required scale. ACCUs and SMCs can provide time for physical pathways to be developed and delivered. High-integrity ACCUs should remain an important source of national abatement and transition flexibility. They should not, however, be treated as evidence that the purchasing facility has reduced its physical emissions.

AIDC does not support a universal cap on ACCU use, because a single numerical restriction would not reflect the different physical opportunities and delivery timelines faced by covered facilities. Greater constraints on sustained ACCU reliance should instead become appropriate as technically and commercially deliverable onsite abatement becomes available.

Continued ACCU use may be reasonable over extended periods where physical abatement depends on long asset cycles, enabling infrastructure, technologies that are not yet commercially available at the required scale, or where emissions are genuinely residual. The form and timing of any constraint should recognise those circumstances and should be introduced with sufficient notice.

Greater scrutiny is warranted where technically and commercially deliverable onsite opportunities exist and no credible programme is being advanced to develop or deliver them. Facilities surrendering ACCUs equal to at least 30 per cent of their baseline are already required to explain why more onsite abatement has not occurred. Where substantial reliance continues, that disclosure should identify the facility's physical pathway, the work being undertaken to advance it, the next material decision window and the barriers preventing delivery.

SMC issuance should also be interpreted carefully. It shows that a facility's covered emissions were below its baseline, but does not by itself establish that the result arose from enduring physical transformation. It may reflect investment or efficiency improvements, but may also be influenced by production, operating conditions or the way the baseline applies. Reporting should therefore explain the cause of material SMC issuance rather than presenting the credit alone as evidence of structural decarbonisation.

This submission considers ACCUs and SMCs principally in relation to their role within the Safeguard Mechanism. AIDC will consider ACCU integrity, method design and the longer-term relationship between industrial compliance demand, land-sector abatement and the transition of covered facilities in greater detail through its response to the Australian Government's Safeguard Mechanism Review.

2.4 Complementary policy and targeted support for investable transformation

As discussed above, a progressively tightening Safeguard obligation creates an important incentive for industrial decarbonisation, but it does not mean it can independently resolve the barriers that prevent necessary investments from becoming technically deliverable, financeable and competitive.

Policy debate often treats technical feasibility at sector level as equivalent to investability at a facility level, and attributes any gap to insufficient carbon pressure or incumbent reluctance. This framing reduces the transformation of an operating industrial system to a choice between technologies. However, and as discussed further in section 3, a major industrial facility embodies substantial invested capital, an operating workforce, site-specific infrastructure, established supply arrangements and commitments to customers. Its value lies in its demonstrated capacity to produce the required volume and quality reliably and on time.

The public interest framework set out earlier in this paper should guide where government intervention is justified. For facilities and sectors with a credible future in Australia, policy should be targeted to the barrier affecting the next material investment decision.

The Future Made in Australia agenda provides an important foundation for this approach. In particular, the \$5 billion Net Zero Fund within the National Reconstruction Fund is a substantial commitment and its capacity to provide highly concessional finance and accept greater risk than commercial financiers should improve the prospects of some industrial decarbonisation investments.

However, no single fund or standard financing product can be expected to resolve the range of risks affecting industrial transformation. Concessional finance can improve the cost and availability of capital, but it cannot by itself deliver missing infrastructure, establish sufficient customer demand, close a long-term revenue gap or absorb the full technology and integration risks of replacing an operating production system. Businesses do not yet have a sufficiently clear route through government for assembling these elements into an investable package.

Some projects will require a tailored investment structure rather than support through a single existing programme. Government may need to establish or participate in dedicated investment vehicles around a facility, successor asset, precinct or piece of common user infrastructure. These vehicles could bring together Commonwealth and state support, private capital and project-specific

arrangements for ownership, financing, revenue and risk. Their design should begin with the investment pathway and the barriers preventing it from proceeding, rather than requiring materially different projects to fit a standard funding product.

Government should also examine whether a separate transition financing instrument could bring forward part of the prospective value created by industrial decarbonisation, including avoided future Safeguard compliance costs and potential SMC revenue, to support common user infrastructure and coordinated investment. The instrument would finance delivery ahead of verified abatement without treating infrastructure expenditure as an emissions unit. Any such instrument should be linked to credible facility or precinct pathways, clearly identified barriers, defined public and private responsibilities, delivery milestones and independently verified emissions outcomes. It should supplement, rather than displace, the verified abatement financed through the ACCU market.

Government should also examine market-based mechanisms capable of creating early demand for low emissions commodities during the transition. These may include book and claim systems that allow customers to pay for and claim the verified emissions attributes of low emissions production even when they do not receive the physical product, provided the systems maintain robust governance, transparency and environmental integrity. Such mechanisms may strengthen the commercial case for investment by allowing early market recognition of low emissions production before dedicated supply chains have fully developed. Their value should be assessed by whether they accelerate investment in physical industrial decarbonisation and the transformation of Australian facilities.

The detailed design and coordination of these measures extend beyond the Authority's present consultation. AIDC will develop this aspect of the framework further for the Australian Government's 2026-27 Safeguard Mechanism Review, including how existing programmes, the Net Zero Fund, infrastructure commitments, demand-side measures and tailored investment arrangements should be matched to particular facility and precinct barriers.

Recommendation 3: Establish a whole-of-government route for assembling tailored industrial transition packages.

The Australian Government should establish a clear pathway through which credible industrial projects can combine existing programmes, tailored funding arrangements, infrastructure commitments, project-specific commitments and, where standard approaches are insufficient, tailored investment structures. The resulting package should address the barriers preventing the next material decision and be proportionate to the public value and risk involved.

Government support should form part of a forward-looking industrial transition bargain. Government should address defined barriers that an individual project cannot reasonably resolve and for which there is a clear rationale for public intervention, including shared infrastructure, coordination failure or public benefits extending beyond the private return. This is not intended as a means of underwriting ordinary commercial returns or routine Safeguard compliance costs.

The company should retain responsibility for commercial risks within its control and make staged commitments to development, investment and emissions reduction. The respective commitments of government and the company should be clear and proportionate to the stage of the pathway.

3. Policy theme B: Translating scheme-wide obligations into investable facility pathways

Industrial decarbonisation occurs through investment in individual facilities. This matters particularly for the industries covered by the Safeguard Mechanism.

The Industry Sector Plan identifies five subsectors as accounting for almost 90 per cent of industrial scope 1 emissions: alumina and aluminium, waste and resources recovery, iron and steel, chemicals and plastics, and cement and concrete.⁶ These include some of Australia's largest and most capital-intensive industrial assets. Many were developed around particular sources of raw materials, energy, infrastructure, ports and skilled workforces, and they have evolved over decades through successive rounds of investment.

Facilities within the same sector can therefore differ substantially in scale, age, production route, remaining asset life, access to infrastructure and the technologies available for transformation. A technically credible pathway for one facility may be unavailable, materially more expensive or require a fundamentally different replacement system at another.

Facility evidence is therefore needed to establish how sector pathways apply to individual assets, when relevant investment decisions arise and which external conditions must be resolved. Government does not need to replicate company engineering or investment processes. It does need sufficient understanding of them to assess whether scheme-wide obligations and complementary policy can translate into investable projects at the facilities expected to deliver the transition.

3.1 What facility transformation involves

Lower-emissions investment in industrial transformation is rarely a simple technology substitution. It may require major integration with an existing production system, construction and operation of parallel systems during transition, or development of a successor asset while continuing to meet existing production and customer obligations. The engineering configuration of the facility determines much of the scale, sequence and risk of that investment, while the board must determine whether the resulting project can justify the capital required.

Replacing the existing source of hydrogen at an ammonia facility, for example, may require new electricity supply, storage and firming arrangements together with changes to the production process. At an integrated steelworks, a different steelmaking route may require a new source of metallic iron and substantial changes to surrounding plant and infrastructure. An individual technology may therefore be proven while the complete facility configuration required to deploy it remains unresolved.

As engineering and development work progresses, additional equipment, infrastructure, shutdown, commissioning and operating requirements may emerge. These can materially change the cost, timing and feasibility of the pathway initially identified at sector level. Sector-level technical potential

⁶ Australian Government (2025) *Industry Sector Plan*, Department of Industry, Science and Resources, 18 September, p. 11, see [Industry Sector Plan](#).

therefore cannot be assumed to translate directly into deliverable physical abatement at an individual facility.

3.2 Decision windows for industrial transformation

Large industrial facilities do not have a single predetermined end-of-life date. Their future is shaped by periodic decisions about whether to maintain, refurbish, replace, expand or retire major equipment and production systems.

These decisions create critical decision windows. A window may arise when major equipment requires replacement, an energy contract expires or substantial capital is needed to continue operating the asset. At that point, the company may extend the existing production route, undertake a major transformation, build a replacement asset, direct investment elsewhere or allow the facility to close.

These choices are made well before construction begins. Engineering, approvals, infrastructure commitments, financing and customer arrangements must usually be resolved in advance. Missing the relevant window may lock in the existing production route for another capital cycle, or result in investment being committed to another facility or jurisdiction.

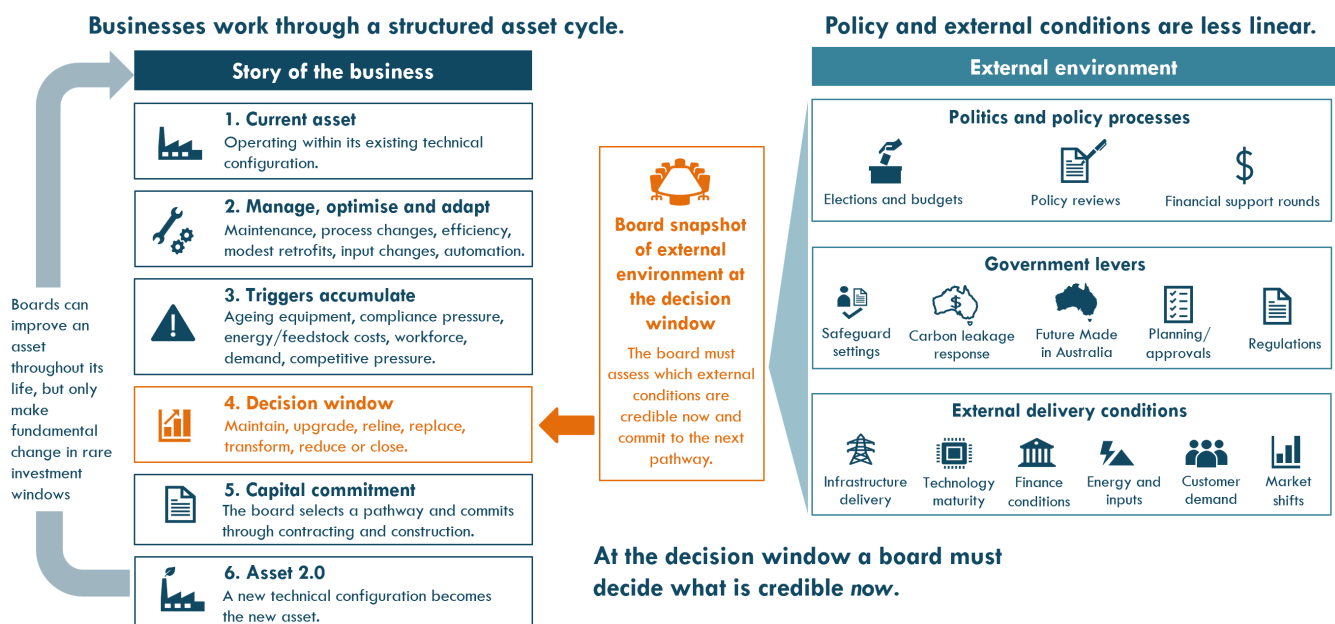


Figure 2: Asset cycles and decision windows

Future Safeguard obligations and transition arrangements should therefore be considered against the investment windows arising during the remainder of this decade and the early 2030s. They must be visible early enough to influence technology selection, engineering and capital allocation.

Scheduled reviews should operate within a durable long-term direction, so that companies can distinguish settings they may reasonably rely upon from those that remain open to material change after capital has been committed.

3.3 Conditions under which an emissions obligation produces investment

As discussed previously, a carbon obligation can improve the relative economics of lower-emissions investment but cannot make a project investable by itself. Even where a credible physical pathway exists and the relevant decision window is understood, the project must still satisfy the company's investment requirements and secure capital.

Companies do not assess major decarbonisation projects solely by comparing an estimated abatement cost with the expected price of an ACCU. They consider the total capital required, the expected risk-adjusted return, the risks of construction and integration, the effect on production and the future competitiveness of the facility. The project must also compete with other uses of capital within the company, including investments in other facilities and jurisdictions.

An additional consideration is that increasing compliance obligations can simultaneously improve the relative economics of lower emissions investment while reducing the competitiveness, cash flow and expected risk-adjusted returns of the underlying Australian facility. If policy erodes the commercial position of a facility before a credible decarbonisation pathway is investable, both the facility and its transition project may lose capital to competing assets or jurisdictions, even where a technically feasible pathway exists. This risk is compounded where carbon liabilities accumulate over several years without an equivalent carbon cost applying to competing production. Safeguard settings should therefore strengthen the case for lower emissions investment without undermining the commercial basis for undertaking that investment in Australia.

A project progresses towards investment as technical and commercial uncertainties are progressively resolved or allocated. Engineering, equipment testing, infrastructure commitments, approvals, customer arrangements and financing establish whether it can be built and operated on acceptable terms. A technically credible option may therefore remain a considerable distance from final investment decision.

A stronger Safeguard obligation is most likely to produce physical investment where the project can be delivered within the facility's capital cycle, the required infrastructure and inputs will be available, and the resulting investment can meet the company's financial and commercial requirements. In those circumstances, the obligation may bring forward the project or improve its position within the corporate capital programme.

Where those conditions remain unresolved, the company may respond differently. It may rely on ACCUs or SMCs, undertake smaller operational improvements, defer the major project, direct capital to another asset, reduce production or allow the facility to close. The risk is greatest where an ageing or marginal facility is approaching a major reinvestment decision and an alternative capable of materially reducing emissions is not yet commercially available.

Safeguard settings should therefore be assessed against the investment and capital allocation decisions they are expected to influence. A stronger obligation should not be assumed to produce physical investment merely because a technical option exists. The relevant question is whether the combined effect of the obligation and complementary policy makes the Australian project sufficiently investable, and whether the policy arrives while the decision can still be influenced.

Recommendation 4: Assess Safeguard settings against the facility investment decisions that determine whether industrial transformation occurs in Australia.

The Australian Government and the Climate Change Authority should examine how baseline obligations, ACCU and SMC settings, and complementary policies affect whether facility projects progress from technical development to final investment. Scheme-wide analysis should use transparent sectoral assumptions, representative facility evidence and clearly disclosed sensitivities.

Analysis should consider total capital requirements for major facility transformations, expected risk-adjusted returns and material project risks; the facility's capital cycle; competition from other projects and jurisdictions; and the timing at which policy can still influence corporate capital allocation. The purpose of this analysis is to understand likely investment and emissions outcomes while preserving the integrity of the scheme-wide emissions task.

The analysis should test whether the timing of facility capital decisions and enabling infrastructure is consistent with the transition phases assumed in the Australian Government's Industry Sector Plan.

3.4 Purpose and content of a facility transition pathway

The preceding sections explain why a sector-level technology option does not establish that a particular facility can transform, or that the necessary investment will occur within the relevant decision window. A facility transition pathway provides a structured account of how those questions apply to the individual asset.

For the purposes of this submission, a facility transition pathway is a documented connection between the facility's emissions obligations, its physical options and the decisions required to deliver them. It should explain the present production system, the principal transformation choices, their maturity and timing, and the major conditions on which delivery depends. It should also identify the next material investment decision, the work already under way, the expected use of ACCUs and SMCs, and the consequences if the pathway cannot proceed.

The pathway should draw on the company's engineering, commercial and investment work. It should give government enough information to understand the proposed transformation and its dependencies without requiring officials to reproduce the company's technical assessment.

Detailed pathways should be used selectively. They would be appropriate where a facility seeks differentiated Safeguard treatment, substantial public support or coordinated government action, where an important investment window is approaching, or where the consequences for Australian production justify closer consideration. They should not become part of ordinary annual compliance for every covered facility.

Facility pathways can also provide a stronger basis for government planning. Considered together, they would show when and where industrial demand for shared energy, infrastructure, finance and new product markets is likely to arise. This would allow government to plan around identifiable projects and decision windows rather than general sector aspirations.

Recommendation 5: Establish facility transition pathways as a selective evidentiary and planning instrument.

The Australian Government should enable facility transition pathways to inform differentiated treatment, public support and coordinated planning where deeper assessment is warranted. A pathway may be initiated by a facility or through targeted government engagement where existing evidence indicates an approaching material decision or a significant consequence for emissions, infrastructure planning or industrial capability. Pathways should be proportionate to a defined purpose and should not form part of routine annual compliance for every covered facility.

A pathway should substantiate the facility's physical options, external dependencies, investment timetable, owner commitments and expected emissions outcomes. It forms a foundation for discussions with government and does not create an entitlement to public support or provide a general basis for renegotiating a facility's baseline.

3.5 Matching government action to the barrier preventing investment

Facility pathways provide the evidence needed to match the broader government capability described in section 2.4 to the barriers affecting a particular investment. They do not create an entitlement to government support. Their purpose is to identify the next material decision, what is preventing it, which matters remain within the company's control and which depend on infrastructure providers, other commercial parties or government.

A pathway should also show the order in which constraints must be resolved. A project may require several stages of engineering, infrastructure preparation, commercial negotiation and risk reduction before a final investment decision becomes possible. These barriers may include unavailable energy or infrastructure, first of a kind technology risk, insufficient customer demand, limited access to long term offtake and financing constraints. The appropriate response may involve coordinated infrastructure delivery, long term contracts or contracts for difference, public procurement, product standards or mandates, concessional finance, early project risk sharing, or international arrangements that create markets for low emissions products.

Several measures may need to operate together, and standard programmes will not suit every facility or project.

Government and the company should make commitments proportionate to the stage of the pathway. The company should continue to develop the project, produce evidence, make timely decisions and retain responsibility for risks within its control. Government should provide durable policy settings and address barriers that an individual facility cannot reasonably resolve.

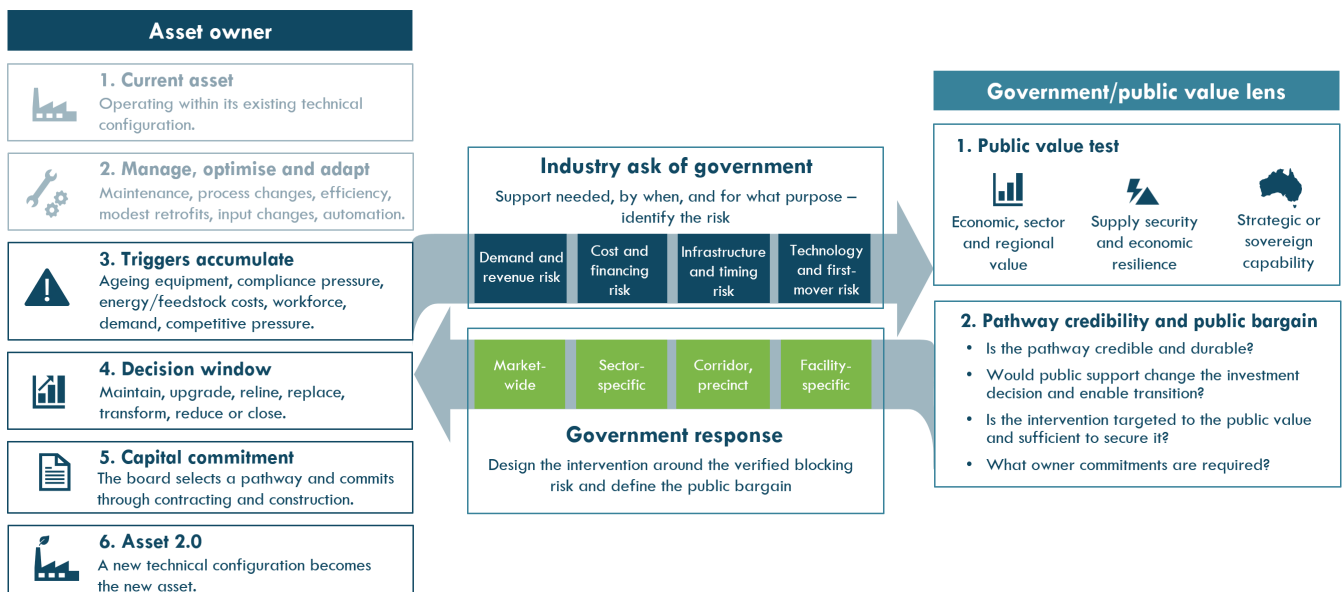


Figure 3: Mapping government interventions to investment risks

This approach allows government to act while an investment decision can still be influenced. It also provides a disciplined basis for considering early investment and first-of-a-kind activity where these create benefits beyond the immediate facility.

Recommendation 6: Use facility pathways to match government action to the barrier, timing and stage of investment.

The Australian Government should use facility pathways to identify the intended long-term industrial and emissions outcome, the next material decision or commitment required to keep that outcome achievable, and the barriers or uncertainties affecting it.

Government action should be matched to the nature and stage of the problem and may require a combination of existing programmes, project-specific commitments or tailored investment arrangements. Responsibilities, timing, evidence and consequences should be clearly identified. Where constraints accumulate or emerge during development, policy should support their resolution in sequence rather than expect a single intervention to carry the project directly to final investment.

Barriers shared across facilities should be addressed at precinct, sector or economy-wide level wherever possible; facility-specific action should be reserved for residual matters that cannot sensibly be resolved through common policy.

4. Policy theme C: Governing transition through durable rules, transparent analysis and coordinated administration

Sections 2 and 3 set out the outcomes the Safeguard Mechanism should achieve and how scheme-wide obligations can translate into investment decisions at individual facilities. This section addresses the rules, analysis and government processes required to apply that approach while preserving the integrity, stability and administrative simplicity of the mechanism.

The scheme-wide emissions task and ordinary annual compliance should remain clear and consistently administered. Facilities and investors also need sufficient visibility of the long-term direction of the mechanism, the basis on which post-2030 settings are determined and the circumstances in which differentiated treatment or complementary government action may be considered.

Greater facility-level consideration should therefore sit within a stable scheme architecture. It should be selective, evidence based and proportionate to the decision being made, rather than becoming a routine feature of annual compliance.

4.1 Stable core rules with predictable flexibility

Core elements of the Safeguard Mechanism should be established transparently and changed only through defined processes. These include the scheme-wide emissions constraint, the method for determining baseline decline rates, the treatment of ACCUs and SMCs, the principles governing differentiated treatment, the future role of TEBA, and the timetable for formal reviews.

Scheduled reviews should test whether the mechanism is performing as intended and whether the assumptions underlying its settings remain valid. Relevant considerations include changes in technology maturity, infrastructure availability, production, competitiveness exposure and international policy. Reviews should operate within a durable long-term direction rather than create an expectation that the central architecture will be continually reopened.

Where settings may need to change, the relevant triggers, assessment criteria and processes should be identified in advance. Developments that may justify reconsideration could include the commercial availability of a material abatement option, delivery or material delay of enabling infrastructure, significant changes in competitiveness exposure or a material change in facility configuration.

Ordinary annual compliance should remain formulaic, data driven and consistently administered. More detailed consideration of a facility pathway should be reserved for circumstances in which it can materially affect an investment, emissions or public interest outcome, including applications for differentiated treatment or targeted support, approaching reinvestment windows, persistent ACCU reliance or evidence that existing settings are producing materially different outcomes from those anticipated.

Any additional reporting, verification or review should be proportionate to the treatment or support sought. This would preserve the simplicity of routine compliance while directing greater attention towards the smaller number of decisions with material emissions, investment or public interest consequences.

Recommendation 7: Establish a durable Safeguard architecture with predictable flexibility built into the rules.

The scheme-wide direction of the mechanism, the method for setting baseline decline rates, the treatment of ACCUs and SMCs, the principles governing differentiated treatment, and the timetable for formal reviews should be sufficiently stable to support long-lived investment. Where settings may need to change, the relevant triggers, criteria and processes should be published in advance.

Routine annual compliance should remain formulaic, data driven and consistently administered. More detailed consideration of a facility pathway should be reserved for circumstances in which it can materially affect an investment, emissions or public interest outcome, with any additional reporting and review proportionate to the differentiated treatment or targeted support sought.

4.2 Policy durability, early investment and reciprocal responsibility

Policy durability is a material consideration in industrial investment. Major projects may move through engineering, approvals, commercial development, financing and construction over many years. Significant expenditure can become difficult to reverse well before the project begins operating or delivers its intended emissions reductions. A material change in policy after capital has been committed can alter the economics of the project and influence the willingness of other facilities to make comparable investments.

The current debate over the European Union Emissions Trading System brings together several of the risks identified in section 1.1 that are also relevant to Australia. These include relief for facilities facing genuine physical constraints, consequences for companies that invested earlier, conditions attached to additional protection, and the durability of the framework on which investment decisions were based.

On 17 July 2026 the European Commission proposed changes to the ETS,⁷ including a change to the ETS trajectory which would allow a slower annual decline and continued issuance of free allowances during the 2031-2040 period. The proposal responds to genuine challenges for large and highly integrated facilities facing ageing assets, uncertain technology pathways and delays in the electricity, hydrogen, infrastructure and markets required for transformation. Some of these constraints reflect conditions that an individual facility cannot resolve. Where carbon costs rise before a physical alternative is deliverable, the consequences may include higher compliance expenditure, reduced production or carbon leakage.

At the same time, expectations of a tightening system, declining free allocation and a rising carbon price contributed to the business case for significant early investment in lower emissions steel production. In June 2026, a joint statement signed by Outokumpu, SSAB, Salzgitter, Saarstahl, Dillinger and SHS stated that the participating companies were committing more than €10 billion to lower

⁷ See European Commission (2026) 'Commission boosts Europe's competitiveness, decarbonisation and independence with Electrification Action Plan and ETS review', 17 July, Brussels, see [Commission boosts Europe's competitiveness, decarbonisation and independence](#)

emissions production and modernised assets.⁸ The companies warned that weakening the ETS trajectory would jeopardise the basis on which those investments were made. In July, SHS went on to say: “The interventions described lead to a lowering of the CO₂ price signal, posing massive challenges for first-mover companies. There is a lack of clear concepts and mechanisms for protecting these companies against retroactive changes”.⁹

For Australia, the immediate lesson is that relief should be targeted, evidence based and connected to continuing action. Facility pathways must also accommodate genuine engineering and commercial learning. Requirements should reflect the maturity of the pathway and allow evidence-based changes where agreed work has been completed and a credible alternative is proposed. This permits good faith investigation to proceed while maintaining accountability for inactivity or avoidable delay.

The first design task should be to target relief as closely as possible to the facilities and constraints that justify it, preserving the scheme-wide signal for others. Where a broader rule change is unavoidable, government should separately consider the consequences for qualifying investments that were substantially committed in reasonable reliance on the previous framework.

The Safeguard Mechanism Review should also consider how material policy changes affect qualifying investments already underway. Relevant factors may include the scale and irreversibility of the investment, the extent to which it relied on an established policy framework, the public interest value being delivered and the direct consequences of the later change. Any response should remain proportionate and preserve the commercial risks that properly sit with the company.

A future Parliament will retain the capacity to change legislation and policy. The practical objective is to provide the strongest reasonable confidence over the period in which qualifying investments are exposed. This may require a combination of statutory settings, long-term funding, contractual arrangements and independent administration, together with the treatment of government and company non-delivery.

Recommendation 8: Establish transparent and bounded principles for reciprocal responsibility in facility transition arrangements.

The Safeguard Mechanism Review should develop and publicly consult on a tiered framework for reciprocal responsibility where a facility seeks differentiated treatment, substantial public support or coordinated government action, or where a qualifying irreversible transition investment may be materially affected by a later policy change.

The framework should address the respective responsibilities of facilities and government, external dependencies, good faith changes in pathway and the consequences of material non-delivery. Its detailed application should be developed through the Safeguard Mechanism Review using facility

⁸ Outokumpu Corporation, SSAB, Salzgitter AG, Saarlöh, Dillinger, SHS – Stahl-Holding-Saar (2026) ‘Joint statement by European steel leaders: Steel businesses for ETS1 and CBAM’, 30 June, see [Joint statement by European steel leaders: Steel businesses for ETS1 and CBAM | Outokumpu](#).

⁹ SHS (2026) ‘Statement on the presentation of the European Commission’s ETS proposal’, 17 July, Stahl-Holding-Saar, see [Statement on the presentation of the European Commission’s ETS proposal](#).

evidence. It should not create an open-ended entitlement to unchanged policy settings or transfer ordinary commercial risk to government.

4.3 Setting the post-2030 Safeguard trajectory

Determining the post-2030 Safeguard trajectory requires two related but distinct judgements.

The first is the aggregate contribution expected from Safeguard-covered facilities towards Australia's national emissions task. The proportional-share approach provides a transparent starting point for making that allocation. It identifies an intelligible share of the national task for the Safeguard sector and preserves a clear connection between the mechanism and Australia's national targets.

The second judgement is how that aggregate task can credibly be translated into baseline decline rates and supporting policy settings across a heterogeneous group of facilities. Proportional share does not, by itself, determine the decline rate required to deliver the aggregate contribution. That rate also depends on assumptions about production, new entry and exit, concessional treatment, ACCU and SMC use, physical abatement, technology and infrastructure availability, and the investment responses of covered facilities.

The Authority has commissioned modelling of different post-2030 baseline decline rates and has stated that it will consider that modelling alongside stakeholder submissions, other evidence and its own analysis. The results were not included in the consultation material, while the Authority's final advice is due in November 2026.¹⁰

The analytical basis should be published early enough for informed scrutiny. Consistent with section 2.2, modelling should distinguish the scheme's net emissions outcome, the physical response of covered facilities and the resulting industrial investment outcome. It should show how different settings affect onsite abatement, ACCU and SMC use, production and utilisation, contraction and closure, and whether capital is committed to transformed facilities, successor assets or new production in Australia.

The modelling should also disclose the principal assumptions and enabling conditions driving those outcomes. These should include technology maturity, infrastructure availability, energy and feedstock costs, financing conditions, customer demand, production growth, entry and exit, competitiveness exposure and corporate investment thresholds.

Facility responses to the Safeguard should not be treated as automatic. A stronger obligation may induce onsite investment where a credible project can be delivered within the relevant decision window. In other circumstances it may result in greater unit use, deferred capital expenditure, reduced production, investment elsewhere or closure. The modelling should therefore make clear how the Authority assumes facilities will respond under each material scenario, using representative sector or facility types where necessary to protect commercially sensitive information.

¹⁰ Climate Change Authority (2026) '2026 Annual Progress Advice', updated 3 July, see [2026 Annual Progress Advice | Climate Change Authority](#).

Relevant sensitivities should also be tested where they could materially alter the result, including delayed infrastructure, higher technology or financing costs, different ACCU prices, weaker demand and different production outcomes.

The Authority can continue its analysis while publishing the assumptions, scenarios and results early enough for informed scrutiny. Stakeholders cannot provide fully informed advice about whether the rate should be higher or lower without understanding the outcomes each scenario is intended to produce, the assumptions on which it relies and the likely responses of covered facilities.

Commercially sensitive information can be protected through aggregation, ranges, anonymised facility types and publication of common assumptions. Confidentiality should not prevent disclosure of the analytical basis on which major scheme settings are selected.

Publication of this analysis would improve the quality of consultation and provide governments, facilities, investors and infrastructure providers with a common evidence base for planning the next phase of industrial decarbonisation.

Recommendation 9: Publish the modelling and analytical basis for alternative post-2030 baseline decline rates before the final trajectory is determined.

The Climate Change Authority and the Australian Government should publish the assumptions, scenarios and expected outcomes used to assess alternative baseline decline rates for 2031-2035. The analysis should use the Authority's Sector Pathways Review as a starting framework, report results against the three outcomes identified in section 2.2 and disclose the material assumptions and sensitivities on which those results depend.

Recommendation 10: Retain proportional share as a transparent starting point for setting the post-2030 Safeguard target, and test the baseline decline rate against a bottom-up assessment of credible sector and facility pathways.

The proportional-share approach should remain a transparent basis for identifying the aggregate contribution expected from Safeguard-covered facilities to Australia's national emissions task.

The baseline decline rate required to deliver that contribution should then be assessed against credible sector and facility pathways and the complete policy package. The analysis should consider technically and commercially deliverable abatement, infrastructure and energy availability, capital and asset cycles, risk-adjusted investment decisions, ACCU and SMC settings, production, competitiveness, new entry, contraction, leakage and closure.

The Authority should explain how the selected decline rate translates the aggregate Safeguard task into a credible delivery pathway. Where bottom-up evidence indicates a gap between the aggregate contribution sought and the abatement expected to be delivered under the proposed settings, the analysis should identify that gap and the additional policy, investment, timing or economy-wide contribution required to address it.

4.4 Selective facility pathways and coordinated government administration

The facility pathway approach described in section 3 requires coordinated administration across government, while preserving clear institutional responsibilities. Facility pathways should remain selective and should be used where they materially improve a decision about differentiated treatment, public support, infrastructure planning or industrial capability. They should not become annual negotiated compliance plans, and the information required should be proportionate to the purpose for which it is sought.

Selectivity requires government to maintain a high-level view of likely facility decision windows and shared dependencies so that it can identify where deeper engagement is warranted. That view should draw first on information already available across government, including Safeguard and NGER data, public company disclosures, approvals, grant and financing processes, sector and precinct planning and direct engagement with facility owners. It should provide early visibility of material investment windows and planning needs without requiring every covered facility to prepare or routinely update a detailed pathway.

Where that assessment indicates an approaching material decision or a significant consequence for emissions, infrastructure planning or industrial capability, government should be able to initiate targeted engagement with the facility. Any request for a detailed pathway should identify the decision or planning purpose it is intended to inform, use existing information wherever possible and be limited to the matters necessary for that purpose. Government should not require a pathway simply to create a stock of information that may prove useful later.

Institutional responsibilities should remain clear:

- the Clean Energy Regulator should remain responsible for measurement, reporting, baseline administration, unit surrender and compliance;
- the Climate Change Authority should provide transparent analysis and advice on the scheme-wide trajectory and the broader performance of the mechanism; and
- industry, energy, infrastructure, finance, trade and regional agencies should address the enabling conditions outside the regulator's mandate.

State and territory action can perform functions the Safeguard Mechanism does not undertake, including emissions assessment through planning processes, coverage of facilities below the national threshold, premises-specific transition planning and coordination of local infrastructure. These roles can provide valuable additional evidence and coordination.

A more difficult issue arises where a state framework imposes an additional substantive emissions expectation on a facility already subject to the Safeguard Mechanism. In July 2025, environment agencies from New South Wales, Victoria and South Australia described the Safeguard Mechanism as a minimum standard and expressly preserved the capacity of states and territories to require additional

action.¹¹ Their accompanying commitments to harmonisation focus principally on the use of NGER data, common methodologies, and the avoidance of duplicate reporting. Those measures can reduce administrative duplication, although they do not resolve substantive differences in the emissions expectations applying to the same facility. Harmonised reporting does not create harmonised obligations.

New South Wales illustrates both the potential value and the risk. Its licensee requirements may improve facility evidence and give government earlier visibility of constraints and investment pathways. NSW has also articulated a specific case for additional onsite action in relation to coal mine methane.¹² Equivalent justification should be required before additional substantive obligations are extended across Safeguard-covered industrial sectors. A general proposition that state targets are more ambitious should not substitute for identification of the particular emissions or regulatory gap being addressed.

A coordinated framework should therefore distinguish complementary state action from regulatory stacking. For a Safeguard-covered facility, an additional state requirement should identify the gap it addresses and demonstrate that its public value justifies its combined compliance and investment effects. National data and accepted facility pathways should be mutually recognised wherever possible. Where substantive divergence is proposed, its consequences for emissions, competitiveness and capital allocation should be assessed through an intergovernmental process before the requirement is imposed.

Coordination is also required where barriers are shared across several facilities. Where multiple facilities depend on the same transmission line, port, pipeline, storage network, workforce or low emissions product market, the response should be considered at precinct, corridor, sector or economy-wide level rather than through separate project interventions. Facility pathways would provide the underlying demand evidence, while government planning would determine whether shared intervention offers greater public value.

Administrative continuity is equally important. Changes in programme design, funding priorities or institutional responsibility should not require a project to reproduce work that government has already funded, reviewed or accepted. Further, evidence generated through ARENA and other programmes, together with approvals obtained and milestones completed, should carry forward into subsequent funding, infrastructure and regulatory processes wherever it remains relevant.

Facility pathways can provide a common factual foundation for this purpose. Considered together, they can also give governments an early view of approaching reinvestment decisions, shared infrastructure requirements and emerging risks to important industrial capability. Government could periodically publish an aggregated industrial transition pipeline identifying upcoming decision

¹¹ NSW Environment Protection Authority, Environment Protection Authority South Australia and Environment Protection Authority Victoria (2025) *Guiding Principles for Alignment with the National Greenhouse and Energy Reporting Scheme and the Safeguard Mechanism*, July, see [Guiding principles for alignment with the National Greenhouse and Energy Reporting Scheme and the Safeguard Mechanism | EPA](#).

¹² NSW Environment Protection Authority (2026) *Climate Change Licensee Requirements*, March, pp. 8-12, see [Climate Change Licensee Requirements](#).

windows, expected infrastructure demand, major technology dependencies and decisions likely to affect Australian production capability, while protecting commercially sensitive information.

Recommendation 11: Establish a standing cross-government process for facility transition pathways and shared industrial barriers.

The Australian Government should establish a standing process across Commonwealth portfolios and with relevant state and territory governments to consider selective facility pathways and barriers shared across industry projects.

The process should:

- Maintain a high-level, periodically refreshed view of likely facility decision windows and shared dependencies using information already held across government, public disclosures and targeted engagement, and use that view to identify cases warranting deeper consideration. Relevant evidence already generated should carry across programmes, while barriers shared by several facilities should be resolved at the appropriate collective level.
- Respect the constitutional responsibilities and legitimate policy role of state and territory governments while pursuing mutual recognition, coherent administration and avoidance of unnecessary duplication.
- Establish agreed interface principles for additional state requirements applying to Safeguard-covered facilities, including identification of the gap being addressed and assessment of the combined effects on emissions, investment and competitiveness.

For priority industrial precincts, governments should agree a coordinated plan identifying the infrastructure, policy and financing decisions within public control, the private decisions on which progress depends, and the points at which each must be revisited. Sector pathways and selective facility evidence should be used together to identify the dependencies, responsible parties and decision dates required to keep credible industrial transition options available.

5. Competitiveness, TEBA and border adjustments

Australia's future architecture for managing carbon leakage and competitiveness risks remains unsettled. The Safeguard Mechanism allows some facilities to receive trade-exposed baseline-adjusted (TEBA) status, while the completed Carbon Leakage Review¹³ and the Productivity Commission's recommendations¹⁴ point towards a possible reduction in its role.

Any transition requires a more complete assessment of the functions performed by the available policy instruments. TEBA, an import border adjustment and targeted industrial support affect Australian production in different ways.

The treatment of TEBA and border adjustments provides a practical test of the framework developed in the preceding sections. Changes to these arrangements affect the Safeguard emissions task, the investment decisions of individual facilities and the conditions under which differentiated treatment should be provided.

Import leakage, export competitiveness and investment leakage are also distinct policy problems. A border measure may address competitive differences between Australian and imported production in the domestic market without resolving the exposure of Australian exports or the location of future investment. The relevant question is therefore whether the combined operation of Safeguard settings, trade measures and targeted industrial policy supports competitive lower-emissions production and investment in Australia.

5.1 The different functions of TEBA and border adjustments

TEBA affects the Safeguard obligation applying to eligible Australian production, including output sold domestically and exported. It supports competitiveness by reducing the rate at which eligible facilities' baselines decline where the carbon cost creates a material leakage risk.

An import border adjustment operates differently. It would apply an Australian carbon policy liability to covered imports and could reduce the competitive advantage of higher-emissions imported production in the Australian market. Its principal effect is therefore on the relative treatment of domestic and imported goods sold in Australia.

The two instruments are not functionally interchangeable. Removing TEBA may increase the Safeguard obligation applying across a facility's total production, including exported output, while an import border measure affects competition only in relation to the Australian market. A border adjustment also does not by itself address downstream substitution, the cost of transforming an Australian facility or the allocation of investment between Australian and overseas production assets.

¹³ Australian Government (2026) *Australia's Carbon Leakage Review*, Department of Climate Change, Energy, the Environment and Water, 13 February, see [Australia's Carbon Leakage Review - DCCEEW](#).

¹⁴ Productivity Commission (2025) *Investing in cheaper, cleaner energy and the net zero transformation*, Australian Government, Canberra, pp.20-21, see [Investing in cheaper, cleaner energy and the net zero transformation - Public inquiry | Productivity Commission](#).

Any transition from TEBA should therefore begin by identifying which competitiveness risks the replacement arrangements address and which remain. The effects on domestic competition, exports, cash flow, decarbonisation investment and capital allocation should be assessed separately.

AIDC is aware of concerns that the current TEBA eligibility framework may create unintended disincentives for facilities that improve their emissions performance, where doing so reduces the Safeguard cost exposure on which eligibility is assessed. We consider that this issue warrants further examination to ensure the framework does not discourage investment in onsite abatement or industrial transformation. AIDC intends to consider the issue further in its response to the Australian Government's 2026-27 Safeguard Mechanism Review.

5.2 Export competitiveness and investment leakage require a separate policy response

Export competitiveness should be treated as a distinct policy design problem. Australian producers selling into international markets may face Safeguard costs that are not borne by competing production, while receiving little or no benefit from an Australian import border measure. The consequences may extend beyond the competitiveness of current exports to the capacity of the Australian facility to fund transformation and compete for future capital.

Investment leakage is related but different again. As discussed in section 3.3, increasing Safeguard obligations can improve the relative economics of lower-emissions investment while reducing the cash flow and risk-adjusted return of the underlying Australian facility. Where an Australian transformation or successor project competes for capital against projects in other jurisdictions, this can affect where the next generation of production is built even if current Australian production has not yet relocated.

Where Safeguard costs create a material export competitiveness or investment exposure for production with a credible long-term future and identifiable public value, government should identify and model legally and administratively viable policy responses.

Any export related support should preserve the incentive for physical decarbonisation. An unconditional reimbursement of actual Safeguard compliance expenditure would risk rewarding continued emissions and unit purchasing. Support should instead form part of an industrial transition arrangement in which government addresses a substantiated competitiveness exposure while the facility commits to investment, measurable physical decarbonisation and a credible transition pathway.

Government should therefore examine approaches in which support can be separated from actual annual emissions or the number of ACCUs and SMCs surrendered. Relevant options could include arrangements linked to independently assessed export exposure, committed capital expenditure or agreed delivery milestones. The design should allow the facility to retain the financial benefit of reducing its emissions rather than receive greater support because its compliance expenditure is higher.

The Australian Government should model alternative combinations of TEBA, border adjustments and targeted industrial support against their effects on onsite investment, unit use, production and exports, capital allocation, carbon and investment leakage, closure and fiscal cost. Legal or

administrative difficulty with one instrument should prompt consideration of credible alternatives rather than end the assessment of the underlying competitiveness problem.

The Productivity Commission has recommended that TEBA be phased out where a commodity becomes subject to a border carbon adjustment. Its reasoning is relevant to production competing against imports in the Australian market: a border liability reduces the advantage of producing offshore for subsequent sale into Australia. It does not, however, resolve the treatment of Australian exports in overseas markets or the allocation of capital between Australian and overseas production assets. The Commission also acknowledged that the effects of removing TEBA were not modelled. Those effects should be established before the instruments are treated as substitutes.

Recommendation 12: Do not treat a border carbon adjustment as an automatic substitute for TEBA.

The Australian Government should recognise that TEBA affects the Safeguard obligation applying to eligible Australian production, including exported output, while a border adjustment principally addresses the carbon policy treatment of covered imports in the Australian market.

Export competitiveness and investment leakage should be treated as distinct policy design problems. Government should develop and model legally and administratively viable responses rather than assume that a domestic border measure resolves them. The effects on import competition, exports, downstream substitution, cash flow, decarbonisation investment and capital allocation should be assessed separately.

Any combination of TEBA, border measures and targeted industrial support should avoid double protection, respond to substantiated competitiveness or leakage risks, and remain linked to measurable decarbonisation outcomes.

5.3 Conditions for reducing or replacing TEBA

The commencement of a border measure should not itself be treated as evidence that the competitiveness risks presently moderated by TEBA have been resolved. TEBA should be reduced or replaced as alternative arrangements become demonstrably effective and significant remaining risks are addressed.

Before materially reducing TEBA, government should establish that the relevant import arrangements are operating as intended. This includes appropriate product coverage, reliable emissions measurement and verification, consistent treatment of foreign carbon costs, collection of applicable liabilities and effective treatment of material downstream circumvention.

Government should separately assess the consequences for export competitiveness and investment leakage. Where those risks remain material, credible policy responses should be available before existing protection is withdrawn.

Affected facilities should receive sufficient notice to incorporate material changes into investment planning and forthcoming decision windows. This is particularly important where companies are already developing or committing capital to major transition projects on the basis of existing Safeguard settings.

Any continuing or replacement treatment should remain conditional on substantiated transition pathways, investment and measurable physical decarbonisation. Treatment should tighten as the relevant competitiveness risk declines and technically and commercially deliverable abatement becomes available.

Recommendation 13: Retain TEBA for facilities confronting material leakage or competitiveness risks until replacement competitiveness arrangements are demonstrably effective and any material remaining risks have been addressed.

TEBA should be materially reduced or replaced only where government has demonstrated that replacement arrangements are operating effectively, and where it has assessed and addressed material remaining export competitiveness and investment leakage risks. Any continuing TEBA treatment should remain conditional, time limited and subject to periodic review, with expectations tightening as relevant risks decline and technically and commercially deliverable abatement becomes available.

Part II: Responses to the consultation questions

Part II applies the policy framework developed in Part I. To avoid restating the complete argument, each response identifies the principal sections and recommendations on which it relies.

Question 1: What are your views on the proposed approach for setting reference pathways to assess progress, including strengths, limitations and any alternative approaches that should be considered?

AIDC supports the use of reference pathways as a transparent basis for assessing progress against Australia's emissions targets. Their value will depend on the clarity of their assumptions, the outcomes they measure and whether they recognise the different ways in which emissions can change.

A reference pathway should be treated as an analytical benchmark rather than a prediction of a single technological or economic future. It should make visible the assumptions used for production, energy demand, technology deployment, infrastructure availability, capital and financing costs, customer demand, international market conditions, and government policy and targeted support.

For industrial sectors, reference pathways should distinguish among three related outcomes:

1. **The Safeguard accounting outcome**, including covered emissions before unit surrender, net emissions after ACCU and SMC use, and other relevant adjustments.
2. **The physical facility response**, including emissions intensity, onsite abatement, production and utilisation, ACCU and SMC use, contraction and closure.
3. **The industrial investment outcome**, including whether existing facilities are transformed, successor assets or new production are developed in Australia, and capital is allocated elsewhere.

These outcomes should not be treated as interchangeable. A reduction in covered emissions caused by lower production or closure has different implications from a reduction caused by process transformation. A facility may also reduce its emissions intensity materially while increasing production, resulting in a smaller reduction in absolute emissions than the physical abatement undertaken might otherwise suggest.

Reference pathways should be published at sector level wherever practicable. Economy-wide or Safeguard-wide results can conceal materially different outcomes across industries, particularly where a sector consists of only a small number of large facilities.

The pathways should also include sensitivity analysis. Government should show how the results change if infrastructure is delayed, technology or financing costs are higher than expected, production differs from the central forecast, ACCU prices change, customer demand is weaker or companies apply higher investment thresholds.

National and sectoral reference pathways should be complemented by selective facility transition pathways where differentiated Safeguard treatment, targeted support or coordinated government action is sought, or where a material investment window is approaching. Reference pathways can

establish the broader emissions task and test alternative futures; facility pathways can explain how that task intersects with the projects and decisions through which physical industrial decarbonisation must occur. Selective facility evidence should be used to test and refine sector reference pathways; those pathways should not depend on every facility preparing a detailed transition plan.

Policy basis: sections 2.2, 3.4 and 4.3; Recommendations 2, 5 and 9.

Question 2: What signs are you seeing of emissions reductions across industries, businesses, households or investors? What barriers or delays to abatement are you observing?

Current evidence points to incremental emissions reductions, operational improvements and early project development, while major transformations remain concentrated among relatively few projects. As section 2.2 records, covered emissions fell by 2.3 per cent in 2024-25, while net emissions fell by 5.5 per cent after unit surrender. Public data do not yet show how much of the change in covered emissions arose from enduring onsite abatement rather than changes in production, outages, operational variability, or facilities entering or leaving Safeguard coverage.

The barriers to abatement observed by AIDC fall into several connected categories:

- Major industrial projects must first be technically credible and capable of being integrated into an operating facility without unacceptable production, reliability or product-quality risk. Technologies demonstrated elsewhere may remain unavailable at the scale, cost or performance required at a particular Australian site, or may perform only part of the function currently provided by the existing production system.
- Projects also depend on enabling infrastructure and inputs. These may include competitively priced firm electricity, transmission and connection capacity, gas during the transition, hydrogen supply, water, ports, sustainable feedstocks, and carbon transport and permanent geological storage. A carbon obligation can strengthen the incentive to reduce emissions, but it cannot create infrastructure that is physically absent.
- Investment barriers are equally significant. Major transformations require substantial upfront capital, long construction periods and exposure to technology, integration, energy-price and market risks. A project may have an estimated abatement cost below the expected future ACCU price and still fail the company's investment test because it cannot meet the required return, obtain finance or compete successfully against other projects for limited capital.
- Demand for low emissions products remains uncertain. Customers may support low emissions production in principle while remaining unable or unwilling to enter contracts of sufficient volume, duration and value to support the investment. Expected future demand, voluntary targets or an uncertain product premium will rarely provide an adequate basis for a large and substantially irreversible capital commitment.
- Asset cycles create timing constraints. Major changes are often most feasible when furnaces, kilns, fleets, process trains or other equipment require substantial reinvestment or replacement. Engineering, infrastructure, approvals, finance and customer arrangements must be sufficiently advanced before the relevant decision window closes.

Policy uncertainty compounds these barriers. Facilities require visibility over future Safeguard obligations, ACCU and SMC treatment, competitiveness arrangements, infrastructure commitments, market settings and targeted support before those settings can be incorporated into engineering, financing and capital allocation decisions.

Through discussions with members and people working within industrial projects, AIDC has found that viability often turns on practical matters that become visible only as development advances. Publicly available ARENA reports across a range of industries reinforce this point.¹⁵ Decisions to proceed can turn on the condition of existing equipment, the behaviour of a control interface under full load, or whether an approval arrives before the next shutdown window. The significance of these matters often becomes clear only when site-specific engineering, testing and operating experience have advanced.

A pathway may appear straightforward when described at the level of a commodity or individual technology. Renewable hydrogen appears to be an obvious option for ammonia because hydrogen is already an input, but replacing the existing source of hydrogen may require an entirely new energy, production and storage system around an operating asset. An electric arc furnace can produce low emissions steel, but it does not by itself resolve the production and supply of the primary iron required where suitable scrap is insufficient.

In each case, the engineering configuration determines the capital requirement, the infrastructure dependencies and the risks the board must accept. Each proposition may involve replacement of a large part of the productive system, substantial new infrastructure, the possible stranding of valuable operating assets and the need to maintain output, quality and customer supply throughout the transition. These physical requirements determine the capital decision facing the company.

Government needs to understand this development process when assessing whether an abatement option is genuinely available, what barriers remain and what form of policy or targeted support could help move the project towards its next material decision.

Taken together, these observations show why the effect of a stronger carbon obligation depends on how a facility develops, tests and commits to a physical transformation, and whether the surrounding conditions can be resolved before the relevant investment window closes.

Policy basis: sections 2.1 and 3.1-3.5; Recommendations 2, 4 and 6.

¹⁵ For example, for experiences in alumina, see Australian Renewable Energy Agency (2025) [Alcoa - Renewable Powered Electric Calcination Pilot - Lessons Learnt Report 1](#); Australian Renewable Energy Agency (2025) [Rio Tinto and Sumitomo - Yarwun Hydrogen Calcination Pilot Demonstration Program - Lessons Learnt Report 3](#); and Australian Renewable Energy Agency (2026) [Rio Tinto and Sumitomo - Yarwun Hydrogen Calcination Pilot Demonstration Program - Lessons Learnt Report 5](#).

Question 3: What do you see as the top priorities for climate policy reform and why?

The first priority is a clear, durable and transparently designed policy architecture. Australia requires a credible emissions constraint that gives facilities sufficient visibility to incorporate future Safeguard obligations into investment decisions being made during the remainder of this decade and the early 2030s. Scheduled reviews should test performance and changing assumptions without repeatedly reopening the central direction of the mechanism. High-integrity ACCUs should remain available as an important source of national abatement and transition flexibility. Sustained ACCU reliance should, however, be accompanied by clearer evidence of the facility's physical pathway, next material decision window and progress in resolving the barriers to onsite investment.

The second priority is to convert Safeguard obligations into investable facility pathways supported by government policy and targeted support. Government needs to understand the technical pathway, decision timing, commercial barriers and external dependencies affecting significant facilities. Safeguard obligations should then operate alongside the energy, infrastructure, finance, demand and industry measures required for delivery. The response should be matched to the barrier: a capital grant cannot resolve missing transmission, while a higher emissions obligation cannot create a carbon transport and storage network or a market for higher-cost low emissions products.

The third priority is a transparent and forward-looking approach to industrial competitiveness. Government should establish clear criteria for assessing where continued or new Australian production has a long-term future and identifiable public value, and what conditions would allow it to reinvest and decarbonise. Where targeted support is justified, it should form part of an industrial transition bargain under which government addresses a defined barrier and the company makes staged commitments to project development, investment and measurable emissions reduction. Support should be conditional, proportionate and subject to milestones and review.

This competitiveness framework must include the careful development of trade exposure arrangements. A border carbon adjustment may address competition from imports in the Australian market, but it does not automatically address exports, downstream substitution or investment leakage. TEBA should not be removed on the assumption that the commencement of a border measure has replaced all of its functions. Government should develop and model legally and administratively viable responses for export-exposed production before concluding that the remaining risks cannot or should not be addressed.

These priorities are reflected in our Recommendations 1-13 and should be implemented as a connected framework. Differentiated treatment, ACCU flexibility and targeted support should operate within the public interest tests, facility evidence, reciprocal commitments and review arrangements set out in those recommendations.

Policy basis: Part I as a whole.

Question 4: What actions could help households adopt solar, batteries, electric vehicles and home electrification?

AIDC's principal focus is industrial decarbonisation, but household electrification also affects the cost, reliability and investment requirements of the wider electricity system. From an industrial and system perspective, widespread household electrification should be coordinated with electricity generation, transmission, distribution, storage and demand-management planning.

Stable incentives, accessible finance, clear product and installation standards, consumer protections and support for households unable to fund the upfront investment can help accelerate adoption. Policy should also recognise the benefits that distributed solar, batteries, flexible loads and electric vehicles can provide when technical standards and market arrangements allow those resources to respond to system needs.

The transition should be designed so that the costs of network investment and system reliability are allocated fairly and do not undermine the availability of competitively priced electricity for households or industrial users.

Question 5: What are the key barriers to the growth of low emissions industries in Australia? What government policies or initiatives could most effectively strengthen demand for Australian low emissions products and services, including low-carbon liquid fuels?

The barriers described in response to Question 2 also constrain the growth of new low emissions industries and the transformation of existing assets. Projects must align technology, competitively priced energy, shared infrastructure, finance and durable policy within the period in which customers and investors can commit. Australian projects also compete for globally mobile capital against jurisdictions offering lower costs or more complete support.

For this question, the decisive additional issue is demand. Customers may support low emissions production in principle while remaining unable to commit to the volume, price and contract duration required to finance a major project. Expected future demand, voluntary targets and an uncertain product premium rarely provide a sufficient basis for large and substantially irreversible capital commitments.

Policy uncertainty compounds these barriers. Facilities and developers need confidence in future Safeguard obligations, ACCU and SMC rules, product standards, certification systems, demand measures and targeted support. These settings must become visible early enough to influence engineering, technology selection, infrastructure commitments, customer contracts, financing and corporate capital allocation.

No single policy instrument can resolve this combination of barriers. A contract for difference cannot create a missing transmission connection. A capital grant cannot establish long-term customer demand. A product mandate cannot make immature technology reliable at commercial scale. Concessional finance cannot repair a project with no credible market or competitive operating position. Where dedicated supply chains are not yet practical, book and claim systems may allow

customers to pay for and claim the verified emissions attributes of lower emissions production even when they do not receive the physical product. Credible operation would require robust accounting and registry rules, transparent claims and safeguards against double counting.

Government policy and targeted support should therefore be assembled around the investment decision and matched to the barriers preventing it from proceeding. Depending on the project, this may require coordinated infrastructure delivery, early-project risk sharing, concessional finance, capital support, long-term revenue certainty, public procurement, product standards, mandates, offtake support or international market arrangements. Several measures may be required, and their sequencing may be as important as their individual design.

Demand policy has a particularly important role because it can give investors confidence that a market will exist for the resulting product. Public procurement can create foundation demand for low emissions steel, aluminium, cement, fuels and other materials. Emissions intensity standards and certification can enable customers to identify lower-emissions production and create a basis for product recognition and price differentiation. Carefully designed mandates can establish predictable demand where supply pathways exist, costs and availability have been assessed, and producers receive sufficient notice to invest.

Demand measures must nevertheless form part of an investable package. A mandate or procurement commitment will be ineffective where the project cannot obtain the required energy, infrastructure, feedstocks or finance. Equally, public investment in infrastructure will not secure production if customers are unwilling to contract for the output. Government should assess how the relevant measures work together, which risks each participant can manage and what remaining barrier prevents investment.

Low carbon liquid fuels illustrate the need for this integrated approach. Projects require confidence in long-term demand, access to sustainable feedstocks, competitively priced energy, production and distribution infrastructure, reliable lifecycle-emissions accounting and recognition in domestic and international markets. A mandate or procurement programme may provide an important demand signal, but investment will still depend on whether eligible fuels can be produced at scale, certified consistently, delivered through the required infrastructure and sold under contracts capable of supporting finance.

Domestic demand may be insufficient to support the scale required by some Australian projects. Government should work with prospective export markets to develop common product definitions, mutually recognised certification and durable international demand arrangements. Alignment between Australian production standards and the requirements of major customers would reduce contracting risk, expand the addressable market and improve the capacity of Australian projects to compete for capital.

Targeted support should be available where a project has a credible long-term pathway, government action can change the investment decision and the resulting public value is proportionate to the cost and risk involved. Relevant outcomes may include material emissions reductions, continued or new Australian production, regional employment, strategic capability, shared infrastructure, technology learning and future export industries.

Where support is justified, it should form part of an industrial transition bargain. Government should address the barrier preventing investment, while the company commits to project development, investment, delivery and measurable emissions performance. The form of support and the respective commitments should reflect the project's stage, the public value sought and the risks each party can reasonably manage. Measures intended to strengthen demand for Australian low emissions products should be designed as part of an investable package rather than as isolated interventions.

Policy basis: sections 2.4 and 3.3-3.5; Recommendations 3, 6 and 8.

Question 6A and 6B: Setting the post-2030 decline rate

- **What are the advantages and disadvantages of continuing the proportional-share approach beyond 2030? If it is maintained, how should it take account of Australia's 2035 target range?**
- **If a different approach to setting the baseline decline rate should be used, what should it be and why?**

AIDC supports a materially tightening post-2030 Safeguard trajectory consistent with Australia's national emissions targets. The unresolved question is the precise rate and the complete policy package required to convert that constraint into physical abatement and enduring industrial investment. The absence of the Authority's commissioned modelling prevents a responsible judgment on the precise rate at this stage.

Where a proposed decline rate depends on the timely availability of electricity, infrastructure, technology, finance, alternative feedstocks or low emissions product markets, government should identify and commit to the measures required to deliver those conditions. Government should not select a trajectory on the assumption that enabling conditions will emerge without a credible delivery pathway.

AIDC supports retaining proportional share as a transparent basis for setting the aggregate Safeguard contribution to Australia's post-2030 emissions task. Proportional share does not, however, determine the baseline decline rate. That rate depends on the target to be delivered together with assumptions about production, new entry and exit, concessional baselines, the reserve, ACCU and SMC settings and the wider policy package.

Its principal limitation is that a proportional contribution does not establish how the obligation will be delivered across individual facilities or what combination of emissions and industrial outcomes will result. Facilities may respond through onsite investment, operational improvements, ACCU or SMC use, production changes, capital deferral, differentiated treatment, investment elsewhere or closure. The decline rate alone cannot determine which response will occur.

Australia's 2035 target range should therefore be addressed through transparent comparison of alternative policy packages rather than by selecting a rate through arithmetic alone. The Climate Change Authority should model rates aligned with the lower and upper ends of the target range, as well as intermediate rates, and test how each would operate under different assumptions about

facility differentiation, ACCU and SMC use, technology, infrastructure delivery, energy and financing costs, production, customer demand, government policy and targeted support.

Each scenario should report its expected effects on:

- covered emissions before unit surrender and net emissions;
- onsite abatement and ACCU and SMC use;
- production, utilisation, new entry, contraction and closure;
- investment and corporate capital allocation;
- carbon and investment leakage;
- employment and regional activity;
- infrastructure requirements; and
- government expenditure and targeted support.

AIDC does not consider that an exact post-2030 rate can be selected responsibly before this analysis is available. We support early notification and a durable long-term trajectory, but the rate should be chosen as part of the policy package most likely to deliver the intended emissions, investment and industrial outcomes.

In addition to rates aligned with the lower and upper ends of Australia's 2035 target range, the Authority should model at least one scenario in which the contribution from Safeguard-covered sectors is derived from a bottom-up assessment of technically and commercially deliverable abatement. The comparison should identify any gap between the proportional national task and the evidence about credible sector and facility delivery, together with the complementary policy or other economy-wide contribution required to reconcile it.

Policy basis: sections 2.2 and 4.3; Recommendations 9 and 10.

Question 7: Should decline rates differ across facilities or sectors beyond existing arrangements for TEBA facilities? What evidence would support differentiation, and what principles should guide it?

Published scheme rules should allow limited, evidence-based differentiation beyond existing TEBA arrangements where it is likely to support a better facility transition outcome while preserving the integrity of the scheme-wide emissions task. Where differentiation is justified, it should be targeted as closely as practicable to the relevant constraint and should not apply more broadly than necessary.

Uniform decline rates offer clarity and administrative simplicity, but they do not impose a uniform technical or economic burden. Facilities differ in their process emissions, available technologies, energy requirements, infrastructure dependencies, capacity to pass through costs, trade exposure and asset-reinvestment windows. Facilities producing the same commodity may therefore face materially different transition choices. Conversely, a facility in a difficult sector may have some emissions sources

for which abatement is readily available and others that depend on technology or infrastructure still under development.

Evidence supporting differentiation could include:

- technology availability and commercial maturity;
- marginal and total abatement costs;
- energy and infrastructure dependencies;
- capacity to pass through additional costs;
- domestic and international trade exposure;
- remaining asset life and long-term competitive position;
- the timing of major maintenance, replacement and investment decisions;
- consequences for production and utilisation;
- consequences for investment in maintaining, replacing or decarbonising production; and
- the public value associated with continued Australian production.

This evidence should be considered through a facility transition pathway that identifies the relevant physical options, the next material investment window, the barriers affecting progress and the company commitments that would govern any adjusted treatment.

Differentiation is not an entitlement arising from high abatement costs or from describing a sector as hard to abate. It should be available only where the evidence demonstrates that adjusted treatment is likely to produce a better emissions and industrial transition outcome than standard treatment. It should be governed by published criteria, conditional, time limited and periodically reviewed, with treatment tightening or ordinary settings resuming as abatement options become deliverable.

Policy basis: sections 3.4 and 4.1–4.2; Recommendations 5, 7 and 8.

Question 8: How should we assess the extent to which the Safeguard Mechanism is driving onsite abatement? What metrics, data sources or methods should we use, and how should we account for changes in production, operational conditions and emissions variability?

The assessment should establish whether physical abatement occurred, whether it represents an enduring change in production and the extent to which the Safeguard Mechanism influenced the relevant investment or operating decision. Changes in scheme-wide covered emissions should be decomposed into process changes, production changes, outages, operational variability, changes in inputs and changes in facility coverage. Changes in net Safeguard outcomes arising from baseline calculations or unit surrender should be reported separately.

Onsite abatement may include:

- efficiency and operational improvements;

- electrification and associated storage or renewable electricity arrangements that displace covered fuel emissions;
- alternative fuels, feedstocks and materials;
- process redesign and equipment replacement;
- destruction of high-global-warming-potential gases;
- carbon capture and permanent storage; and
- changes in the product or production route.

The assessment should also distinguish among operational improvements, transitional investments, transformative changes to the production system and the treatment of genuinely residual emissions. A transitional investment can deliver substantial physical abatement without representing the facility's final pathway. For example, replacing coal with natural gas in alumina production may reduce emissions materially while leaving a further transition to occur later.

No single metric will provide an adequate assessment. Relevant measures include:

- covered emissions before unit surrender;
- production, utilisation and emissions intensity;
- emissions relative to a transparent reference case;
- net Safeguard emissions;
- ACCUs and SMCs issued, banked and surrendered;
- capital expenditure, commissioning dates and independently verified project effects; and
- the expected durability of the reduction.

Results should be normalised for production wherever practicable. Reductions caused by lower production or closure should be reported separately from improvements in emissions intensity or structural changes in the production process. Multi-year analysis should account for maintenance cycles, outages, input quality, product mix and other operational variability.

Relevant evidence could draw from:

- National Greenhouse and Energy Reporting and Safeguard compliance data;
- ACCU and SMC records;
- independently verified facility and project reports;
- environmental approvals and government funding programmes;
- infrastructure connection and delivery information; and
- facility transition pathways.

Facility pathways can help explain what physical change occurred, when it occurred, the investment decision involved and what dependencies remain unresolved. Aggregated information about material

onsite abatement projects and their infrastructure requirements would also support planning for electricity, gas requirements during transition, carbon transport and storage, water, ports and other shared systems.

CCS and CCUS should be assessed under the same performance-based framework as other options. Assessment should consider where they address emissions for which alternatives are not available, together with capture performance, storage permanence, full-chain infrastructure readiness, cost, energy requirements, liability, timing and the comparative maturity of alternative pathways. Their appropriate role will differ across sectors, particularly where process emissions cannot readily be addressed through electrification or fuel switching.

The assessment should also consider causation. An investment made after the Safeguard reforms was not necessarily caused by them. Government should examine the influence of the emissions obligation alongside energy costs, asset-replacement cycles, customer demand, corporate strategy, government policy and targeted support.

Persistent ACCU use should be interpreted in the context of the facility's transition pathway. It may be reasonable while a credible multiyear project and its supporting infrastructure are being developed and delivered. It should attract greater scrutiny where technically and commercially deliverable abatement exists but no investment programme is progressing.

Policy basis: sections 2.2-2.3, 3.4 and 4.3; Recommendations 2, 4 and 5.

Question 9: What evidence is available on onsite abatement activities at Safeguard facilities, including activities planned, underway or completed since the reforms commenced? Where possible, please provide information on emissions impacts, timing, costs and barriers.

Publicly available evidence is fragmented across corporate announcements, Safeguard and NGER reporting, environmental approvals, government funding programmes and individual project disclosures. AIDC is not in a position to provide a comprehensive facility-level inventory through this submission.

The available material suggests that completed abatement remains concentrated in operational and efficiency improvements and a relatively small number of larger projects. Many more substantial transformations remain in development and depend on future infrastructure, financing, engineering and asset replacement decisions.

The Climate Change Authority or the Australian Government should publish a consolidated facility-level or appropriately aggregated register of announced, committed, under-construction and completed onsite abatement projects. The register should distinguish clearly among those stages and identify expected commissioning dates, anticipated emissions effects and material infrastructure, technology, financing or market dependencies. Commercially sensitive information could be protected through aggregation or publication of ranges.

This would provide a stronger basis for assessing whether the Safeguard Mechanism is producing enduring physical change and for planning the infrastructure and policy settings required by projects that remain under development.

Policy basis: sections 3.4 and 4.4; Recommendations 5 and 11.

Question 10: Should the Safeguard Mechanism play a stronger role in encouraging onsite abatement relative to allowing flexibility through ACCU use? What objectives should guide this assessment? Are additional incentives or constraints warranted? If so, what options should be considered and why?

Yes. The Safeguard Mechanism should play a stronger role in securing physical decarbonisation at covered facilities, while preserving high-integrity ACCUs as an important source of national abatement and transition flexibility.

The current framework relies partly on the expectation that declining baselines and rising ACCU prices will progressively improve the relative economics of onsite abatement. That comparison is relevant to incremental or readily divisible actions. It is not a sufficient basis for expecting major industrial transformation.

A facility does not decide whether to replace a furnace, redesign a production process, electrify major equipment or connect to a carbon transport and storage network by comparing an average abatement cost with the current ACCU price alone. Major projects require substantial and largely irreversible capital commitments. They must be technically feasible at the particular facility, align with an appropriate asset-replacement or maintenance window, satisfy corporate investment thresholds and compete with other projects for capital. They may also depend on infrastructure, technology suppliers, energy contracts, customer commitments, approvals and government decisions outside the facility's control.

A higher ACCU price can strengthen the financial incentive for onsite abatement, but it cannot create a missing electricity connection, establish a carbon storage network, make immature technology commercially available or ensure that an Australian project receives capital within a global portfolio. A project may have an estimated cost per tonne below the expected future ACCU price and still be unable to obtain finance, proceed within the relevant window or recover its investment over the future life of the facility.

ACCUs can therefore provide legitimate transition flexibility. They allow facilities to contribute to national abatement while improving existing processes and developing the engineering, infrastructure, commercial arrangements and finance required for larger physical changes. They may also be appropriate for genuinely residual emissions or where credible onsite alternatives do not yet exist.

This flexibility should be conditional and sequenced. A stronger framework should:

- Require facilities with sustained high ACCU use to identify their physical pathway, next material investment window and unresolved dependencies.
- Permit continued ACCU use while a credible multiyear transformation and its supporting infrastructure are being actively developed and delivered against defined milestones.

- Distinguish delays within the facility's control from delays caused by infrastructure, technology, regulatory or market dependencies.
- Tighten flexibility as technically and commercially deliverable onsite options become available.
- Apply greater scrutiny where technically and commercially deliverable onsite abatement opportunities exist but no credible investment programme is being advanced.

AIDC does not support a universal numerical cap on ACCU use. A single limit would not reflect differences among facilities, technologies, capital cycles, infrastructure dependencies and genuinely residual emissions.

We support conditional and progressively tighter constraints on sustained ACCU reliance as technically and commercially deliverable onsite abatement becomes available. These may include stronger disclosure, credible facility pathways and demonstrated progress against development, investment and delivery milestones. Where supported by evidence, quantitative measures may also be appropriate. Their timing and design should be predictable and should reflect the baseline decline rate, infrastructure delivery, facility decision windows and the government policy and targeted support required to enable investment.

Access to high-integrity ACCUs should remain available over extended periods where physical transformation depends on long-duration pathways or matters outside a facility's reasonable control, and for genuinely residual emissions. Continued flexibility should be linked to demonstrable progress in advancing a credible physical pathway and resolving the barriers to onsite abatement.

SMCs should continue to reward facilities operating below their baselines and support flexibility within the covered sector. Their issuance should be interpreted carefully because below-baseline performance may reflect structural abatement, operational changes, production levels, outages or the operation of the baseline.

The preferred approach is to strengthen onsite abatement through facility pathways, early attention to decision windows, conditional ACCU flexibility and targeted action on the barriers preventing investment. ACCUs should remain a high-integrity bridge through the transition. They should not become a substitute for timely project development, owner investment or delivery where physical pathways are available. Equally, price escalation alone should not be expected to cause the major capital transformations required across Australia's industrial facilities.

Government should also examine whether the pattern of expenditure generated by Safeguard compliance is aligned with the industrial transformation the mechanism is intended to produce. ACCU surrender creates demand for verified abatement elsewhere in the economy, much of it from land-sector projects. The resulting expenditure rewards eligible abatement and sustains the market through which those units are generated and traded.

This activity has environmental and market value. However, the capital follows the logic of the ACCU market: it flows towards eligible abatement capable of generating saleable units. It does not necessarily finance the transmission, carbon transport and storage, hydrogen, water, port infrastructure or facility integration required to reduce emissions at covered industrial facilities. The

mechanism may therefore support an offset economy while the physical barriers causing sustained ACCU reliance remain unresolved.

This distinction matters where a facility faces rising compliance expenditure but cannot proceed with onsite investment because shared infrastructure is unavailable. The facility is meeting its Safeguard obligation through verified abatement elsewhere, while the pathway required for its own physical transformation remains unfunded.

Section 2.4 proposes that the Australian Government should examine whether a separate transition financing instrument could help address this gap while preserving the verified-abatement role of the ACCU market.

Policy basis: sections 2.3-2.4, 3.3-3.5 and 4.1; Recommendations 3, 6 and 7.