WWF AUSTRALIA

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Submission to DCCEEW Safeguard Mechanism Review

The World Wide Fund for Nature-Australia (WWF-Australia) welcomes the opportunity to respond to the Department of Climate Change, Energy, the Environment and Water (DCCEEW) Safeguard Mechanism Review.

WWF-Australia is part of the WWF International Network, the world's largest independent conservation organisation operating in over 100 countries. WWF's global mission is to stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature. WWF-Australia has offices around Australia and is backed by approximately 1.2 million supporters.

WWF-Australia acknowledges the Traditional Owners of Country throughout Australia and recognises their continuing connection to land, waters and culture. We pay our respects to Elders past and present and acknowledge the ongoing custodianship of First Nations peoples. WWF-Australia recognises First Nations peoples as rights-holders whose self-determination, cultural authority and right to free, prior and informed consent must be embedded throughout the transition to net zero. As one of Australia's most significant climate policy levers, the Safeguard Mechanism should not operate in isolation from the principles of a just transition. Many Safeguard-covered facilities, and the transition pathways that will replace them, are located on or affect the lands and waters of Traditional Owners. A fast, ecologically sound and just transition therefore requires that the costs, risks and opportunities of industrial decarbonisation are shared equitably, and that First Nations peoples are genuine partners in, and beneficiaries of, the shift to a low-carbon economy.

Climate change and biodiversity collapse are the two greatest threats facing both humans and nature today. These crises are intertwined, compound global inequalities, and must be addressed together. WWF-Australia supports a fast, ecologically sound and just transition to a net zero future.

WWF considers that the transition to a net zero economy needs to be "fast, best, and just". This means it is now time to build faster to keep stabilising global average temperatures to 1.5°C in reach, more ecologically sound to reverse the trend of biodiversity loss, and fairer to achieve a just and resilient transition for local communities and the broader region. There can be no fast transition if it does not work for people and nature.

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Executive Summary

In the absence of an economy wide carbon pricing mechanism, the Safeguard Mechanism remains one of the few policy levers available to drive emissions reductions within industrial facilities. The core function of the Safeguard Mechanism should be to ensure genuine emissions reductions occur, in line with Australia's targets and global climate commitments. At the same time, global decarbonisation, climate commitments and energy security concerns are driving rapid shifts towards green markets and trade. Australia needs to ensure its policies help not only to maintain economic competitiveness and efficiency but also be set in a way to manage the decline of industries that can no longer exist in a carbon constrained world. The purpose of the Safeguard is to better reflect the costs of emissions as a true cost of doing business. As such, it is critical that the mechanism ensures those costs are progressively internalised and reflected in investment decisions.

A strong and credible Safeguard Mechanism also serves an important economic function by creating demand for low-emissions Australian commodities, supporting credible product claims in international markets, and providing innovators and investors with confidence that there will be growing commercial opportunities for low-carbon technologies and industrial products.

Summary of recommendations

WWF-Australia encourages the review to:

1. **Emissions first:** Ensure the primary objective of the Safeguard Mechanism remains the reduction of industrial emissions in line with Australia's climate targets and global responsibilities.

2. **Stronger carbon signals:** Strengthen the effective carbon price signal by progressively increasing the cost of emissions above baseline levels, ensuring carbon costs drive decarbonisation investment rather than merely becoming a cost of doing business.

3. **Faster emissions decline:** Set decline rates at 7% to align the Safeguard Mechanism with a 70% emissions reduction 2035 target.

4. **Differentiated pathways:** Differentiate according to sectoral transition pathways, with tighter conditions required from industries that do not have credible decarbonisation pathways and ongoing role in a net zero economy (i.e. gas/LNG, coal) and tailored pathways for industries capable of deep decarbonisation and long-term competitiveness in a net-zero economy.

5.**Abatement before offsets:** Strengthen demand-side integrity by progressively limiting offset use and prioritising on-site abatement, reserving high integrity offsets for genuinely hard-to-abate and residual emissions.

6. Strengthen industrial competitiveness: Leverage the Safeguard Mechanism as a structural adjustment policy that accelerates investment in low-emissions technologies and processes, reducing exposure to fossil fuel costs and positioning Australian industry for success in a decarbonising global economy.

7. **Policy alignment:** Align complementary policy settings with the Safeguard Mechanism to unlock additional abatement opportunities, including through electrification, fuel tax reform and low-carbon fuel policies.

8. **Supporting investment readiness:** Target government support towards upcoming asset replacement cycles, ensuring low-emissions alternatives are investment-ready before major capital decisions are made.

WWF-Australia welcomes the Government's commitment to ongoing consultation and evidence-based policy development. We look forward to continued engagement on the Safeguard Mechanism to support Australia's climate, energy security, economic development, First Nations rights and self-determination and nature-positive objectives.

1. **Emissions first:** Ensure the primary objective of the Safeguard Mechanism remains the reduction of industrial emissions in line with Australia's climate targets and global responsibilities.

The consultation paper opening statement is that “the Safeguard Mechanism is a key part of the policy framework for supporting Australia's industrial competitiveness and improving efficiency to deliver a Future Made in Australia.” Whilst this may be true, it is important to reiterate the primary legislated objective of the Safeguard Mechanism (SM). The SM is not primarily an industry assistance scheme, a regional development scheme, or a carbon market support scheme. Its legislated purpose is to contribute to Australia's emissions targets and net zero pathway. It is critical that the settings of this review reflect this order of principles, by ensuring the SM first delivers its climate objective, supported by measures to address and maintain competitiveness, rather than deliver and protect industry competitiveness through climate policy. The review should assess competitiveness measures by whether they support achievement of the SM’s emissions outcomes, rather than assessing emissions outcomes by whether they are convenient or ‘neutral’ for incumbent industries.

During the consultation workshops a common claim is that industry needs more time to adjust. This has been the claim for more than thirty years and in 2026, it is no longer tenable that tightened requirements can be considered moving too fast. Governments have been encouraging industrial greenhouse gas reductions since at least 1995 when the Commonwealth launched its Greenhouse Challenge Program[1]. A Senate inquiry in 2000 reviewing the Greenhouse Challenge found that industry's preferred voluntary approach was unlikely to deliver deep emissions reductions over the long term[2]. As is the case today, back then the message was clear, relying on the cheapest and easiest actions does not deliver the structural transformation required. As recent analysis by IGCC/EY Parthenon demonstrates, the current SM settings will not achieve the structural transformation required to drive longer term emissions reductions[3] .

The latest UNEP report makes the urgency of emissions reductions even more stark and demonstrates that current climate action is still not enough to meet the goals countries have set for themselves under the Paris Agreement[4]. The risk of temporarily overshooting the 1.5°C limit is now higher than ever, yet this temperature goal of 1.5°C must remain the benchmark for climate action. It is the line the world agreed to uphold because every fraction of a degree above it poses greater danger to people, nature and economies, especially for those least responsible for the climate crisis. Overshoot is not a reason to give up but instead it is a reason to move faster. Every fraction of a degree matters. The latest science shows that rapid emissions

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1 https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/Research/Chronologies/2022-23/climatechange2021

2 https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/Completed_inquiries/1999-02/gobalwarm/report/c08a

3 https://igcc.org.au/wp-content/uploads/2026/08/EY-IGCC-Safeguard-Mechanism-Reforms_Combined.pdf

4 https://www.unep.org/news-and-stories/press-release/unep-world-set-cross-15degc-global-warming-can-still-limit-adapt-and

cuts, stronger resilience, and healthier ecosystems can still reduce the scale and duration of overshoot and avoid the worst impacts of climate change.

The SM is a critical means for Australia to deliver ambitious and fair emissions reductions. Climate justice means those with the greatest responsibility and capacity do more, while vulnerable countries and communities receive the finance, technology and support they need to adapt, build resilience, and address loss and damage. Many of the coal, gas and mining companies covered within the scheme not only are the largest emitters but also some of Australia's most profitable companies with greater capacity than other sectors.

2. Stronger carbon signals: Strengthen the effective carbon price signal by progressively increasing the cost of emissions above baseline levels, ensuring carbon costs drive decarbonisation investment rather than merely becoming a cost of doing business.

As it stands, the SM is not sending a substantive enough carbon price signal to drive decarbonisation investment across covered facilities. While the SM exposes facilities to carbon costs for emissions above their baseline, the effective carbon cost across a facility's total emissions footprint can be substantially lower than the prevailing Australian Carbon Credit Unit (ACCU) price and headline carbon price. For many facilities, this arguably creates a compliance cost that can be absorbed as part of normal operations rather than a signal strong enough to drive major decarbonisation investments. Recent modelling for IGCC by EY-Parthenon suggests that even materially higher compliance costs may deliver limited additional on-site abatement under current settings, indicating that the scheme's carbon signal is not effectively translating into investment in emissions reduction[5].

This disconnect is particularly significant given that the economic and social costs of emissions are far greater than the carbon costs currently faced by many facilities. WWF-Australia's *Energy Crossroads* report highlighted that climate pollution imposes substantial costs on households, communities and the broader economy, yet these costs are only weakly reflected in the investment decisions of major emitters[6]. The result is a misalignment between the private cost of emissions and their wider economic impacts.

Strengthening the carbon price signal should therefore focus on increasing the real cost of emissions and ensuring that carbon costs become a meaningful consideration in long-term investment planning rather than a routine operating expense. The review should therefore examine options to progressively increase the effective cost of emissions for facilities that exceed their baselines, including through escalating compliance obligations linked to the degree of exceedance. This could involve higher compliance costs for facilities that are significantly above their baselines, creating stronger incentives for early action and ensuring that emissions costs become a meaningful factor in capital investment decisions rather than a routine operating expense towards verifiable industrial transformation.

3. **Faster emissions decline:** Set decline rates at 7% to align the Safeguard Mechanism with a 70% emissions reduction 2035 target.

The SM should be calibrated towards the highest end of Australia's 2035 target range at 70%. Consistently, multiple modelling analyses suggests that decline rates to 2035 should be set at 7% to achieve the upper

[5] https://www.fastmarkets.com/insights/tougher-safeguard-mechanism-baselines-may-deliver-almost-no-additional-onsite-abatement-before-2035-ey-finds/
[6] https://assets.wwf.org.au/image/upload/f_pdf/2307_Energy_Crossroads_-_final_1

end of the target[7,8]. Stronger decline rates ensure large industrial emitters undertake their fair share of the national emissions reduction task, avoid shifting responsibility onto other sectors, drive the structural investments needed for long-term industrial decarbonisation, strengthen Australia's economic resilience in a net-zero world, and better align the scheme with the emissions reductions required by climate science. The question should not be whether ambition creates pressure for industry, but whether the current trajectory is sufficient to deliver the transformation Australia has committed to achieve by 2050.

Ambition should be constrained by evidence, not by habitually defaulting to the midpoint of a range as politically moderate. Australia's target range was already below what is in line with the science for 1.5 degrees[9]. The rationale for this at the time was the growth in data centres[10], and increasingly Australia's electricity sector is off track to meet its 2030 targets. The SM covers around 31% of national emissions yet applies to only a few hundred facilities, making it one of the most efficient places to achieve large-scale emissions reductions. These facilities generally possess greater technical expertise, access to capital and capacity to invest than households, small businesses or many other sectors. The Climate Change Authority and the Net Zero Sector Plans has found that every sector can reduce emissions now using existing technologies, and that delaying action in the hope of future breakthroughs would be a mistake. In this context, weakening obligations on large industrial emitters would not reduce Australia's overall task; it would simply transfer the burden onto sectors that often have fewer options and less capacity to respond.

4. **Differentiated pathways:** Differentiate according to sectoral transition pathways, with tighter conditions required from industries that do not have credible decarbonisation pathways and ongoing role in a net zero economy (i.e. gas/LNG, coal) and tailored pathways for industries capable of deep decarbonisation and long-term competitiveness in a net-zero economy.

The SM covers a broad range of industries, each containing different transition pathways in a carbon constrained world. These can be broadly grouped into 1) transformational sectors that need aligned incentives and support to replace emissions-intensive technologies and 2) declining sectors that need stronger, binding limits to prevent expansion, minimise operational emissions and manage an orderly transition and decline.

Differentiation is therefore critical to delineate between coal, oil and gas facilities and other sectors within the scheme. Some facilities can decarbonise, remain competitive and grow in a net-zero economy. Fossil fuel facilities face a different trajectory, in which production and emissions must ultimately decline[11]. Applying a common decline rate across both groups risks allowing coal, oil and gas emissions to consume a disproportionate share of the SM emissions budget, increasing the task faced by manufacturing, minerals processing and other future-facing industries. Stronger obligations for fossil fuel facilities would better align the scheme with real-world transition pathways, protect the emissions space needed for industrial transformation and ensure the costs of declining fossil fuel production are not transferred to industries Australia is seeking to build.

WWF-Australia has commissioned new research from Climate Resource to identify indicative phase-out timelines for Australia's major fossil fuel sectors in a 1.5°C-aligned world, providing an evidence base for emissions limits that reflect their fundamentally different long-term trajectories. This work is in progress and due in September, but early evidence shows that Australia's fossil fuel sector has a very narrow window left

[7] https://www.climatecouncil.org.au/wp-content/uploads/2026/03/REPUTEX_Sensitivities-for-Safeguard-Mechanism-emissions_March26.pdf
[8] https://igcc.org.au/wp-content/uploads/2026/08/EY-IGCC-Safeguard-Mechanism-Reforms_Combined.pdf
[9] https://assets.wwf.org.au/image/upload/f_pdf/WWF_Australia_Brief_2035_Climate_Target_July_2025
[10] https://www.climatechangeauthority.gov.au/publications/2035-emissions-reduction-targets-report
[11] https://climateanalytics.org/publications/a-fossil-free-australia

and its decline over the next decade needs to be managed. These phase-out pathways need to start being reflected in emissions limits today.

The SM already differentiates through special arrangements for trade-exposed baseline-adjusted facilities, electricity generation and landfills. The proposal would make differentiation better reflect sectors' long-term trajectories, rather than introducing the principle for the first time. Differentiation should occur through tighter decline rates for declining industries, paired with a strong minimum rate for transformational industries with additional support measures. In short, the SM settings should not require the industries of the future work harder so that industries of the past can decline more slowly.

5.**Abatement before offsets:** Strengthen demand-side integrity by progressively limiting offset use and prioritising on-site abatement, reserving high integrity offsets for genuinely hard-to-abate and residual emissions.

The SM was established to drive industrial decarbonisation. Offsets can play an important but limited, supporting role in achieving Australia's climate goals, and they should complement industrial transformation rather than substitute for it. Demand-side integrity requires ensuring that offset use does not delay, displace, or weaken investment in on-site emissions reductions.

The review paper notes that gross emissions (emissions before offsets) are declining slowly with a thin margin to hit the 2030 target and that the pace of onsite industrial decarbonisation needs to pick up. Over the past three decades, industry has had access to a range of government support programs, policy frameworks and decarbonisation initiatives. At the same time, the availability and affordability of emissions reduction technologies has improved significantly. Electrification, methane abatement, fuel switching, energy efficiency measures and process improvements are increasingly commercial and deployable across many SM-covered sectors. The challenge is therefore no longer whether industrial decarbonisation is possible, but whether policy settings are sufficiently strong to ensure it occurs at the pace required.

The review should place greater emphasis on driving direct emissions reductions within SM facilities and require facilities to demonstrate evidence according to a mitigation hierarchy of avoidance and minimisation before offsetting. Where facilities face long-lived assets and infrequent investment cycles, delayed action can lock in emissions for decades. Excessive reliance on offsets risks encouraging facilities to defer decisions on electrification, methane reduction, fuel switching and process redesign, reducing the pace of structural decarbonisation across the economy.

Ultimately, the success of the SM should be judged by whether covered facilities become less emissions-intensive over time and not only contribute to net zero but actively support efforts to drawdown (i.e. net positive). A system heavily reliant on offset purchases may achieve compliance outcomes while failing to transform industrial processes and investment decisions. Greater emphasis on on-site abatement would also better position Australian industry to compete in a future shaped by carbon border adjustment mechanisms, low-carbon procurement policies and increasingly stringent clean supply chain requirements.

To strengthen demand-side integrity, we support:

- Ensuring the scheme rewards genuine industrial abatement outcomes ahead of offsetting
- requiring coal, oil and gas facilities to meet declining baselines and prohibit the use of ACCUs
- progressively limiting ACCU use by other Safeguard facilities according to the proportion of emissions covered and require higher integrity credits.

- limiting the vintage of carbon credits available to the scheme so that banked credits and long-term credit accumulation don't delay industrial decarbonisation. This is standard in many other programs such as the previous Climate Active scheme;
- prohibiting the use of international carbon credits under the scheme

6. **Strengthen industrial competitiveness:** Leverage the Safeguard Mechanism as a structural adjustment policy that accelerates investment in low-emissions technologies and processes, reducing exposure to fossil fuel costs and positioning Australian industry for success in a decarbonising global economy.

The SM should not just be seen as a compliance mechanism for managing industrial emissions but as a structural adjustment mechanism that helps businesses prepare for a decarbonising global economy. By rewarding and encouraging emissions reductions, the scheme encourages investment in the technologies and processes that will underpin Australia's future competitiveness. This includes electrification, renewable energy, energy efficiency and low-emissions industrial production. In doing so, the SM can help support the objectives of Future Made in Australia by providing confidence that investment in clean industrial capacity will be rewarded.

Recent events have highlighted the economic risks of continued fossil fuel dependence. Analysis by the Centre for Research on Energy and Clean Air found that fossil fuel importing countries incurred an additional US$330 billion in oil, fuel and LNG costs in the six months following strikes on Iran, while clean power investments made since 2020 reduced import costs by an estimated US$36 billion over the same period[12]. Australia alone incurred an estimated US$6.4 billion in additional diesel and gasoil costs during the crisis between March and August, more than any other country analysed. These costs ultimately flow through supply chains, increasing operating costs for businesses, freight, mining, and industry. By contrast, investments in electrification, renewable energy and low-emissions industrial production can reduce exposure to global fuel price shocks while improving long-term competitiveness[13].

As global markets increasingly favour low-emissions products, fossil fuel dependence is becoming a growing commercial risk. Exposure to volatile fuel prices, future carbon constraints and shifting customer preferences can undermine the long-term competitiveness of Australian industry. A strong SM helps businesses manage these risks by encouraging investments that lower emissions while also reducing exposure to fossil fuel markets. This is particularly important for emerging sectors such as green iron, where Australia's renewable energy resources provide an opportunity to build enduring competitive advantage in the industries of the future[14].

While the SM is designed to reduce industrial emissions, its implementation will shape the development of new industries, infrastructure and investment opportunities across Australia. Consistent with a just transition, First Nations peoples should be recognised not simply as beneficiaries of transition outcomes, but as rights-holders and partners in decision-making. Rights-holder principles should be reflected in the design of complementary decarbonisation policies, investment programs and industrial transformation initiatives associated with the Safeguard Mechanism.

7. **Policy alignment:** Align complementary policy settings with the Safeguard Mechanism to unlock additional abatement opportunities, including through electrification, fuel tax reform and low-carbon fuel policies.

[12] https://energyandcleanair.org/what-the-hormuz-crisis-has-cost-fossil-fuel-importers-march-to-august-2026/
[13] https://wwf.org.au/hubfs/wwf-migration/prod/FMWA_the_new_energy_security.pdf
[14] https://assets.wwf.org.au/image/upload/f_pdf/WWF_Green_Steel_Forging_Futures_Report_2025

The Government's discussion paper correctly recognises that the SM and supporting programs, including the Net Zero Fund, Powering the Regions Fund, Australian Renewable Energy Agency and Clean Energy Finance Corporation, all play an important role in delivering on-site abatement. However, the effectiveness of these investments is reduced when other policy settings continue to encourage emissions-intensive activities or weaken incentives for cleaner alternatives. Industrial decarbonisation is shaped not only by the SM itself, but by the broader policy framework that influences business investment decisions.

The SM does not operate in isolation. Its ability to drive on-site abatement is weakened when other policies continue to subsidise fossil fuel use, lower the cost of emissions-intensive production, and discourage investment in cleaner alternatives. As WWF-Australia's *Energy Crossroads* found, Australia provides around A$20.1 billion a year in government support to fossil fuels, compared with A$4.6 billion for clean energy, while legacy settings such as the Fuel Tax Credit Scheme weaken the commercial case for electrifying mining equipment and other industrial processes. These mixed signals raise policy uncertainty, distort investment decisions, and delay the shift of capital towards the more secure renewable electricity, electrification and low-carbon technologies required for competitive industry. The review should therefore identify conflicting policy settings across each Safeguard sector and recommend a coordinated package of reforms and targeted support to unlock greater on-site abatement.

This policy conflict is especially stark for diesel and electrification. Analysis commissioned by Climate Integrity found that the 18 largest Fuel Tax Credit recipients covered by the Safeguard received A$3.3 billion in diesel rebates in 2024–25, 22 times the A$150 million they paid in Safeguard compliance costs, meaning the subsidy for using diesel far outweighed the price signal intended to encourage them to reduce its emissions[15]. Aligning policies such as the Fuel Tax Credit Scheme with the objectives of the Safeguard Mechanism would strengthen incentives for electrification and help unlock emissions reductions in sectors where diesel remains a significant source of emissions.

8. **Supporting investment readiness:** Target government support towards upcoming asset replacement cycles, ensuring low-emissions alternatives are investment-ready before major capital decisions are made.

Industrial decarbonisation is often determined by a small number of major capital investment decisions. Where low-emissions alternatives are not sufficiently developed before replacement windows occur, businesses may choose familiar technologies that lock in emissions for years or decades. The challenge is often not a lack of ambition, but a lack of investment-ready projects when decisions need to be made.

Government support should therefore focus on bringing forward the planning, engineering and commercial work required to prepare low-emissions alternatives ahead of asset replacement cycles. Targeted support for feasibility studies, project development and technology readiness can increase the likelihood that facilities choose cleaner alternatives when major capital decisions arise, accelerating decarbonisation while avoiding costly future retrofits.

[15] https://climateintegrity.org.au/latest/conflicting-signals-how-diesel-rebates-to-big-polluters-are-undermining-the-safeguard-mechanism

A future made *with* Australia

A successful transition to net zero is not a zero-sum game, and it is not a simple quick fix. Australians, along with our key Asia-Pacific trading partners, must be assured that the transformation is a collaborative and mutually beneficial process, undertaken with them, not imposed upon them. Done right, the transition to net zero can strengthen Australia's economic competitiveness, create good jobs, and enhance energy security nationally and regionally. A fast, ecologically sound and just transition also requires that the costs, risks and opportunities of industrial decarbonisation are shared equitably, and that First Nations peoples are genuine partners in, and beneficiaries of, the shift to a low-carbon economy.

Australia has the technical expertise, culture of innovation, and abundant renewable energy resources needed to power a fast, ecologically sound, and socially just energy transition. We can support our communities, our neighbouring countries, and our economies to adapt and build resilience to the unavoidable impacts of climate change, and we can do it in ways that protect nature and ensure that everybody shares in a prosperous, healthy, net zero future.

For more information

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