



Name: Carbon Market Institute

Submission date: 6/06/2025

1. Reduce the cost of meeting carbon targets

1. What could be done to improve the cost-effectiveness and alignment of policies to reduce emissions across the industrial, electricity and transport sectors?

CMI suggests that building on the 2022 reforms and broadening and deepening the Safeguard Mechanism further could support policy alignment and efficiencies for driving decarbonisation across the industrial, electricity, and transport sectors. See more detail in response to the next survey question.

The impact of competitive grant schemes cost-effectiveness of carbon reduction is another area for review. When viewed only through a cost per tCO₂-e abated lens, grants appear to result in carbon prices well above the current ACCU price. For example, the second batch of projects under the Safeguard Transformation Scheme averaged approx. \$91/tCO₂-e abated (<https://minister.dcceew.gov.au/bowen/media-releases/joint-release-powering-the-regions-20240712>). While other benefits, such as productivity, investment at scale in new technologies and durability of the removals may warrant the higher price, overall impact of the schemes could be assessed. Monies allocated to the competitive grant scheme achieve greater overall results by selective allocation to system wide enabling technologies and projects.

Finally, CMI suggests that the Productivity Commission consider measures to remove roadblocks to net zero transition that would increase the speed and efficiency of economy-wide decarbonisation, and reinforce deeper structural transition—for example, as detailed under 3A of CMI's Policy Advocacy positions (<https://carbonmarketinstitute.org/app/uploads/2024/10/CMI-Policy-Advocacy-Positions-October-2024.pdf>):

- phasing out fossil fuel subsidies and tax incentives for fossil fuel projects that support emissions-intensive industries as part of wider managed fossil fuel phase out, and
- the Australian Government's planned (but delayed) national environmental law reforms should introduce requirements for approval processes to consider the climate impacts of up- and downstream greenhouse gas emissions for new projects and significant expansions.

2. Are there gaps in the emissions-reduction policies in the industrial, electricity and transport sectors which should be addressed?

Yes, and CMI considers broadening and deepening the reformed Safeguard Mechanism could be an efficient way to fill current gaps emissions reduction policy coverage of the industrial, electricity and transport sectors.

CMI has commissioned research, which will use modelling and scenario analysis to quantify the potential for bringing additional emissions into the Safeguard Mechanism by broadening and deepening its coverage. The research is currently in development, and is exploring the following scenarios:

- Sectoral expansion (broadening coverage to adjacent sectors, i.e., transport and consideration of agriculture)
- Lowering the compliance threshold (deepening coverage of existing sectors, modelled at 75kt, 50kt, 25kt)
- Shifting from facility-level coverage to organisation-level coverage
- Steepening the baseline decline rate to support a proportional contribution of the industrial sector to a more ambitious 2035 NDC

Preliminary findings suggest there is potential to unlock additional abatement by lowering the threshold for coverage, broadening coverage to adjacent sectors, or shifting from a facility-level to organisational-level compliance construct. Early findings also suggest that the impact of lowering the threshold for coverage would be increased by combining this with changes explored through other scenarios explored (increasing the baseline decline rate, moving from facility- to organisational-level compliance construct).

It is important to note that preliminary findings show that there are trade offs (e.g., possible administrative implications, increased regulatory load, industry pushback) to be managed in all scenarios and combinations of scenarios.

We expect research to be finalised in the near future and would be pleased to meet with the Productivity Commission to discuss final findings in more detail soon, if this is of interest.

Some of the rationale behind this current research project, which builds out some of CMI's existing policy positions, is outlined below.

Within transport, heavy road freight is not effectively covered by a carbon price or decarbonisation obligation (~2% road freight emissions and ~65% of rail freight emissions, respectively, are covered by the Safeguard Mechanism – see Freight on Rail Group submission available at: <https://consult.dcceew.gov.au/safeguard-mechanism-reform-consultation-paper/submission/list>). Broadening Safeguard coverage to transport segments that are not currently captured by the policy such as heavy road transport (freight) would capture additional emissions. This would also mitigate the possible current perverse incentives for Safeguard-covered rail freight emissions to 'leak' out of the Safeguard-captured rail freight and into more emissions-intensive road freight that is not currently covered by a carbon price or policy. (See more in CMI's submissions, e.g.: https://carbonmarketinstitute.org/app/uploads/2024/03/2024.03_CMI-submission_NVES-Consultation-Impact-Analysis-consultation.pdf). We note that Safeguard coverage of the domestic aviation sector is also incomplete.

While coverage of the transport sector by carbon pricing is patchy, there are also gaps in the coverage of emissions reduction policies for the broader industrial sector. Under current Safeguard Mechanism design, only very large industrial emitters with 100,000tCO₂e emissions p.a. or more are liable. Industrial emitters with emissions below this threshold may have incentives (e.g., grants such as Industrial Transformation Stream of the Powering the Regions Fund), but not efficient market-based drivers for reducing emissions. Deepening the Safeguard by dropping the threshold below the 100,000tCO₂-e threshold for coverage would support more complete coverage of the industrial sector by one carbon pricing tool. It would also importantly prevent currently covered, large industrial emitters from dropping out of the Safeguard Mechanism in

cases where emissions are reduced below 100,000tCO₂-e, ensuring that the reformed Safeguard Mechanism delivers on its intent to guide Australian industry's decarbonisation to net zero emissions (as opposed to just guiding facilities' transition to emissions below 100,000tCO₂-e). Dropping the threshold could be introduced on an opt in basis as an interim measure, which could encourage smaller industrial emitters to 'opt in' for the incentive of generating SMCs—which would also increase credit supply for wider Safeguard compliance (e.g., see pp. 6-7 of CMI's submission on Safeguard reform design: https://carbonmarketinstitute.org/app/uploads/2023/02/FINAL_Carbon-Market-Institute-submission_Draft-Safeguard-Rules-1.pdf).

Dropping the coverage threshold may also support a more efficient pathway for the introduction of a carbon border adjustment mechanism, which the Carbon Leakage Review's preliminary findings (available for download here: <https://consult.dcceew.gov.au/carbon-leakage-review-consultation-paper-november-2024>) suggest would be an effective measure to mitigate the risk of offshore carbon leakage of materially at-risk sectors within the Safeguard Mechanism—such as lime, cement, clinker and lime—which may only be partially covered by the Safeguard under its current design (see CMI's submission to the Carbon Leakage Review's second consultation for further details: https://carbonmarketinstitute.org/app/uploads/2024/12/FINAL_CMI-Submission_Carbon-Leakage-Review-second-consultation.pdf).

Finally, in future, (i.e., post-2030 conclusion of the Renewable Energy Target), individual grid-connected electricity generators could be brought into the reformed Safeguard Mechanism to create a backstop for the retirement of legacy fossil fuel generators that would reinforce the decarbonisation of the electricity sector (further details under recommendation 2 in: https://carbonmarketinstitute.org/app/uploads/2025/02/FINAL_NEM-Review-initial-consult_CMI-submission_February-2025.pdf)

3. Are there any duplicative emissions-reduction policies in the industrial, electricity and transport sectors which could be streamlined?

CMI would encourage the Productivity Commission to consider whether there are duplications in how electricity is covered in Safeguard Mechanism (albeit, via sectoral baseline with headroom) and Renewable Energy Target (RET) up to 2030, and plan for future streamlining of incentives or drivers for grid-connected electricity generators when the RET concludes in 2030, e.g., through inclusion in the reformed Safeguard Mechanism (see response to previous survey question for more details).

In terms of streamlining existing policies drive ongoing electricity sector decarbonisation, the Productivity Commission could investigate the utility of leveraging the existing Renewable Energy Guarantee of Origin scheme—already planned to launch in late 2025 as a voluntary scheme—to introduce a mandatory target that would replace the RET from 2030 onwards. A mandatory REGO target could be designed to drive investment into specifically firmed renewable capacity in the grid (for more details, see CMI's submission to the NEM Review consultation: https://carbonmarketinstitute.org/app/uploads/2025/02/FINAL_NEM-Review-initial-consult_CMI-submission_February-2025.pdf).

Additionally, some state-based approval processes for new projects include guidelines

that prefer the surrender of locally sourced (i.e., in the same state) ACCUs at state-based Safeguard liable facilities (e.g., the NSW EPA's recently updated Guide for Large Emitters, see p. 36: <https://www.epa.nsw.gov.au/sites/default/files/2025-02/24p4574-nsw-guide-for-large-emitters.pdf>). While such preferences are not enforceable and just a guide at this stage, CMI notes that placing location-based restrictions on carbon credit use may undermine their efficiency as a market-based driver of emissions reduction and could affect market function and ultimately cost-effectiveness.

Finally, while not directly in the category of emissions-reduction policies, CMI notes that current environmental approval processes can be cumbersome, with duplication of processes at the state/federal level. In connection to our response to the first survey question, CMI notes our support for much-needed national environmental reform of the EPBC Act and the introduction of a federal Environmental Protection Authority, as planned but delayed by the Australian Government, to both increase environmental protections and streamline approvals processes to ensure streamlined approval for much-needed renewable energy projects and infrastructure to support renewable electrification and increase capacity of the grid.

2. Speed up approvals for new energy infrastructure

1. Are planning and approvals processes for large energy infrastructure taking too long? If so, what causes the most delay?

The participant did not respond to this question.

2. How can planning and approvals processes be sped up without unduly compromising regulatory standards?

The participant did not respond to this question.

3. Should clean energy projects be treated differently to other projects for the purpose of environmental and other approvals? If so, how?

The participant did not respond to this question.

4. What can be done to build local community support for new energy infrastructure projects?

The participant did not respond to this question.

5. Please outline any evidence showing the productivity benefits of faster approvals for energy projects.

The participant did not respond to this question.

3. Encourage adaptation by addressing barriers to private investment

1. What are the barriers and enablers impacting decisions by owner-occupiers, landlords and developers about how housing is built and updated over time so that it is resilient to the effects of climate change?

The participant did not respond to this question.

2. What information do people need to make decisions about where to live, how to build and how to upgrade their homes to appropriately factor in climate change?

The participant did not respond to this question.

3. What are the most cost-effective retrofitting options for improving the resilience of Australia's existing housing stock? What are their costs and benefits?

The participant did not respond to this question.

4. What role might minimum standards play in ensuring the resilience of Australia's housing stock?

The participant did not respond to this question.

5. The impacts of climate change are being factored into the regulation of where and how houses are built in different ways around Australia. What does leading practice look like? Where is there room for improvement? Are there lessons we can learn from other countries?

The participant did not respond to this question.