

15 September 2025

Ms Danielle Wood
Chair
Productivity Commission

Dear Ms Wood

Investing in Cheaper, Cleaner Energy and the net zero transformation – Interim Report

A proudly Australian company with balance sheet strength, Fortescue is a global leader in large-scale, ultra-efficient and highly complex developments with a proven track record in developing and operating assets in remote and isolated locations. Fortescue has a strong focus on decarbonisation, evidenced by its industry leading target to achieve real-zero carbon emissions across our terrestrial mining operations by 2030. We are establishing a global portfolio of renewable energy, green iron, green hydrogen and derivatives, battery system and green technology projects and operations that are at the forefront of the global energy transition.

Fortescue welcomes the opportunity to provide comment on the Productivity Commissions Pillar 5 – Investing in Cheaper, Cleaner Energy and the Net Zero Transformation interim report. As Australia transitions to a green energy future, the Commonwealth Government is prioritising productivity improvements with a specific focus on the transition to net-zero. Policy decisions made now will heavily influence Australia's ability to meet its emissions targets and contribute to global efforts to limit warming. The goal must be to do this while keeping the economy strong and adaptable to ensure Australia captures the opportunities associated with the energy transition.

To support this, Fortescue has provided two submissions to the Productivity Commission's 5 Pillars consultation, focusing on topics key to this transition: creating a more dynamic and resilient economy and investing in the net-zero transformation. We are pleased to see that themes that we discussed in these submissions have been picked up in the recommendations made by the Productivity Commission across varying areas of climate and energy policy.

Our primary concern with the current climate policy framework relates to the disincentive that is created by the Fuel Tax Credit Scheme and how it undermines the Safeguard Mechanism's incentive for large mining companies, like Fortescue, to invest in decarbonisation projects. The credit returns significantly more money to claimants per tonne of carbon created through diesel usage than the Safeguard Mechanism currently costs per tonne of carbon for a carbon credit. This is further explored in our responses below.

Fortescue supports the Australian Government's planned reforms to the Environment Protection and Biodiversity Conservation Act, but we must ensure the changes balance speed, efficiency and environmental protection. We believe the process requires reform to ensure that approvals for projects that



help reduce national and global emissions can be fast tracked. Fortescue supports the creation of a Federal Environmental Protection Authority (EPA) but on the basis that the Minister for the Environment and Water retain the final decision-making power. Most critically, we are a strong advocate for including a climate trigger as a matter of national environmental significance and propose that any project increasing emissions by over 100,000 tonnes be assessed for compatibility with meeting our national emission reduction targets and emissions budget. This too is further explored in our responses below.

The remainder of this submission will specifically comment on the recommendations made by the Commission.



Draft recommendation 1.1

Reducing emissions in the electricity sector after 2030

Governments should prioritise introducing enduring, broad-based market settings in the electricity sector beyond 2030. The settings should:

- create nationally consistent incentives for lowest-cost clean energy, irrespective of generation technology or jurisdiction
- embed investment incentives to ensure reliability and system security are maintained.

Governments should also phase out any jurisdictional- and technology-specific incentives over time.

The Productivity Commission's recommendation to introduce enduring broad-based market settings for the electricity sector is a sensible step towards integrating greater quantities of renewable energy. Prioritising a long-term consistent framework moves away from a patchwork of short-term state-based schemes paired with Government underwriting at the Federal level, that has created uncertainty for some investors. We note that the Government has kicked off the Nelson review for the National Electricity Market (NEM), however, as that only applies to the East Coast electricity system, is unlikely to create the national consistent incentives for investment referenced by the Productivity Commission.

While the Productivity Commission recommendations are focused on the broader "electricity sector", its principles are just as vital for the development of renewable energy in Australia's other grids and numerous off-grid applications. Many remote communities and major mining operations particularly in regions like the Pilbara are isolated from the main grid and rely on expensive high-emission fossil fuels like diesel and gas.

Renewable energy deployment is particularly important in the Pilbara as abundant clean energy is required for decarbonisation of mining operations and for the development of new green metals industries. The Capacity Investment Scheme (CIS) covers Australia's two main grids in the NEM and the South-West Interconnected System (SWIS) but does not provide support for investment in renewable energy in the Pilbara, or other regions. Nationally consistent incentives should include renewable energy investment signals for remote applications where common user transmission is limited.



Fortescue is progressing our decarbonisation projects towards our target of Real Zero Scope 1 or 2 terrestrial emissions by 2030. We have already announced that we will not rely on voluntary offsets to meet this target. We are also progressing plans to develop green iron in the Pilbara. Our Christmas Creek Green Metal Plant pilot project is currently under construction. In early 2026 we aim use green hydrogen to produce meaningful quantities of commercially representative green iron from Pilbara haematite, proving the technology and creating a catalyst for the next generation of the Australian iron industry. After that we propose to commence development of a large scale green iron production capacity using two technology pathways - hydrogen reduction and electric smelting furnace (ESF).

While we agree with the Productivity Commission that jurisdiction and technology specific incentives should be phased out over time, we also recognise that significant infrastructure and public and private investment will be required to decarbonise the Pilbara mining industry and develop a globally competitive green iron industry using green hydrogen made with renewable energy. This is likely to require specific policies and incentives to lower renewable energy prices in the Pilbara to approximately <\$25/MWhr (or <\$35/MWhr firm) from the current ~US\$70/MWhr prices. If successful, we will see new industries based on downstream processing of our minerals using our renewable energy. This will reduce emissions and increase national productivity for decades to come.



Draft recommendation 1.2

The Safeguard Mechanism should cover more industrial facilities and carbon leakage provisions should be improved

The Australian Government should lower the Safeguard Mechanism threshold so that it covers more industrial facilities. The Safeguard Mechanism review scheduled for 2026-27 should determine the new threshold but favour broadening the scheme as much as possible. The review should also consider whether the lower threshold would introduce inefficiencies such as uneven coverage in some sectors, and whether it would be appropriate to phase in the inclusion of new facilities. If the review identifies no major countervailing considerations, reducing the threshold from 100,000 tonnes to 25,000 tonnes of carbon dioxide equivalent per year would be reasonable.

If the Australian Government introduces a border carbon adjustment, it should phase out trade-exposed baseline-adjusted status for Safeguard Mechanism facilities that would otherwise be exposed to competition from imports from countries without domestic policies to reduce emissions.

Fortescue supports the Productivity Commission's recommendation to lower the Safeguard Mechanism (SM) threshold to 25,000 tonnes, capturing a much deeper subset of the industrial economy. As a major industrial player, we recognise that a stronger SM is crucial in achieving Australia's domestic emissions reductions targets. A lower threshold would expand the scheme's coverage ensuring more facilities contribute to the shared national effort to reduce emissions and expand the incentive for lowest cost emissions across the economy to be pursued. This aligns with the long-held position of the Business Council of Australia (BCA) which previously advocated for a similar reduction in the threshold to broaden the scheme's impact. Broadening the scheme would help create a level playing field across Australian



industry, driving the necessary investment and innovation to decarbonise and maintain our position in a global economy that is increasingly focused on clean energy and clean products.

Fortescue generally agrees that the SM has the potential to drive meaningful emissions reductions across the largest industrial facilities. Since its 2023 reform, the SM has introduced a more ambitious and structured approach, with legislated baselines declining at a rate of 4.9% per year for most covered facilities, aligning with Australia's 2030 and 2050 climate targets.

However, there is a major gap in the SM. It does not incentivise diesel decarbonisation due to the Fuel Tax Credit Scheme. Under Fuel Tax Credit Scheme off road users receive back the full excise paid on the diesel they use, currently 51.6 cents per litre. This means that for every tonne of CO₂-e emitted by the diesel they burn they receive back a total of \$191 compared with the \$30 - \$40 cost for an ACCU representing one tonne of CO₂-e in the SM. The fuel tax credit is worth approximately five times as much as an ACCU to claimants. A large miner receiving hundreds of millions of dollars in fuel tax credits annually will have to surrender ACCUs worth a fraction of that amount to remain in compliance under the SM. This makes diesel too cheap to move away from.

As an early mover, Fortescue is seeing the negative impact that fuel tax credits are having on the internal rate of return for investments in diesel decarbonisation. This requires reform either to the *Fuel Tax Act 2006* or the SM.

Accordingly, Fortescue does not agree with the Productivity Commission that use of ACCUs by SM facilities should remain unrestricted. The current requirement for facilities surrendering ACCUs for more than 30% of their emissions over their baseline is for the facility to write an explanatory statement to the Clean Energy Regulator. This is an inadequate incentive when the facility is receiving fuel tax credits worth five times the value of ACCUs surrendered. Fortescue recommends that, where more than 50% of a facility's emissions are the result of burning off-road diesel, the number of ACCUs that can be surrendered should be capped at 30% of emissions over the baseline. After that the facility should face SM penalties for non-compliance, currently \$330 per tonne. This would incentivise investment in decarbonisation and improve the IRR for those making the investment.

Generally, the 2023 reforms represented a welcome and significant step forward in policy ambition but their effectiveness in driving immediate onsite abatement will depend on future tightening of offset use, stronger accountability for high emitters, and support for industrial decarbonisation projects.

To enhance the SM's effectiveness in meeting Australia's emissions targets, Fortescue recommends targeted reforms focusing in the first instance on diesel and after that more generally on ACCU use, baseline settings, coverage, and the transition to a more integrated emissions trading framework.

In summary Fortescue recommends:

1. Immediate reform for diesel decarbonisation



- a. As set out above, ensure the SM is effective in incentivising off road diesel decarbonisation. Reforms can be phased in over time, but a price signal should be sent to industry as soon as possible to drive investment in low-cost abatement technology and increase productivity.

2. Rules on ACCU Use

- a. Currently, facilities can meet 100% of their compliance obligations using ACCUs, unlike international best practice systems.
- b. It is recommended that the SM set an initial cap on ACCU use for meeting declining baselines, with a managed phase-down to 2030. We disagree with the Productivity Commission's recommendation that offsets use should remain uncapped – especially considering their price is effectively capped at a \$75 ceiling price.
- c. The SM should provide a clear phase-down timeline for ACCUs to drive genuine onsite emissions reductions.
- d. Where companies fail to meet baselines, they should have alternative compliance pathways, such as investing in renewable energy capacity, given documented integrity issues with carbon offsets.

3. Prioritisation of Safeguard Mechanism Credits (SMCs)

- a. SMCs should be used as a priority over ACCUs when available.
- b. ACCUs should be phased out quickly once SMCs reach a critical mass, and no later than 2040.

4. Coverage

- a. The SM should be expanded to cover a larger number of facilities, increasing its emissions reduction reach, as proposed by the PC. Fortescue agrees that heavy industry and the mining sector outside SM coverage do not face the same incentive to purchase low-cost abatement technology, lowering productivity.

5. Transition to an Integrated Scheme

- a. The SM should gradually transition into a shared Emissions Trading Scheme (ETS) aligned with international systems such as the EU and China.



Draft recommendation 1.3

Introduce an emissions-reduction incentive for heavy vehicles and phase-out policy overlaps for light vehicles

The Australian Government should introduce a new emissions-reduction incentive to cover heavy vehicles. The incentive should be as technology-neutral as possible, meaning that it should create the same incentive to reduce emissions by switching from fossil fuels to electric vehicles, low-carbon liquid fuels or any other method to reduce emissions.

Now that the Australian Government has implemented the New Vehicle Efficiency Standard, it should phase-out the exemption of electric vehicles from the Fringe Benefits Tax, and state and territory governments should phase-out the exemption of electric vehicles from vehicle stamp duty and registration discounts.

Fortescue is targeting Real Zero in Scope 1 and 2 terrestrial emissions across our Pilbara operations by the end of the decade. We intend to remove fossil fuels and not rely on voluntary offsets.

As a company now making the large investments needed to achieve this, our top priority is for Government to address the decarbonisation disincentive created by the fuel tax credit scheme.

We recently partnered with the Australian Academy of Technological Sciences and Engineering in a report on Australia's diesel use across five industry sectors. The report found that

“Diesel combustion contributes approximately 17% of Australia’s total carbon emissions, posing a major obstacle to meeting the country’s targets of a 43% reduction by 2030 and net zero emissions by 2050. Australia imports nearly 29 billion litres of diesel annually, reflecting a heavy dependence on international fuel markets and diminishing domestic refining capacity.”¹

The report examined diesel use across mining, freight, agriculture, fisheries and forestry and looked at the alternatives that have emerged including biofuels, electrification and hydrogen. It found interconnected barriers to decarbonisation including cost, infrastructure, technology and policy. Notably, ATSE found that the fuel tax credit scheme is a major disincentive to diesel substitution for Australian industry, acting as a subsidy on the use of a significant fossil fuel and one of the top 20 expenses in the federal budget. This scheme costs the country almost \$11 billion every year.

Fuel Tax Credit Scheme

Under the *Fuel Tax Act 2006* (*Fuel Tax Act*), taxes and excises on liquid fuels (including diesel and petrol), are credited back to certain business users. The rate of the fuel tax credit is currently 51.6c/L (indexed to CPI) for off road users, while users of heavy vehicles (>4.5t) on public roads receive a credit of 19.2 c/L.²

¹ ATSE, Decarbonising diesel industries Transition technologies and policy pathways for diesel reduction in Australian mining, freight and agriculture, fisheries and forestry, August 2025, <https://www.atse.org.au/media/2swjt3wu/atse-decarbonising-diesel-industries-report-250827-final.pdf>

² [ATO Website Rates for fuel acquired from 4 August 2025](#)



Light commercial vehicles (<4.5t) and household vehicles receive no fuel tax credit. In other words, they pay the full amount of 51.6 cents per litre.

In 2025-26, fuel tax credits are forecast to cost the federal budget a total of \$10.805 billion.³ This will increase to \$13.107 billion in 2028-29, while total fuel taxes collected will rise from \$27.3 billion to \$30.3 billion.⁴ According to Treasury, the increase in fuel tax credits largely reflects an expected increase in the use of fuels that are eligible for credits.⁵

In 2023-24 the top 15 users claimed a total of \$2.9 billion in fuel tax credits.⁶ The remaining credits are claimed by more than 180,000 individual entities. The mining industry claims the largest share at approximately 47%, with 19% claimed by the transport, postal and warehousing industry, and 12% for the agriculture, forestry and fishing industries combined.⁷

Within the mining industry, some large miners, like Fortescue, have announced whole or partial decarbonisation of their mining activities. However, the fuel tax credit scheme is a significant disincentive to decarbonising diesel fuel assets. Given diesel fuel accounts for 17% of Australia's emissions, this does not support Australia's goal of reaching net zero by 2050.

Reducing the cost of diesel for the mining industry incentivises its ongoing use and disincentivises investment in decarbonisation. Using cheap diesel dramatically impacts the internal rate of return (IRR) on any investment in decarbonisation of diesel.

For example, if a large mine consumes 150ML of diesel per year at \$1.50/L, the DFTC would provide roughly \$75 million per year (150ML at \$0.5/L rebate). This means that a mine investing \$1.5 billion in eliminating diesel consumption, loses \$75 million per year from its projected savings, increasing the payback period by 2.5 years, as illustrated below in Figure 1.

³ [Budget Paper No. 1](#) p 136

⁴ [Budget Paper No. 1](#) p 103

⁵ [Budget Paper No. 1](#) p 136

⁶ [CEF Transition Tax Incentive Report FINAL_20August2025](#), page 28

⁷ [Taxation statistics 2022–23 Excise and fuel schemes: Fuel tax credits scheme – claims paid, by industry2, 2006–07 to 2023–24 financial years](#)



Figure 1: Impact of the DFTC on Return on Investment in Decarbonisation

Hypothetical example

Payback analysis, AU\$	DTFC	DTFC removed
Diesel usage p.a.	~ 150M litres	
Diesel price ¹	\$1.0/L	\$1.5/L
Diesel savings p.a.	~\$150m	~\$225m
Example investment	\$1.5b	
Implied payback (post-tax, real)	~12.4yrs	~9.9yrs
IRR (post-tax, real) ²	5.5%	10.4%

1. Assuming DFTC rate is held constant – in reality, DFTC is expected to increase over time.

2. Internal rate of return - simple calculation considering upfront investment of \$1.5 billion in yr0, and flat annual recurring tax-adjusted savings per the two cases, assuming no other benefits or costs associated with decarbonisation.

Fuel tax credits undermine the SM which should be incentivising Safeguard facilities to reduce their emissions in line with legislated baselines. But this is not happening.

A Safeguard facility must manage any emissions above its baseline by surrendering ACCUs, with each ACCU representing 1t CO₂-e. Since the 2023 amendments, Safeguard facilities that reduce emissions below their baselines can earn Safeguard Mechanism Credits (SMCs) with each representing 1t CO₂-e below the baseline. SMCs can be surrendered, traded or retained for future use.

ACCUs can currently be purchased for approximately \$37.00 each, while the first SMCs were issued in early 2025 and traded at a slight discount to the ACCU spot price.⁸ This price equates to approx. 10c/L of diesel.⁹ In other words, the 51.6c/L fuel tax credit received for burning diesel is approximately 5 times the cost of exceeding an emissions baseline under the SM, or the incentive for keeping or reducing emissions below the baseline.

The 51.6c/L credit for off road use completely undermines the SM. For every tonne of diesel burnt over a facility's baseline, the diesel user will pay ~\$37/t while earning \$191 in fuel tax credits. Put simply, that's a ~\$37t/CO₂-e incentive vs a \$191t/CO₂-e disincentive.

⁸ [Safeguard Mechanism - DCCEEW](#)

⁹ 1 litre of diesel produces 2.7kg CO₂-e: Federal Register of Legislation - National Greenhouse and Energy Reporting (Measurement) Determination 2008, Schedule 1, Part 3 (Item 40); 370.4 litres of diesel produce one tonne CO₂-e.



As a company making large investments in decarbonisation Fortescue is calling for amendments to the fuel tax credit scheme or the SM to remove this investment disincentive.

We recognise that reform could be challenging with 180,000 fuel tax claimants who are mostly small and medium sized businesses so an option may be to focus on the largest users first.

In its Interim Report, *Investing in cheaper, cleaner energy and the net zero transformation*, the Productivity Commission recommended filling gaps in incentives. It said that where no emissions-reduction incentives exist, governments should, if feasible, extend existing policies or create new incentives that achieve similar effects. Gaps raise the cost of meeting emissions targets. Emitters lacking an incentive to reduce emissions will not fully exploit low-cost options.¹⁰

It is our submission that the disincentive created by fuel tax credits is a gap in the SM that needs to be filled to incentivise decarbonisation by large users of diesel. This needs to be done without delay and there are several ways it could be done. Consideration of these policy options should be guided by the principle that in order to incentivise decarbonisation activities we must first remove or counter any disincentives that exist such as the subsidisation of fossil fuels.

Options for Reform

Cap the Fuel Tax Credit at \$50m and convert the balance into a Transition Tax Incentive

In a recent report, *Transition Tax Incentive: Reforming Fuel Tax Credits into a Decarbonisation Tailwind*,¹¹ Climate Energy Finance proposed that fuel tax credits be capped at \$50 million per consolidated group with all additional credits converted to a Transition Tax Incentive paid to the group on condition that it is invested in mine electrification and decarbonisation in Australia. This budget neutral approach would improve the internal business case for decarbonisation projects and effectively convert a decarbonisation headwind into a tailwind.

The \$50 million cap would impact the 15 largest diesel users who would not lose any cash provided they invested amounts above \$50 million into decarbonisation. Setting the cap at \$50 million would mean only businesses using more than around 97ML of off-road diesel per year would be affected. No farmers, fishers, foresters, road freight operators or smaller miners would be affected. The large companies would be able to implement their decarbonisation plans at the same time as creating opportunities for Australian businesses to supply equipment and expertise. A Transition Tax Incentive would improve the internal business case for these companies by removing the distorted signals sent by the fuel tax subsidy when considering the internal case for decarbonisation projects in the mining sector.

Reform the Safeguard Mechanism

¹⁰ [Interim report - Investing in cheaper, cleaner energy and the net zero transformation](#), page 10

¹¹ [Transition Tax Incentive: Reforming Fuel Tax Credits into a Decarbonisation Tailwind](#)



The SM is due for review in 2026-27 but the lack of incentive for diesel decarbonisation is already apparent. Under the SM, Safeguard facilities that exceed their baselines by more than 30% must surrender ACCUs/SMCs for each tonne and are required to provide a statement explaining why they have not undertaken more on-site abatement.¹² Providing a statement that is published by the CER is intended to deter facilities from excesses above 30% but the financial incentives say otherwise – the value of ACCUs surrendered is fivefold lower than the value of the fuel tax credits for the diesel burned to create the emissions - \$37/t CO₂-e vs \$191/tCO₂-e.

A more effective deterrent is needed to improve the business case for investment. An option would be to amend the SM to cap the number of ACCUs that can be surrendered to offset diesel emissions. For example, a Safeguard facility might not be allowed to surrender ACCUs or SMCs to offset an excess over the baseline of more than 30% where more than 50% of the emissions result from burning diesel. The result would be that the facility would be in non-compliance and would face a penalty unit (currently \$330) for each tonne over the 30% excess.

This would strengthen the incentive for Safeguard facilities burning diesel to keep emissions well below a 30% excess. Note that some may wish to see the cap extended to all emissions. It is our submission that the diesel disincentive is a gap that needs to be filled now. Whether this has been successful and whether a cap should extend to other emissions should be a matter for the review due in 2026-27.

Align payment of fuel tax credits with the emissions reduction objectives of the Safeguard Mechanism

When the *Fuel Tax Act* was enacted in 2006 it contained provisions to help drive clean energy and emissions reduction including that the fuel tax credit would not be available for on-road vehicles unless they met one of four environmental criteria¹³ and a requirement for large fuel users, receiving more than \$3 million per year in fuel tax credits, to join the Greenhouse Challenge Plus Programme in order to receive payment of credit entitlements.¹⁴ These provisions were highlighted in the second reading speech by then Minister for Revenue and Assistant Treasurer Peter Dutton when he introduced the bill into Parliament.¹⁵

Now that Australia has the SM it would be consistent with these precedents to align the payment of fuel tax credits to performance in the SM. Under this approach the *Fuel Tax Act* could be amended to provide that no fuel tax credit will be available in respect of diesel burned by a Safeguard facility that, in the preceding year, has exceeded its baseline by more than 30%.

Again, this would be expected to incentivise companies burning diesel to invest in decarbonisation to ensure emissions do not exceed baselines by more than 30%.

¹² <https://cer.gov.au/markets/reports-and-data/safeguard-data/2023-24-baselines-and-emissions-data>

¹³ *Fuel Tax Act 2006* s 41-25

¹⁴ See *Fuel Tax Act 2006 (as made)* Div 45, this Division has since been repealed.

¹⁵ [ParlInfo - FUEL TAX BILL 2006 : Second Reading](#)



4 Road User Charging

Another alternative is the proposal for road user charging put forward in this consultation by the PC.

In 2010, the Henry Tax Review recommended a national system of road charging including congestion charging. More efficient road pricing would promote the best investment in and use of our roads, lift national productivity, and improve the lives of millions of Australians. The report contained further recommendations on how the transport sector could pay for greenhouse emissions through an economy-wide scheme.¹⁶ The 2015 Competition Policy Review led by Professor Ian Harper recommended that the government introduce direct road user charging to promote more efficient road use and investment and that, over time, as these direct taxes increased, fuel taxes and other indirect charges should be reduced.¹⁷

The Federal Treasurer has now met with State Treasurers and agreed to proceed with reforms to road user charging arrangements for electric vehicles. These changes could provide an opportunity to reconsider the balance between road user charges and charges for other social costs.

The PC, again in this report, finds that fuel taxes could help pay charges for road wear and tear and also for emissions. Further, an emissions charge could be extended to off road diesel users.¹⁸ At present heavy vehicle users using diesel or petrol travelling on public roads pay a Road User Charge (RUC) of 32.4 cents per litre and receive a fuel tax credit of 19.2 cents per litre. The PC recommends that this amount (18.4 cents per litre at the time of their report) should be seen as an emissions charge to be paid by heavy vehicles used on public roads. Small vehicles do not receive a credit and effectively already pay both the RUC and the emissions charge.

The PC recommends that the Australian Government could also reduce the refunds received by users of heavy vehicles that do not use public roads. Their tax credit rate could be phased down until their rate of fuel excise is 19.2 cents per litre. This rate would match the emissions charge that public-road users would pay if their tax credits were phased out. Under this approach off road diesel users would not pay the RUC but would pay 19.2c/L of diesel as an emissions charge.

As an incentive to decarbonise this would be better than the current situation but, on its own, would not create as great an incentive as the other options discussed in this submission. It should also be emphasised that the SM would need to continue to apply and potentially the number of ACCUs should also be capped so that diesel users can not have access to unlimited ACCUs and SMCs to offset emissions.

Other options

Other options to address the disincentive could involve phasing down fuel tax credits or paying cash incentives to offset the disincentive. The disadvantage of the first could be that it would apply to all

¹⁶ [Australia's Future Tax System: Report to the Treasurer - Part 2, Volume 2](#), pages 373-409

¹⁷ [*Competition Policy Review Final Report, March 2015](#), page 216

¹⁸ <https://www.pc.gov.au/inquiries/current/net-zero/interim/net-zero-interim.pdf>, pages 25-26



claimants so it would need to be implemented more slowly and take longer to incentivise large emitters. A disadvantage of the second is that it would not be funded and would impose an additional burden on the budget.

In conclusion, diesel accounts for 17% of national emissions¹⁹ and the Fuel Tax Credit Scheme continues to incentivise diesel use. This is creating a gap in the SM which should be addressed as soon as possible to improve the business case for the large investments that need to be made in decarbonisation. This economic signal is needed as soon as possible.



Draft recommendation 1.4

Apply frameworks to achieve emissions targets at least cost and improve transparency

The Australian, state and territory governments should improve the transparency of emissions-reduction policies by consistently including estimates of their cost-effectiveness in impact analyses. Those estimates should routinely be assessed against agreed national carbon values.

The Australian Government should:

- task an independent agency with relevant expertise with developing national carbon values. These values – estimates of the implied carbon prices needed to meet Australia's emissions targets – should be used consistently as policy benchmarks across government and in regular reporting on the cost-effectiveness of emissions-reduction policies
- design and evolve policy settings to be broadly aligned with these carbon values.

To support achieving net zero in 2050 at as low a cost as possible, the Australian Government should:

- develop a framework for extending emissions-reduction incentives to new sectors. The costs associated with any new policies to reduce emissions in areas like agriculture and household gas should align with the target-consistent carbon values
- continue work to ensure ACCUs are high integrity and seek to integrate ACCUs into every national emissions-reduction policy in the long term so hard-to-abate emitters face consistent incentives.

Fortescue considers an economy wide carbon price to be the most effective way to decrease Australia's emissions and meet our international emissions targets. A carbon price would be more efficient than the current policies in place because it would cover the entire economy while incentivising industry to opt for the lowest cost technologies. This flexibility means that emissions reductions happen where they're cheapest and easiest to achieve, leading to a more cost-effective transition to a low-carbon economy.

An economy wide carbon price has historically been a sensitive political issue resulting in policies that work to achieve similar outcomes fragmented across different sectors. The proposal from the Productivity

¹⁹ ATSE, Decarbonising diesel industries Transition technologies and policy pathways for diesel reduction in Australian mining, freight and agriculture, fisheries and forestry, August 2025, <https://www.atse.org.au/media/2swjt3wu/atse-decarbonising-diesel-industries-report-250827-final.pdf>



Commission to essentially establish a shadow carbon price that would be required to meet Australia's emissions reduction targets would be a welcomed step in guiding policy makers to create efficient and effective climate and energy policy.

In a corporate environment, a shadow carbon price is used as an internal, hypothetical cost that some companies, like Fortescue, assigns to its own greenhouse gas emissions for varied purposes. Corporates integrate this price into their decision-making process by applying it to investment appraisals for new projects, acquisitions, or capital expenditure. By assigning a notional cost to carbon emissions, projects with a high carbon footprint appear more expensive and less financially viable, while low-carbon alternatives are favoured, helping the company future-proof its business against potential climate regulations and market shifts. This process helps guide a company towards better decision making in the forthcoming net-zero economy.

Establishing this same process, linked to emission reduction targets, at the Commonwealth level would build a more robust policy making framework. Some independent statutory bodies, like the Australian Energy Market Commission (AEMC), have been working with shadow carbon pricing as part of their policy making decision framework for some time now allowing for a value to be attributed to the emissions reductions achieved by policy changes and during cost-benefit assessments. Adopting this approach across other Government decision making processes would be a welcome step.

More broadly, there is a need for the consideration of pricing carbon due to ongoing concerns with the reliance of offsets in various policies in the Australian climate framework. Carbon offsets offer only a temporary solution for storing carbon. Trees do absorb carbon dioxide as they grow but they also release it back into the atmosphere relatively quickly. This temporary storage creates a significant time delay between the emission being produced and any "offset" taking effect as trees take time to mature. This temporary nature of the carbon storage means the problem is not truly solved just deferred.

A significant issue with carbon offsets is the overstatement of their effectiveness. Numerous studies using satellite data have revealed that many offset projects have not resulted in the claimed increases in tree cover or the prevention of deforestation. This disparity between the claimed and actual outcomes means that the carbon savings companies believe they are achieving may not be realised. This undermines the credibility of the entire offset system.

Even in a best-case scenario carbon offsets would only serve to maintain the status quo rather than facilitate a genuine reduction in emissions. When a company buys an offset, they are essentially paying to 'cancel out' their own emissions. This allows them to continue emitting carbon without any overall decrease in global emissions. True decarbonisation requires a net reduction in carbon output not just a balancing of emissions in a company's annual report.

The amount of land required to fulfil current carbon offset pledges is simply not feasible. For example, all government pledges would require over one billion hectares of land an area three and a half times the size



of India²⁰. The USA's pledges alone would need over 13% of its land area and the United Kingdom's pledges would require over 11%²¹. This demand for land is in direct competition with other needs such as agriculture which already uses 40% of the world's land area²².

Carbon offsets are often used by companies as a means to avoid making real changes to decarbonise their operations. Without strict rules that limit the use of offsets for only residual emissions companies will continue to use them instead of genuinely reducing their reliance on fossil fuels. This is especially true while offsets remain very cheap in comparison to the current costs of some abatement technologies. To reduce these costs, we should be incentivising more companies to invest in these technologies.

Noting these concerns, pricing carbon through either through an economy wide policy or via shadow carbon pricing in policy making decisions should achieve stronger climate outcomes than relying on an offset market that provides a cheaper, often lower integrity alternate pathway to true abatement.



Draft recommendation 2.1 **Reform national environment laws**

The Australian Government should reform environment laws to expedite approvals for clean energy projects and better protect the environment. The reforms should:

- introduce national environmental standards
- facilitate regional planning, particularly within renewable energy zones, with stricter statutory deadlines for assessing projects in 'go zones'
- provide accessible, high-quality information about the environment and past assessment decisions
- make offsetting arrangements more efficient, such as by enabling developers to meet their offset obligations by contributing to an Australian Government offsets fund
- set clear expectations about engagement with local communities and Aboriginal and Torres Strait Islander people.

The Commonwealth Government has stated its commitment to reforming environmental planning processes under the Environment Protection and Biodiversity Conservation Act 1999 (the Act) in this term of government. Fortescue welcomes this intent and is eager to support the Government through industry consultation. We see these reforms as vital to achieving the confidence of the general public and project developers, which will in turn support the developments required for energy transition and increased national productivity. Fortescue supports the adoption of reforms that balance the need for efficiency and

²⁰ Lighter Footprints, We need real emission reductions, not offsets, Mar 24 2023, available at <https://lighterfootprints.org/we-need-real-emission-reductions-not-offsets/>

²¹ <https://landgap.org/2023/update>

²² <https://lighterfootprints.org/we-need-real-emission-reductions-not-offsets/>



certainty of process with environmental outcomes. Similarly, we are eager to see reforms that remove duplication, enhance transparency, and establish robust processes to accredit States and Territories.

We are keen to seek projects that reduce or contribute to reducing global emissions be given priority status for rapid assessment and approval.

We are eager to see collaboration with the Western Australian Government and consultation with key mining industry players on a regional planning approach for the Pilbara that enables fast-track approvals under the Act in areas deemed suitable for development.

Fortescue has recommended formal industry consultation on policy change directly and not to limit consultation to industry associations who do not have direct experience of the approvals systems. Fortescue has been and remains a strong advocate for reform of the Act undertaken in consultation with industry and environmental stakeholders, and our positions on key areas of reform – a Federal EPA and climate – reflect our commitment to fully decarbonising our terrestrial mining operations, and ensuring Australia captures the economic benefit of global demand for green iron.

Regarding the establishment of a Federal EPA, we agree with others that there are concerns about the proposed structure and wide-reaching power of an EPA in decision making if it is not accountable to the Minister for the Environment and Water. We are supportive of a model similar to the Western Australian EPA, where the independent board makes a recommendation to the Minister, who is the final decision maker. We appreciate the Government's commitment to establishing the Federal EPA and are supportive in principle if the Minister retains the power of final decision maker.

Critically, we remain a steadfast advocate of the inclusion of a climate trigger in any contemplation of reform as the single largest environmental issue of our generation. In our view it is not enough to say that climate is a matter dealt with in the legislation establishing the SM. All parts of Government and the regulatory process should have climate as a top priority, or we are not going to reach our targets. The Government has legislated an emissions budget, and it needs all policy levers pulling in the same direction to achieve it.

We simply cannot keep approving new projects without focussing on the impact that they may have on our ability to reach our national targets and emissions budget. In this regard, in our view, Australia should be giving priority to the assessment and approval decision making on projects that will lead to a reduction in global emissions and, ultimately, we should be discouraging projects that will add to emissions without providing or contributing to a credible path to emissions reduction.

Our preference would be to see a climate trigger based on Australia's greenhouse gas emissions reduction targets under the *Climate Change Act 2022* as a Matter of National Environmental Significance. We suggest that any project that would increase Scope 1 and 2 emissions by more than 100,000 tonnes in any one year be required to be assessed for impact on Australia's progress toward meeting its greenhouse gas



emissions targets. Conversely, projects that will reduce or contribute to reducing global emissions should be given priority status for rapid assessment and approval.

Finally, we are eager to see collaboration with the Western Australian Government and consultation with key mining industry players on a regional planning approach for the Pilbara that enables fast-track approvals under the Act in areas deemed suitable for development.



Draft recommendation 2.2

Set up a specialist 'strike team' for priority projects

The Department of Climate Change, Energy, the Environment and Water should set up a strike team focused on priority renewable energy projects. The strike team should:

- be adequately resourced to ensure all priority projects can be efficiently assessed under the Environment Protection and Biodiversity Conservation Act 1999 (Cth)
- integrate environmental and clean energy expertise
- be issued with clear expectations, tools and escalation procedures
- work with state and territory counterparts to reduce duplication and share information and expertise.



Draft recommendation 2.3

Establish a Coordinator-General for priority projects

The Australian Government should establish an independent Clean Energy Coordinator-General for priority renewable energy projects. The Coordinator-General should:

- track the progress of all approvals needed to start construction
- investigate and help resolve delays
- report on progress to the Energy and Climate Change Ministerial Council
- provide advice based on objective criteria about the composition of the National Renewable Energy Priority List.

Further to the points raised above regarding EPBC Act reform, Fortescue considers recommendation 2.2 and 2.3 to be sensible reforms and additions that should speed up planning approvals for projects critical to the energy transition. Further information would be required on how these reforms would consider specific regions, like the Pilbara, where there are clear overlaps with State infrastructure and development ambitions.



Draft recommendation 2.4

Consider the energy transition in approval decisions

The *Environment Protection and Biodiversity Conservation Act 1999* (Cth) should be amended to require the minister to consider the needs of the energy transition when deciding whether to approve an energy project that will have a significant impact on a matter of national environmental significance.

As noted in our response to recommendation 2.1, Fortescue strongly supports this recommendation.

Thank you for the opportunity to comment on this consultation. If you would like to discuss any of the issues raised in this submission, please contact.

Yours sincerely

Bronwyn Grieve

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