Productivity Commission

Interim Report: Investing in cheaper, cleaner energy and the net zero transformation

submission

September 2025

Carbon Market Institute

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The Carbon Market Institute (**CMI**) welcomes this opportunity to comment on the **Productivity Commission**'s interim report on investing in cheaper, cleaner energy and the net zero transformation (**Net Zero Interim Report**), which was released on 3 August 2025.

CMI is an independent, member-based institute that promotes the use of market-based solutions and supports best practice in decarbonisation to limit warming to 1.5°C. Our membership includes 140+ primary producers, carbon service providers, First Nations organisations, legal and financial institutions, technology firms and emissions-intensive companies in Australia and Asia Pacific. The CMI Board updates CMI's Policy Positions annually, which draw on practical insights from—but are ultimately independent of—members.[1] CMI established the Australian Carbon Industry Code of Conduct (ACI Code) in 2018 to steward consumer protection and market integrity. Today, the Code is administered independently by the Australian Carbon Industry Code of Conduct Administrator Limited (CodeCo), which was launched in July 2025 to strengthen governance and oversight.[2]

The positions put forward in this submission may be informed by member insights but remain CMI's view and do not represent any CMI individual, member company or industry sector.

Strategic outlook

As the Albanese Government continues to advance its climate policy agenda in its second term, CMI highlights the opportunity to strengthen Australia's market-based mechanisms, including the reformed Safeguard Mechanism and National Electricity Market (NEM) settings, to support greater climate action and investment.

Supportive market-based policy frameworks that provide investment certainty to business and industry will be critical to meeting a high ambition 2035 Nationally Determined Contribution (NDC) and CMI looks forward to the Government's announcement of its 2035 NDC shortly.

CMI welcomes the Productivity Commission's Net Zero Interim Report as an important contribution to the national discourse on ways in which strengthen market-based climate policy in Australia to support an efficient path towards a net zero emissions economy.

We generally support the Productivity Commission's underpinning principles for driving efficient, low-cost emissions reduction: supporting a technology agnostic approach to reducing emissions, filling gaps where there are no emissions reduction incentives, and eliminating overlapping incentives for the same activities. In some circumstances, however, we note that certain emissions reduction options may require preferential treatment to drive uptake, for example in the context of incentivising firmed renewables.

[1] CMI (2023), 'CMI Policy Positions', https://carbonmarketinstitute.org/app/uploads/2023/11/CMI-Policy-Advocacy-Positions_FINAL-2023.pdf.
[2] CMI (2024), 'Australian Carbon Industry Code of Conduct', https://carbonmarketinstitute.org/code/.

CMI supports the Productivity Commission's Draft Recommendation 1.2 that the Safeguard Mechanism should cover more industrial facilities and that carbon leakage provisions should be improved. We consider that broadening and deepening the Safeguard Mechanism is a pragmatic way to introduce a more consistent carbon price across the economy.

CMI has long advocated that market-based mechanisms with broad economic coverage are the most efficient use of carbon markets to drive decarbonisation. We also recognise that leveraging existing technologies and market mechanisms today will be more effective in mitigating the impacts of climate change than waiting for future technology breakthroughs.

CMI also supports the Productivity Commission's broader recommendations on the use of market-based based frameworks and incentives to facilitate emissions reductions in the electricity and transport sectors and broader economy, including the following Draft Recommendations:

- 1.1 Reducing emissions in the electricity sector after 2030 – by introducing enduring, broad-based market settings to support renewable electrification beyond 2030;
- 1.3 Introducing an emissions-reduction incentive for heavy vehicles and phasing out policy overlaps for light vehicles; and
- 1.4 Applying frameworks to achieve emissions targets at least cost and improve transparency – including:
  - tasking an independent agency to develop national carbon values;
  - continuing to ensure Australian Carbon Credit Units (ACCUs) are high integrity; and
  - seeking to integrate ACCUs in every national emissions-reduction policy in the long term so that organisations in hard-to-abate sectors face consistent incentives.

Further considerations for developing recommendations

We have considered the Productivity Commission's draft recommendations contained in *Section 1: Reducing the cost meeting emissions targets* as this section is most closely aligned to CMI's focus on the role of market-based policy frameworks and incentives. We provide comments below to support their further development.

CMI's views are informed, in part, by modelling research that we commissioned to CORE Markets that was delivered in August 2025, quantifying the potential for bringing additional emissions into the Safeguard Mechanism by broadening and deepening its coverage. This research investigated sectoral expansion (broadening coverage to adjacent sectors, 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, and steepening the baseline decline rate to support a proportional contribution of the industrial sector to different 2035 NDCs.

<u>Draft recommendation 1.1</u>

CMI supports the Productivity Commission's:

- Draft recommendation 1.1 for the government to prioritise introducing enduring, broad-based market settings to support renewable electrification beyond 2030;
- Commitment to technology neutrality as a general principle for efficient emissions reduction policy design; and

- Finding that the REGO on its own as a voluntary certificate scheme may not create sufficient incentive for continued grid decarbonisation.

CMI suggests the Productivity Commission explore:

- The need to create incentives that preference certain types of low-emissions electricity where system reliability and security need to be considered.
- The utility and efficiency of leveraging Renewable Electricity Guarantee of Origin (REGO) timestamping to encourage investment in technologies that support long-duration battery storage and wind power in addition to solar which may contribute to system reliability and security; and
- A demand-side REGO target as a replacement for the Renewable Energy Target after 2030.

Draft recommendation 1.2

CMI supports draft recommendation 1.2 and sees expanding the Safeguard Mechanism to cover more facilities as an efficient way of harmonising policy and providing a consistent decarbonisation driver.

Policy settings for the Safeguard Mechanism which may warrant further investigation to see if the emissions reductions potential warrants the policy adjustment include:

- Lowering the compliance threshold for facilities to increase decarbonisation potential and sectoral coverage. Based on publicly available data, CORE's modelling shows lowering the compliance threshold from 100,000t CO2-e. to 25,000tCO2-e would bring an additional 172 facilities and increase covered emissions by 8%. A more efficient approach may be to lower the threshold to 50,000tCO2-e which introduces only an additional 94 facilities for an increase of 6% in covered emissions. Notably 48% of the facilities introduced at the 50,000tCO2-e threshold is from responsible emitters who already have obligations under the reformed SGM.
- Transitioning the compliance threshold from a facility to an organisational basis. Transitioning the compliance threshold increases covered emission significantly without increase in administrative burden. For example, if 500,000tCO2-e organisational threshold was implemented this would increase covered emissions by approximately 11% while only requiring 4 organisations, who currently have not obligations under the reformed safeguard mechanism to participate in this scheme. CMI note this potentially represents wholesale rather than incremental change and may be suited to a phased approach.
- Inclusion of road transport increases covered emission by 2% and represents a shift towards harmonisation of market signals and creation of a technology neutral incentive to reduce emissions from heavy vehicles. Expanding the reformed SGM to transport, could encourage investment in low-carbon liquid fuels as these can be a drop in solution for long-lived assets and avoid leakage of emissions from road to rail. This approach represents a technology neutral option which fills gaps in existing policy without creating a competing policy driver.
- CMI suggests a Carbon Border Adjustment mechanism (CBAM) is a more effective medium- to long-term mechanism for addressing carbon leakage from Australian industries covered by the reformed SGM[3]. Application of a CBAM rather than a baseline decline rate adjustment allows carbon leakage to be

[3] CMI (2024)'Submission in response to 2nd Carbon Leakage Review Consultation Paper. https://carbonmarketinstitute.org/app/uploads/2024/12/FINAL_CMI-Submission_Carbon-Leakage-Review-second-consultation.pdf

addressed directly and equitably across sectors without compromising decarbonisation drivers. Additionally, continuing to allow lower baseline decline rates for certain facilities under the reformed SGM is counter to the scheme-wide mitigation goals and Australian industries' longer-term competitiveness in a net zero world[4].

Draft recommendation 1.3

- In assessing Option 1 to include a carbon component in a future road user charging system, consideration could be given to sequencing to ensure short- to medium term uptake of low and zero emission emissions vehicles (LZEV). Price regulation could be applied to internal combustion engine vehicles (ICEVs) first to test its parameters while the LZEV market matures. EVs could then be transitioned into the road user pricing framework over the medium- to longer-term[5].
- While Option 2 to apply the Safeguard Mechanism to fuel wholesalers would entail challenges in avoiding double-counting of transport emissions and 'double penalty' for certain emitters that also pay fuel excise, CMI notes the alternative option of applying the Safeguard Mechanism to transport organisations at the entity rather than facility level (see above commentary under Draft recommendation 1.2)
- CMI supports further consideration of Option 4 to establish a targeted incentive for low-carbon liquid fuels or alternatively Option 5 a targeted policy for low-emissions vehicles. As CMI highlighted in its response to the Department of Infrastructure, Transport, Regional Development and the Arts' Transport and Infrastructure Net Zero Consultation Roadmap in 2024[6], Government could explore a heavy vehicle fuel efficiency standard (Heavy Vehicle FES), an low carbon liquid fuels emissions trading system (LCLF ETS) or combination of the two to level the playing field and prevent rail freight emissions from 'leaking' out of the Safeguard Mechanism and into more emissions-intensive road freight.

Draft recommendation 1.4

- CMI supports the draft recommendation that the Australian Government should task an independent agency with developing a cost-effectiveness benchmark to be used in the design and assessment of emissions-reduction policies, in the form of national target-consistent carbon values. We consider it critical that policymakers focus attention on harmonising signalling across the economy on the cost of carbon to ensure an efficient transition towards a net zero emissions economy.
- CMI also recognises the importance of linking the ACCU Scheme to broader economy-wide decarbonisation. Australia's carbon crediting framework provides an important market flexibility for organisations in circumstances where immediate on-site emissions reductions may not be technically feasible or commercially viable. Linking the ACCU scheme in every national emissions reduction policy would therefore help to support long-term investment decisions-making while facilitating broader abatement efforts in the intervening period. It is essential that the Government complete the legislative and integrity reforms recommended by the independent ACCU Review to ensure investment and community confidence in Australia's carbon crediting framework.

[4] CMI, (2023) https://carbonmarketinstitute.org/app/uploads/2023/12/2023.12_FINAL_CMI-submission_Carbon-Leakage-Review-first-consultation.pdf.
[5] See further CMI 2023, 'DITRDCA The Fuel Efficiency Standard – Cleaner, Cheaper to Run Cars for Australia', https://carbonmarketinstitute.org/app/uploads/2023/06/2022.05.31_Carbon-Market-Institute-submission_Fuel-efficiency standard-consultation.pdf.
[6] See further CMI 2024, 'DITRDCA Transport and Infrastructure Sector Plan submission' FINAL_CMI-Submission_Transport-Sector-Plan_signed.pdf

Ongoing engagement

CMI is continuing to develop an evidence-base to support further reform consideration of the Safeguard Mechanism leading into the Government's scheduled 2026-27 milestone review, with a view to maximising its potential to facilitate emissions reductions both in the industrial sector and across the broader economy. We are convening a standing Safeguard Mechanism Taskforce within CMI from October, that will draw upon CORE Markets' scenario analysis commissioned by CMI as well as other expert insights from CMI's membership to focus expert attention on the scheme's operation and potential to facilitate a higher level of ambition.

We would welcome the opportunity to arrange a briefing with the Productivity Commission to discuss our feedback and ongoing work program in more detail.

Please contact me at kurt.winter@carbonmarketinstitute.org with Natalia Grozdanovski cc'd (admin@carbonmarketinstitute.org) to arrange a suitable time.

Yours sincerely

Kurt.S Winter

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The Carbon Market Institute is at the centre of climate change policy and business in Australia. Independent and non-partisan, we bring business, policy makers and thought leaders together to drive the evolution of carbon markets towards a significant and positive impact on climate change.

Engaging leaders, shaping policy and driving action, we're helping business to seize opportunities in the transition to a low carbon economy.

Carbon Market Institute