BCA

Business Council of Australia

# BCA Submission

## 2026 Annual Progress Advice Consultation Paper

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# Overview

The Business Council of Australia (BCA) is pleased to provide comment on the Climate Change Authority's (the Authority's) 2026 Annual Progress Advice Consultation Paper (the consultation paper).

The BCA is ambitious for Australia. We aspire to drive prosperity for all Australians, leveraging our collective expertise and influence to shape a bright and innovative future for businesses, industries and communities. We are committed to working towards an Australia that is globally competitive, productive and fair.

The BCA endorses Australia's participation in the Paris Agreement and supports Australia's climate legislation enshrining this participation.

The BCA report, *Achieving a net zero economy* was supportive of Australia adopting ambitious interim emission reduction targets consistent with the Government's 2030 target of 43 per cent below 2005 levels.

The BCA report, *Australia 2035 – Maximising Our Potential* provides an evidenced base in relation to the measures required to deliver the Government's 2035 emission reduction target of 62 to 70 per cent below 2005 levels. Key findings from this report include the following.

- New capital investment to deliver Australia's emission reductions to 2035 is in the order of $400 to $500 billion (for all sectors of the Australian economy).
- The business case for many low emission technologies needs significant additional funding support before these technologies can be deployed and adopted commercially, notwithstanding the possibility of new technologies emerging and cost reductions in existing technologies over the next ten years.
- The efficiency and effectiveness of Australia's regulatory approvals system need to improve significantly to enable a rapid acceleration in build rates of electricity and energy and other low emission technology and infrastructure.
- A comprehensive approach to scaling skilled labour capacity through cross industry reskilling, international migration, vocational education and training and university programs, is a critical enabler to the transition.
- If target ambition is not matched with policy ambition, if we do not get the fundamentals right and if we fail to attract the investment needed over the next decade, then Australia risks squandering its green economic opportunity and locking itself into a disorderly and more costly transition to net zero.

## Key takeaways

1. The ability of our industrial sector to invest capital in the transition to net zero is heavily dependent on maintaining its international competitiveness over the coming decades.
2. This is because many of Australia's incumbent industrial businesses are best placed to be making the large capital investments necessary for a successful transition to net zero, and because many of Australia's major trading partners / competitors do not have equivalent carbon limits on their industrial sectors.
3. If the share of abatement borne by the large industrial sector is inefficiently high, Australia's international competitiveness will be negatively and unnecessarily impacted as a result.
4. The Authority's advice should have explicit regard for Australia's international competitiveness, in addition to its legislated guiding principles, when identifying timely and feasible adjustments to policy settings to accelerate emission reductions.
5. A partial or incomplete approach to assessing progress, risks a mismatch between resulting sectoral reference pathways and i) sectors' technical capacity to decarbonise over time and ii) an economy wide, least cost decarbonisation pathway.

6. The Safeguard Mechanism's contribution to Australia's 2035 target should reflect the level of abatement large industrial facilities are expected to deliver based on the economy wide, least cost modelling that informed the Government's target setting process.
7. A proportional share approach to defining this contribution should only be adopted going forward, if it is consistent with an economy wide, least cost decarbonisation pathway.
8. It is critical that the economically efficient and equitable design features of the existing Safeguard Mechanism, such as undifferentiated baseline decline rates and undiluted access to ACCUs and SMCs, are maintained beyond 2030.
9. Prescribing or explicitly preferencing levels of onsite/own abatement in the initial years of a multidecadal policy risks raising transition costs and deterring capital investment in industrial decarbonisation over the long term.

# Strategic context

Among the most important challenges and opportunities facing our nation is facilitating an orderly transition to net zero by 2050 — one that best serves our economy and our community. How we transition will have a strong bearing on our emissions levels, our competitiveness as a nation, productivity growth and living standards over the long term.

The consultation paper describes Australia's abatement challenge for the next decade as follows.

> *Meeting Australia's emissions reduction targets requires faster, coordinated action across all sectors, with Australia needing to substantially increase its average annual abatement from 8 Mt $CO_2$-e (the average rate from 2020–2025) to 20–25 Mt $CO_2$-e over the next decade.*[1]

The BCA's Global Investment Competitiveness Index report[2] describes Australia's competitiveness challenge for the next decade as follows.

> *Capital is increasingly mobile in a more competitive world. Businesses can choose where to invest, expand and create jobs and they do so where it is easiest, most predictable and most competitive to operate. That investment matters because it underpins almost everything Australians care about.*[3]

The Minister has indicated that:

> *The Albanese Government is reviewing the Safeguard Mechanism to ensure it continues to deliver the emissions reductions Australia needs while supporting a strong and competitive industrial base.*[4]

Australia needs to be one of the world's best places to invest, innovate, grow a business and create jobs. Today, Australia ranks 21st among 42 countries for global investment competitiveness. Our ambition is to reach the top ten by strengthening the foundations that support investment, productivity and long term prosperity. This is not about a ranking for its own sake. Investment builds homes and infrastructure, supports innovation, creates better paying jobs and expands the economic base that underpins Australians' standard of living. It is also Australia's broader global competitiveness for investment that will help or hinder our ability to meet ambitious emission reduction targets.

[1] CCA, 2026 Annual Progress Advice Consultation Paper, p.11.
[2] https://www.bca.com.au/reports-submissions/reports/bca-global-investment-competitiveness-index/
[3] BCA, BCA Global Investment Competitiveness Index, February 2026, p.2.
[4] Keeping industry competitive while cutting emissions | Ministers

The BCA report, *Australia 2035 – Maximising Our Potential*, estimates that new capital investment to deliver Australia's emission reductions to 2035 is in the order of $400 to $500 billion (for all sectors of the Australian economy). The report also identifies six critical enablers that policy must continue to support to help unlock this investment: i) closing the funding gap; ii) approvals and social licence; iii) scaling a skilled workforce; iv) securing supply of technology; v) coordination and collaboration; and vi) improving capital excellence.

The following table shows a range of other estimates for transition related capital investment required from 2025 to 2035.[5]

| Source | Estimation (2025-2035) | Description |
|---|---|---|
| AEMO | $60-80bn | • During 2024 Senate inquiry, AEMO's CEO highlighted AEMO's cost estimate for the NEM's shift to net zero at 122bn by 2050 (i.e., 6-8bn p.a.)<br>• This includes generation (incl. utility scale renewables, flexible gas generators), storage (incl. utility scale batteries, pumped hydro installations), and transmission. It does not include distribution network upgrades, consumer energy resources, and already commissioned projects |
| Australia Industry Energy Transitions initiative | $210bn | • To meet the net zero emissions goal, Australia will need around $A625bn of capex by 2050 to decarbonise Australia's industry and energy system (i.e., A21bn p.a.)<br>• This is limited to 5 industrial sector: Iron and Steel, Aluminium other metals (copper, nickel, zinc, and lithium), chemicals, and liquefied natural gas (LNG) |
| Net Zero Australia | $270-320bn | • Predicts $9 trillion on the transition in the net 37 years (2023)<br>• This is aggregated from industrial decarbonisation, clean hydrogen production and transport, electricity transmission and distribution, other clean fuels, other electricity generation, solar generation, pre-FID |
| International Energy Agency (IEA) | 1000bn | • IEA estimates that the world will need to 'double annual capex for the next three decades to build the equipment and structures needed to meet the net zero emissions target by 2050'<br>• Based on Australia's share, Australian annual capex would need to reach ~A100bn/ year through 2050 |
| Bloomberg NEF | $1,040bn | • $A3 trillion (US 1.9 trillion) of investment is required to meet Australia's 2050 net zero target ($A104bn p.a.)<br>• This is split into two categories: energy demand (i.e., spending for EV), and energy supply (spend on wind, solar, the grid, head pumps, carbon capture, storage, and hydrogen) |

The Authority's advice should have explicit regard for Australia's international competitiveness, in addition to its legislated guiding principles, when identifying timely and feasible adjustments to policy settings to accelerate emission reductions.

# Assessing progress and what comes next

The Authority's approach to tracking progress, determining drivers of progress and targeting policy priorities for accelerating progress, needs to be transparent, comprehensive and holistic with regard to the following.

- The full breadth and depth of analysis conducted on Australia's net zero transition — this includes the Authority's 2035 Targets Advice, Australia's Net Zero Transformation, The Treasury's Australia's Net Zero Transformation: Treasury Modelling and Analysis, the CSIRO Sectoral Technology and Emissions Pathways Modelling, the Net Zero Plan and 6 Sectoral Plans, the Net Zero Australia Study, AEMO's Integrated System Plan, the Future Gas Strategy Analytical Report, the National Electricity Wholesale Market Review, the Productivity Commission report: Investing in cheaper, cleaner energy and the net zero transformation, and the BCA report, Australia 2035 – Maximising Our Potential.
- An assessment of the effectiveness of key domestic transition policies and measures — sectors' progress in reducing emissions is highly dependent on coordinated supporting policies and measures, and a lack of progress in their implementation and effectiveness is likely to be among the most significant barriers to accelerating emission reductions.
- A systems approach to the Australian economy's potential to transition and decarbonise — accounting for all material emission point sources, climate resilience and adaptation, interlinkages of energy networks

[5] These estimates also vary in terms of the scope of each study/modelling exercise.

(electrons, molecules and liquid fuels), manufacturing, exports, land and infrastructure is needed to align Australia's fragmented sectoral approach to emission reductions, with a least cost decarbonisation pathway for the economy overtime.

A partial or incomplete approach to assessing progress, risks a mismatch between resulting sectoral reference pathways and i) sectors' technical capacity to decarbonise over time and ii) an economy wide, least cost decarbonisation pathway.

## Accelerating electricity grid decarbonisation

The consultation paper highlights the importance of accelerating renewable energy investment to achieving Australia's emission reduction targets, and the development barriers and market uncertainties currently constraining renewable energy project delivery.

Notwithstanding progress made over the past 20 years, Australia's aging energy system needs to be rebuilt into a modern energy system over the next 20 years. To meet this enormous investment challenge, Australia's governments need to align on a comprehensive and durable national energy transition plan. Substantial, timely and efficient flows of private investment in energy assets and infrastructure require clear and stable long term investment signals from the energy policy framework. This includes investment in bulk renewable generation, shaping and firming services, as well as essential system services.

We note the Government's National Electricity Market wholesale market settings review and Energy Ministers' progress in the policy design and implementation phase of energy market reforms to address barriers and uncertainties constraining energy project delivery.

## Supporting decarbonisation from sequestration

To meet Australia's emission reduction targets, the ACCU scheme must continue to evolve to deliver high integrity carbon credits. In its submission to the Department on the Carbon Credits and Other Legislation Amendment (Integrity and Transparency) Bill Consultation, the BCA made several recommendations to facilitate this evolution, including the following.[6]

- Establish an ACCU Market Statement of Opportunities — developed by an appropriate agency, such as the Clean Energy Regulator.
- Expand and accelerate Australia's method development pipeline by making more government resources available to the task and by increasing the efficiency of method development processes generally.
- Support greater confidence and trust in the ACCU scheme operation via greater transparency and timely disclosure of ACCU project level information.
- Maximise the potential scale of the ACCU scheme by taking a long term policy design perspective, including the development of a comprehensive and evolving long term carbon market strategy.
- Government must continue to provide and support clear messaging about the valid and positive contribution the ACCU scheme is making towards meeting Australia's emission reduction targets.

Carbon, capture and storage (CCS) is also an effective technology for sequestration, domestically and internationally, that should be enabled by the policy framework(s).

[6] BCA Submission: Carbon Credits and Other Legislation Amendment (Integrity and Transparency) Bill Consultation Paper, to the Department of Climate Change, Energy, the Environment and Water, May 2026.

- The United Nations Intergovernmental Panel on Climate Change recognised CCS as a critical mitigation option to reduce emissions from large scale industry sources.[7]
- The International Energy Agency has noted CCS deployment remains well below what is required under its Net Zero Emissions by 2050 Scenario and estimates that around 1.3 billion tonnes of CO2 a year needs to be captured by 2035 for the world to be on track to reach net zero emissions by 2050.[8]

CCS can support decarbonisation of hard to abate critical manufacturing sectors such as steel, cement and ammonia, and Australia is well placed to develop CCS hubs. To enable CCS at scale, policy makers should focus on five key areas.

- Developing a national CCS strategy.
- Creating clear and timely regulatory approvals.
- Establishing government to government agreements for transboundary $CO_2$ transport and storage at pace.
- Facilitate shared infrastructure and first movers.
- Continuing collaboration to build a common understanding and acceptance of CCS as a credible decarbonisation pathway for hard to abate industries including steel, cement and ammonia.

The right policy settings would help enable large scale CCS hubs, creating economic opportunities for Australia and support decarbonisation domestically and among Australia's trading partners.

## Enabling household decarbonisation

The consultation paper identifies improving household access to low emissions technologies as a policy priority with respect to accelerating emission reductions.

The BCA supports measures that enable households to reduce emissions, while recognising that consumers are best placed to determine the energy solutions that suit their individual needs and circumstances. Such measures should remain technology neutral, preserve consumer choice and account for whole of system costs and benefits. This includes understanding interactions between electricity and gas networks, impacts on existing customers, and the role existing infrastructure plays in supporting energy reliability and future decarbonisation pathways for business and industry.

In our view, key measures that would improve household access to low emissions technologies include the following.

- Establishing a nationally consistent framework to support household emission reductions — better coordination to align and streamline measures across all governments, including rebates, concessional finance and targeted incentives, would reduce complexity, improve consumer awareness and ultimately support informed household decision making based on individual preferences and circumstances.
- Improving consumer awareness and transparency through mandatory Home Energy Ratings disclosure at the point of sale and lease — mandating disclosure across all jurisdictions would ensure households better understand a home's energy performance, make the benefits of electrification more visible and create stronger market demand for more energy efficient homes and upgrades.
- Taking a broader systems approach that considers emission reductions, climate resilience in the household sector and broader energy system affordability, security and reliability outcomes — alongside electrification, measures should drive improved insulation, thermal performance, passive cooling, shading, flood resilience and bushfire resilience upgrades, which can deliver multiple benefits for households,

[7] United Nations Intergovernmental Panel on Climate Change (IPCC), 2022. Working Group III Contribution to the Sixth Assessment Report | Summary for Policymakers, section C.4.6, p.28.
[8] International Energy Agency (IEA), October 2024. World Energy Outlook 2024, section 3.6.7, pp. 163–164.

including lower energy costs, greater comfort, increased resilience to extreme weather and stronger long term community outcomes.

# The Authority's advice on the Safeguard Mechanism

We note the Authority's focus on two central policy parameters with respect to the Safeguard Mechanism — baseline decline rates and onsite abatement — and as such have limited our commentary accordingly.

The BCA will provide more comprehensive input on these and other aspects of the Safeguard Mechanism in the course of the Department's Safeguard Mechanism 2026-27 Review.

We welcome the consultation paper's reiteration of the Authority's legislated principles, including economic efficiency, environmental effectiveness, equity and simplicity, which it must have regard to when developing its advice on climate change measures, such as the Safeguard Mechanism.[9] As argued above in this submission, explicit regard for Australia's international competitiveness must be added to this list of principles because it is fundamental to industrial decarbonisation.

## Share of national emission reductions

The adoption of a proportional share approach to calibrating baseline decline rates had the benefit of simplicity in the initial phase of the reformed Safeguard Mechanism, which is currently calibrated on the industrial sector's 28 per cent share of national emissions in 2020-21.

However, the approach adopted for the post 2030 period needs to be examined and applied cautiously to ensure it drives a least cost decarbonisation pathway for the economy in aggregate over time and takes into consideration the implications for Australia's international competitiveness. This is particularly crucial in the context of Australia's sectoral approach to emission reductions, and as domestic reduction targets and abatement costs increase significantly in the post 2030 period.

Because the large industrial sector is the only sector of the Australian economy facing a hard carbon limit, it falls on policy makers to determine a share of the 2035 emission reduction target to be borne by the large industrial sector in order to calibrate Safeguard Mechanism baseline decline rates. And by definition, other sectors of the economy will be responsible for the remaining share of the 2035 emission reduction target.

This would include an assessment by policy makers of carbon limits on industrial sectors in Australia's major trading partners / competitors and any implications for carbon leakage risk associated with the share of abatement borne by Australia's large industrial sector.

The policy aim should be to avoid a perverse set of incentives across Australia's climate policy suite that drive relatively expensive abatement from the industrial sector, ahead of lower cost abatement in other sectors.

If the share of abatement borne by the large industrial sector is inefficiently high, Australia's international competitiveness will be negatively and unnecessarily impacted as a result. The ability of our industrial sector to invest capital in the transition to net zero is heavily dependent on maintaining its international competitiveness over the coming decades. This is because many of Australia's incumbent industrial businesses are best placed to be making the large capital investments necessary for a successful transition to net zero, and because many of Australia's major trading partners / competitors do not have equivalent carbon limits on their industrial sectors.

[9] CCA, 2026 Annual Progress Advice Consultation Paper, p.5.

The Safeguard Mechanism's contribution to Australia's 2035 target should reflect the level of abatement large industrial facilities are expected to deliver based on the economy wide, least cost modelling that informed the Government's target setting process.[10]

A proportional share approach to defining this contribution should only be adopted going forward, if it is consistent with an economy wide, least cost decarbonisation pathway.

## Baseline decline rates

The consultation paper notes that some stakeholders have proposed moving to differentiated baseline decline rates across subsectors of the large industrial sector. To be clear, this is beyond existing trade exposed baseline adjusted arrangements, which have a specific 'carbon leakage' rationale for baseline differentiation.

We note that it is not entirely clear what objective such a proposal is seeking to achieve and that its implementation would be problematic and complex.

The potential for Safeguard Mechanism facilities to surrender ACCUs for compliance or to trade baseline compliance with other facilities via SMCs, means that actual abatement reflects differences in abatement opportunities and costs across different subsectors without needing to adopt a differentiated approach to baseline decline rates.

This is an economically efficient and equitable design feature of the existing Safeguard Mechanism because i) it drives least cost abatement across facilities and ii) all facilities effectively fund abatement above their own baseline (even if they do not undertake it directly onsite initially). They do so either by investing in their own onsite reductions, purchasing another facility's SMCs (surplus onsite reductions), or purchasing ACCUs which typically represents abatement outside of the industrial sector.

Because of number ii) above, adopting differentiated baseline decline rates across subsectors would be tantamount to differentiated burden sharing across large industrial firms in Australia. This raises complex equity issues and would involve policy makers effectively 'picking winners' on the basis of some objective(s) regarding accelerating the pressure on some incumbent economic activities (technologies) to decarbonise and decelerating the pressure on others.

It is critical that the economically efficient and equitable design features of the existing Safeguard Mechanism, such as undifferentiated baseline decline rates and undiluted access to ACCUs and SMCs, are maintained beyond 2030.

## Onsite abatement

The consultation paper makes a crucial point regarding the efficiency of the existing Safeguard Mechanism design architecture.

> *Use of offsets under the Scheme improves economic efficiency because they allow emissions reductions to occur where and when they are cheapest.*[11]

[10] "Economy wide, least cost modelling" refers to i) The Treasury's Australia's Net Zero Transformation: Treasury Modelling and Analysis report (2025) and ii) CSIRO's Modelling Sectoral Pathways to Net Zero Emissions report (2025) for the Climate Change Authority.

[11] CCA, 2026 Annual Progress Advice Consultation Paper, p.31.

The consultation paper also notes that some stakeholders argue the scheme's design should place greater emphasis on onsite abatement and reduce reliance on ACCUs.

The reformed Safeguard Mechanism has been designed to achieve a net emission reduction target consistent with the net zero target for the economy in 2050 (and therefore the goals of the Paris Agreement). The Safeguard Mechanism is, in and of itself, a powerful incentive for covered facilities to invest in onsite industrial abatement over time because covered facilities are paying a cost for emissions above their baseline each year and because this baseline is declining each year.

We note that industrial facility abatement cost curves are not linear. For many facilities, their lower cost options will be substantially deployed by 2030, after which remaining onsite abatement would involve materially higher abatement costs.

It is crucial to highlight that the deployment of industrial onsite abatement technologies is impacted by a range of barriers that vary across industrial subsectors.

- High capital costs with long or negative payback profiles, relative to the cost of replacement incumbent technology.
- The competition for capital within a business for a range of new projects or a given project in a more favourable jurisdiction (in the case of multinational businesses).
- High implementation, operational and safety risks, particularly for 'first of a kind' technologies being implemented in brownfield facilities that must maintain production and work within a limited existing physical footprint.
- Inadequate availability of enabling energy and other necessary infrastructure related to hydrogen and carbon sequestration and storage (as examples).
- Slow and inefficient regulatory and approvals processes relating to technologies and /or enabling infrastructure.
- High uncertainty of future demand and willingness to pay for low emissions products domestically and internationally.
- The perceived certainty and stability of the policy support framework to address the factors above.

Under current arrangements, these barriers are reflected in the reports published on the Regulator website by facilities using ACCUs to offset more than 30 per cent of their emissions to comply with their Safeguard Mechanism obligations.

Simply increasing baseline decline rates or limiting access to the use of ACCUs, in the absence of addressing these barriers, would amplify compliance costs without increasing actual onsite abatement.

Government policy directly targeting these (and other) barriers is the only effective and efficient way to accelerate onsite industrial abatement. Such polices should be technology neutral (in aggregate at least) and administered so that the actual allocation and dispatch of government support is 'fit for purpose' with respect to the specific barrier(s) being addressed.

In our view, policy makers must avoid changes to the Safeguard Mechanism design architecture that attempt to effectively 'micromanage' the mix of own onsite abatement, SMCs and ACCUs used by facilities over time to meet their Safeguard Mechanism obligation. Private businesses are in a much better position to manage an efficient mix of abatement precisely because they have shareholder capital at risk and strong commercial drivers to access the best available information regarding abatement opportunities and cost. It is also important not to unintentionally undermine the perceived value and integrity of the ACCU market for those participants outside the Safeguard Mechanism voluntarily supporting additional abatement across the economy.

We note that the development of, and access to, a deep and liquid market for ACCUs (and international carbon units in the future) will be crucial to the achievement of least cost abatement outcomes for the economy. We

also note that assessments of onsite industrial abatement only make sense over industrial investment timeframes (typically 5 to 15 years) as opposed to annual assessments of facility emissions. For example, a business may be taking credible action toward onsite facility abatement if it is developing engineering studies, securing approvals, trialling technology, negotiating energy or feedstock supply, or preparing investment cases, years in advance of actual onsite emission reductions.

The appropriate role and focus of policy makers are to ensure that the Safeguard Mechanism and ACCU Scheme are robust regulatory frameworks supported by an effective Clean Energy Regulator and to minimise regulatory risk (and associated risk premiums) by providing enduring transparent and predictable policy signals.

This will drive two very important outcomes.

- Maximise the supply of abatement options and ensure the integrity of abatement outcomes (whatever their source).
- Incentivise least cost compliance with a stable and durable set of policy rules and parameters over time.

Provided the policy framework(s) is robust, the actual mix of abatement from year to year is not a reflection of the Safeguard Mechanism's effectiveness in meeting its net emission reduction target. Policy stability and durability will be greatly enhanced if policy makers take a long term view of policy outcomes consistent with achievement of net zero 2050.

Prescribing or explicitly preferencing levels of onsite/own abatement in the initial years of a multidecadal policy risks raising transition costs and deterring capital investment in industrial decarbonisation over the long term.

BCA

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Thank you.