

Submission to the Climate Change Authority - Australia's emissions reductions progress in 2025

This submission has been prepared by academics from Monash Business School's Green Lab.

[Green Lab](#) serves as a hub for interdisciplinary and applied research on sustainability, bringing together academics from economics, finance, law, accounting and management, to contribute applied research to address current sustainability policy challenges. Green Lab's current work focuses on climate change adaptation, corporate sustainability governance and circular economy uptake.

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Summary

We recommend the Australian government support the transition to net zero by:

- Adopting a strategy to phase down fossil fuel consumption, production, subsidies and to better regulate the climate-change impacts of the fossil fuel industry **(discussed on pages 2-4 below)**.
- Mandating corporate net zero transition plans for selected large companies and requiring these to align with a specific and ambitious temperature goal (1.5°C) **(discussed on pages 4-5 below)**.
- Expressly prioritising integrated approaches to the interlinked policy challenges of climate change and nature loss **(discussed on pages 6-9 below)**.
- Reforming environmental approval regimes to address delays and duplication for clean energy infrastructure, while ensuring environmental safeguards **(discussed in response to Issues Paper questions 3 and 4 on pages 13-14 below)**.
- Expanding and strengthening the Safeguard Mechanism, including through lowering the emissions threshold, removing the facility construct, and introducing the mitigation hierarchy to govern the use of carbon credits (ACCUs) **(discussed in response to Issues Paper questions 5 and 6 on pages 14-17 below)**.
- Strengthening national leadership on adaptation through a national single focus institution (responsible for both adaptation and disaster resilience) to support locally led risk assessment, planning, implementation and access to finance **(discussed on pages 9-12 below)**.
- Stimulating innovation in finance and insurance to attract private sector engagement, including through the establishment of a Community Futures Resilience Fund to provide access to finance for communities for the purposes of climate adaptation and resilience **(discussed on pages 12-13 below)**.

Supporting and enabling the transition to a net zero economy

1 How well is the Australian Government supporting the transition to net zero?

As the Government moves forward on its policy agenda to support the transition to net zero, there are opportunities to improve the alignment of this agenda with the goals of the international Paris Agreement and to strengthen associated regulatory signals for businesses across the Australian economy. We have discussed these opportunities in response to Issues Paper question 2 below.

2 What changes could the Australian Government make to improve the effectiveness of existing policies or address gaps in supporting Australia's transition to a low-emissions, climate resilient, and prosperous economy?

2.1 Adopt a strategy to phase down fossil fuel consumption, production, subsidies and to better regulate the climate-change impacts of the fossil fuel industry:

There is growing global consensus that the coal, oil and gas industries must be phased-down in order to meet global climate goals.¹ In 2021, the parties to the Paris Agreement agreed to the Glasgow Climate Pact which

¹ See, eg, IEA, *Net Zero by 2050, A Roadmap for the Global Energy Sector* (Report 2021).

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included as an objective the 'phase-down' of unabated coal power;² and OECD members agreed to end export credit support for unabated coal-fired power plants.³ Further, 15 nation states (12 as full members and 3 as associate members) founded the Beyond Oil and Gas Alliance to work to limit oil and gas production and extraction,⁴ and forty-six national governments, twenty-six non-state actors, and five subnational governments signed the Global Coal to Clean Power Transition Statement, pledging to 'accelerate a transition away from unabated coal power generation'.⁵ This included the Australian Capital Territory, a subnational jurisdiction which has been fully powered by renewable energy since 2020.⁶ In 2023, the parties to the Paris Agreement agreed to 'transitioning away from fossil fuels in energy systems' in the UAE Consensus.⁷

This year, an advisory opinion by the International Court of Justice (ICJ) concluded that the Glasgow Climate Pact and UAE Consensus reflect a mutual understanding between the parties to the Paris Agreement regarding the interpretation of the treaty's temperature goal and parties mitigation obligations.⁸ Accordingly, the 1.5°C threshold under the Paris Agreement is the primary temperature goal for limiting the global average temperature increase under the Paris Agreement.⁹ Parties to the Paris Agreement are required to adopt mitigation measures based on the 'best available science' that are 'capable of making an adequate contribution to the achievement of' the 1.5°C temperature goal.¹⁰ Expert evidence provided by climate scientist Professor Malte Meinshausen in recent climate change litigation suggests that Australia's 2022 emissions reduction target is not consistent with a fair share of the global emissions budget calculated in accordance with achieving the 1.5°C temperature goal.¹¹ This is even more the case when emissions associated with Australia's fossil fuel exports are factored in. According to UNSW's Australian Climate Accountability Project, Australia is the second-largest climate polluter when calculated by total carbon emissions from its fossil fuel exports.¹²

² *Report of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement on its third session, held in Glasgow from 31 October to 13 November 2021*, Decision 1/CMA.3, UN Doc no. FCCC/PA/CMA/2021/10/Add.1 ('Glasgow Climate Pact') [36].

³ OECD, 'Agreement reached at OECD to end export credit support for unabated coal-fired power plants', 22 October 2021 <www.oecd.org/newsroom/agreement-reached-at-oecd-to-end-export-creditsupport-for-unabated-coal-fired-power-plants.htm>.

⁴ Beyond Oil and Gas Alliance, <https://beyondoilandgasalliance.org/who-we-are/>.

⁵ *Global Coal to Clean Power Transition Statement*, UNFCCC COP26, United Kingdom 2021 (4 November 2021) <<https://webarchive.nationalarchives.gov.uk/ukgwa/20230313120149/https://ukcop26.org/global-coal-to-clean-power-transition-statement/>>.

⁶ *Climate Change and Greenhouse Gas Reduction (Renewable Electricity Target) Amendment Act 2019* (ACT) s 7(1).

⁷ *Outcome of the first global stocktake, UN Climate Change Conference, United Arab Emirates November-December 2023*, Decision -/CMA.5 (FCCC/PA/CMA/2023/16/Add.1) ('UAE Consensus') [28 (d)].

⁸ These are contained in Articles 2 and 4 of the Paris Agreement. See ICJ advisory opinion on climate change at [224] <<https://www.icj-cij.org/sites/default/files/case-related/187/187-20250723-adv-01-00-en.pdf>>.

⁹ *Ibid.*

¹⁰ *Ibid.*, [224]; [242].

¹¹ Expert Report of Professor Malte Meinshausen dated 14 July 2023, Federal Court of Australia, *Pabai & Anor v Commonwealth of Australia* (VID622/2021) July 2023 <https://www.fedcourt.gov.au/_data/assets/pdf_file/0007/117835/Expert-report-of-Malte-Meinshausen-14-July-Redacted-2023.pdf>.

¹² UNSW Australian Human Rights Institute, Australian Climate Accountability Project, *Escalation: The destructive force of Australia's fossil fuel exports on our climate* (Report, August 2024) 2 <https://issuu.com/humanrightsdefender/docs/2024_escalation_report_v7_/4?ff?>.

Following the ICJ's advisory opinion, the impetus for Australia and other large fossil fuel exporting countries to take the lead in relation to phasing down their fossil fuel exports is growing. The opinion specifically observed that countries are legally obliged to prevent harms caused by climate change – including by taking appropriate action to protect the climate system from GHG emissions through:

- fossil fuel production
- fossil fuel consumption
- the granting of fossil fuel licenses
- the provision of fossil fuel subsidies.
- regulating the fossil fuel industry.¹³

Accordingly, we recommend the Australian government:

- **reconsider its stance on approving new fossil fuel projects – including those geared to export markets.¹⁴**
- **cease the provision of fossil fuel subsidies,¹⁵ and**
- **strengthen the regulation of the fossil fuel industry's impacts on climate change including by mandating corporate net zero transition plans for large companies (discussed directly below) and expanding and strengthening the Safeguard Mechanism (discussed in response to Issue Paper questions 5 and 6 on pages 14-17 below).**

2.2 Mandate corporate net zero transition plans for large companies:

A net zero transition plan is essentially a corporate strategy to decarbonise and contribute to a net zero economy as well as enhance resilience to the physical impacts of climate change.¹⁶ Transition plans set out a company's climate targets, a forward-looking roadmap of the actions it will pursue to achieve those targets and associated capital

¹³ ICJ advisory opinion on climate change [427]-[428].

¹⁴ Wesley Morgan and Gillian Moon, *World's highest court issues groundbreaking ruling for climate action. Here's what it means for Australia* (24 July 2025) <<https://theconversation.com/worlds-highest-court-issues-groundbreaking-ruling-for-climate-action-heres-what-it-means-for-australia-261842>>.

¹⁵ Some scholars and international organisations claim the support provided by the Australian government to the fossil fuel industry constitutes fossil fuel subsidies, though this issue is highly contested. See further, eg, Vernon Rive, *Fossil Fuel Subsidy Reform: An International Law Response* (Edward Elgar Publishing, 2019); Jakob Skovgaard 'International Push, Domestic Reform? The Influence of International Economic Institutions on Fossil Fuel Subsidy Reform' in Jakob Skovgaard and Harro van Asselt (eds), *The Politics of Fossil Fuel Subsidies and Their Reform* (Cambridge University Press, 2018) 100, 104; Jeremy Moss, *Matt Canavan says Australia doesn't subsidise the fossil fuel industry, an expert says it does* (3 June 2020) <<https://theconversation.com/matt-canavan-says-australia-doesnt-subsidise-the-fossil-fuel-industry-an-expert-says-it-does-131200>>. For a summary of Australia's historical position on whether it provides fossil fuel subsidies see Productivity Commission, *Trade and Assistance Review 2020-2021* (Report, August 2022) 44.

¹⁶ Australian Treasury, *Sustainable Finance Roadmap* (Report, June 2024); Transition Plan Taskforce, *Disclosure Framework* (Report, October 2023); IGCC, *Corporate Climate Transition Plans: A Guide to Investor Expectations* (Report, March 2022); United Nations High Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities, *Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions* (Report, November 2022); CDP, IGCC, and PRI, *Corporate Climate Transition Plans are an Essential Building Block on Global Reporting Baseline* (Investor Statement, September 2023); CDP, *Climate Transition Plan* (Discussion paper, 12 November 2021); Climate Integrity, *Net Zero Integrity: Assessment of Net Zero Pledges of Australian Companies* (Report, February 2024); Ethical Partners Funds Management, *Credible Transition Plan Framework* (Report, March 2024).

expenditure and investments. This is intended to centre climate change in company strategy and decision-making and provide stakeholders with qualitative information about forward-looking climate risks and impacts.

Many Australian companies have set net zero climate targets (75% of the ASX200). However, these commitments are rarely supported by robust transition strategies that set out Paris-aligned interim targets, capital allocation strategies and accountability measures such as tying executive remuneration to climate performance.¹⁷

Institutional investors and other market stakeholders are increasingly seeking the disclosure of corporate net zero transition plans to provide them with additional qualitative information about a companies' preparedness to manage climate risks and the robustness of their commitment to net zero targets.¹⁸

Australia's Sustainable Finance Roadmap does not propose mandatory disclosure of net zero transition plans. Rather, it foreshadows the development of best practice guidance to support credible transition planning.¹⁹ This will not require transition plans to align with the goals of the Paris Agreement.²⁰ While the new AASB climate reporting standard does require companies to disclose material information that is relevant to assessing company performance against key climate transition criteria, there is no explicit requirement for companies to:

- disclose GHG emissions targets or climate transition plans in a particular format; or
- to align targets and strategy with the global climate goals set out in the Paris Agreement.²¹

The lack of a requirement to align transition measures with global climate goals, weakens the potential impact of this reform.

The policy approach taken by the Government to date rests on an assumption that institutional investors will have sufficient incentives and resources to steward investee companies to align their climate risk management with Paris Agreement goals. While investors certainly can exert influence over investee companies, stewardship is costly and resource-intensive and changes in individual companies can take many years of sustained pressure. Placing those expectations and associated costs on institutional investors (particularly superannuation funds) does not necessarily align with the best financial interests of their members. Additionally, relying on investor stewardship may limit the ambition of corporate net zero plans. Given the Australian Government has now legislated the temperature goals of the Paris Agreement in the *Climate Change Act 2022 (Cth)*, it is appropriate that the Government takes steps to ensure corporate entities align to a similar ambition, to maximise the likelihood of achieving Paris Agreement goals.

Mandating the preparation and disclosure of net zero transition plans for selected large companies and requiring these to align with a specific and ambitious temperature goal (1.5°C) would be a more direct and effective way to ensure that the Sustainable Finance Strategy contributes to shifting private capital and resources away from climate-damaging activities in alignment with global climate goals.

¹⁷ Anita Foerster and Michael Spencer, 'Corporate Net Zero Pledges: a triumph of private climate regulation or just more greenwash?' 32(1) (2023) *Griffith Law Review* 110-142.

¹⁸ See e.g., Climate Action 100+, *Net Zero Company Benchmark*, <<https://www.climateaction100.org/net-zero-companybenchmark/>>; ACSI, *Promises, Pathways and Performance: Climate Change Disclosure in the ASX200* (2024).

¹⁹ Australian Government, *Treasury, Sustainable Finance Roadmap* (June 2024) 6.

²⁰ *Ibid*, 15.

²¹ Australian Accounting Standards Board (AASB), *S2 - Climate-related Disclosures*.

2.3 Prioritise integrated approaches to the interlinked policy challenges of climate change and nature loss:

Climate change and nature loss are interrelated, compounding crises. For example, climate change is a key driver of nature loss, and simultaneously the destruction of ecosystems exacerbates climate change (e.g. land clearing, deforestation). Loss of ecosystems can increase the exposure and vulnerability of human settlements, infrastructure and economic activity to climate change. While there are some obvious policy synergies between these two policy areas (e.g. nature-based solutions for reducing emissions and building resilience to climate change), some regulatory responses to climate change can lead to further nature loss (e.g. monocultural carbon plantings, renewable energy infrastructure, critical mineral mining).

Considering that Australia has obligations under both the international climate change²² and biodiversity protection regimes;²³ and that loss of ecosystem services presents far-reaching and significant economic implications for Australian society;²⁴ it is critical that policy responses to climate change minimise trade-offs and maximise synergies with biodiversity policy responses (and vice versa) as far as possible.

We recommend the Australian Government explicitly consider the potential for integrated approaches to climate change and nature loss wherever possible, including in the following key reform areas:

2.3.1 Reform environmental approval regimes for clean energy infrastructure (discussed in response to Issues Paper questions 3 and 4 on pages 13-14 below).

2.3.2 Expand sustainable finance reforms to include nature

In 2024, the Australian Government set out their sustainable finance agenda including new mandatory corporate sustainability reporting standards. The Government indicated that they would take a climate-first approach but would expand reforms over time to encompass other sustainability risk issues, such as nature.²⁵

Australian companies across the economy face significant material financial risks from biodiversity loss and the degradation of natural ecosystems; and the management of these risks has serious implications for the stability of the Australian economy.²⁶ Large institutional investors are increasingly seeking information on the risk exposure of their investments, and evidence that investee companies are taking reasonable and proportionate steps to manage nature-related risks.²⁷

²² In Australia's Nationally Determined Contribution, submitted to the Paris Agreement under the United Nations Convention on Climate Change in 2021, Australia commits to reduce its GHG emissions by 43% on 2005 levels by 2030, in line with its net zero by 2050 goal: <<https://unfccc.int/NDCREG>>.

²³ In Australia's National Biodiversity Strategy and Action Plan, submitted under the Kunming-Montreal Global Biodiversity Framework, Australia commits to a range of biodiversity conservation targets including to protect 30% of terrestrial and marine environments by 2030 and to restore 30% of degraded ecosystems. See, DCCEEW, *Australia's Strategy for Nature 2024–2030*.

²⁴ Australian Conservation Foundation, *The Nature-based Economy: How Australia's prosperity depends on nature* (2022, Pollination, Australian Ethical).

²⁵ Australian Government, Treasury, *Sustainable Finance Roadmap* (June 2024).

²⁶ Australian Conservation Foundation, Pollination and Australian Ethical, *The Nature-based Economy: How Australia's prosperity depends on nature* (2022). On nature-related financial risks generally, see, Taskforce on Nature-related Financial Disclosures, *Recommendations of the Taskforce on Nature-related Financial Disclosures* (Sept 2023).

²⁷ See e.g., Nature Action 100, 'Investor Expectations' <<https://www.natureaction100.org/investor-expectations-for-companies/>>

Australian companies and their directors already have underlying legal duties to identify, manage and disclose nature-related risks when they are material to the company's interests.²⁸ However, nature risk disclosure and management practices are in their infancy.²⁹ Past experience with climate-related disclosures has shown that without a mandatory reporting standard and increased regulatory oversight, risk disclosure and management practices will develop slowly and reporting is likely to be of mixed quality and poorly suited to the needs of investors and other stakeholders.³⁰

We recommend the prompt introduction of a nature-related financial risk reporting standard to bring Australia into line with leading international jurisdictions,³¹ and support companies and investors in their efforts to address these risks alongside the financial risks of climate change.

Indeed, for many Australian companies, there are likely to be considerable opportunities to address climate and nature-related financial risks in tandem. This might involve constraining business activities which generate greenhouse gas (GHG) emissions and nature loss through deforestation or extensive land use change, or investment in nature-based solutions to heighten business resilience to climate change impacts. Opportunities for integration are certainly recognised in industry frameworks for corporate risk disclosure and management, such as the Taskforce on Nature-related Financial Disclosures (TNFD),³² and these opportunities are beginning to be acknowledged by some companies in corporate disclosures.³³ However corporate approaches to nature-related financial risk generally, and to integrating climate and nature specifically, are still developing, and only some leading companies are disclosing more concrete strategies to implement integrated risk management.³⁴

2.3.3 Review environmental market settings to recognise and incentivise integrated approaches

The Australian Carbon Credit Unit (ACCU) market is now an entrenched part of Australia's response to climate change, and interfaces with the Safeguard Mechanism to provide flexible pathways for companies to meet their emissions reduction obligations (and to meet any voluntary climate targets that they have set). Australia has also recently introduced the Nature Repair Market to attract new investment, including from the private sector, in nature

²⁸ Sebastian Hartford David and Zoe Bush, *Nature-related risks and Directors' Duties – Joint Memorandum of Opinion* (24 October 2023).

²⁹ See e.g., Australian Conservation Foundation, *The Future of Food: Are Australian food companies failing nature?* (2024).

³⁰ TCFD, *2021 Status Report: Taskforce on Climate-Related Financial Disclosures* (2021); Investor Group on Climate Change, CDP and Principles for Responsible Investment, *Confusion to Clarity* (Report, June 2021); Luisa Unda and Anita Foerster, 'Climate Risk Disclosure, Compliance and Regulatory Drivers: A Textual Tone Analysis' (2022) 39 *Company and Securities Law Journal* 47; Anita Foerster and Michael Spencer, 'Corporate Net Zero Pledges: a triumph of private climate regulation or just more greenwash?' 32(1) (2023) *Griffith Law Review* 110-142.

³¹ For example, the European Financial Reporting Advisory Group adopted comprehensive sustainability reporting standards in July 2023 which include ESRS E4 (Biodiversity and Ecosystems): Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 Supplementing Directive 2013/34/EU of the European Parliament and of the Council as Regards Sustainability Reporting Standards [2023] OJ L 2023/2772 ('EU Regulation 2023/2772'), annex I ('EU Regulation 2023/2772 Annex').

³² See, e.g., TNFD, *Guidance on biomes* (September 2023) 22; TNFD, *Recommendations of the Taskforce on Nature-related Financial Disclosures* (September 2023) 63, Figure 23: Drivers of nature change – reflecting both negative and positive impacts.

³³ See, e.g. Nature Action 100, *Nature Action 100 Company Benchmark Key Findings 2024* (October 2024) 9. This report noted that some companies 'reference efforts to address deforestation and broader land-use conversion, recognizing that natural landscapes support biodiversity and sequester carbon', or 'highlight how their regenerative agriculture or sustainable forest management practices simultaneously reduce greenhouse gas emissions and protect biodiversity'.

³⁴ *Ibid.*

conservation and restoration. Yet, the ACCU Scheme and Nature Repair Market have been designed to operate in parallel, with little attention given to maximising potential synergies and co-benefits.³⁵

Where companies are using or proposing to use carbon credits towards compliance obligations under the Safeguard Mechanism, or to offset residual GHG emissions as part of their climate transition strategies, there are opportunities for them to do so in a manner which also addresses nature-related risks and impacts by targeting investment in carbon projects that deliver clear biodiversity co-benefits. Not all carbon credit projects offer positive biodiversity outcomes and indeed some carbon methods (e.g. monocultural plantings) represent missed opportunities for biodiversity gains, and in some cases, can even lead to biodiversity loss. Demand for ACCUs is also likely to be greater than demand for biodiversity certificates, given the ACCU Scheme is linked to a compliance market, unlike the Nature Repair Market. There is a related risk that entities with Safeguard Mechanism obligations will invest in the cheapest carbon outcomes, rather than those with biodiversity co-benefits.³⁶ Current regulatory settings do not adequately recognise, value and incentivise biodiversity co-benefits of different types of carbon projects.³⁷

We recommend development of measures to better integrate Australia’s carbon and nature markets and realise their potential to contribute to both climate change and nature restoration policy goals.

These might include improvements to ACCU methods to recognise, enhance and protect nature; statutory provision for strategic planning for landscape-scale restoration to guide the operation of carbon and biodiversity markets; and institutional reforms to recognise and resource regional natural resource management (NRM) organisations to contribute to strategic planning and provide intermediary support for landholders to engage with environmental markets.³⁸

2.3.4 Issue a Green Bond in 2025

The Australian Government is expected to issue around \$150 billion of Treasury Bonds (including Green Treasury Bonds) in 2025-26.³⁹ On 4 June 2024 the Government issued its first Green Treasury Bond. Whilst state governments have issued green bonds, this was the first sovereign green bond.⁴⁰ Australian Green Treasury Bonds align with a Green Bond Framework which commits the Australian Government to allocate an amount equal to the total net proceeds of any green bonds issued to finance and/or refinance, in whole or in part, Eligible Green Expenditures that meet the Green Bond Criteria. Eligible Green Expenditures must align strongly with one or more of the Australian

³⁵ A related issue is that these national-level markets do not interface well with existing state-level regimes. See eg, Ian Chubb et al, *Independent Review of ACCUs* (Final Report, December 2022) 26 (‘ACCU Review’) which found the ‘lack of regional coordination, planning and consistency between local, state and federal policies impede landholder participation in the scheme’.

³⁶ The uncertain demand and long-term outlook for investment in ACCUs that can deliver co-benefits is noted in NRM Regions Australia and Carbon Market Institute, *Carbon for Nature – Leveraging carbon farming investment to deliver additional benefits for nature* (Report, 2025) 8.

³⁷ NRM Regions Australia and Carbon Market Institute, *Carbon for Nature* (2024); Anita Foerster and Ella Vines, ‘Net Zero and Nature Positive – Mapping the regulatory impact and interaction of global environmental goals in Australia’ *Monash University Law Review* (forthcoming 2025).

³⁸ These and other reforms are canvassed in NRM Regions Australia and Carbon Market Institute, *Carbon for Nature* (2024) 50-54.

³⁹ Australian Office of Financial Management, ‘Issuance Program: Budget 2025-26’ <<https://www.aofm.gov.au/issuance-program-budget-2025-26>>.

⁴⁰ Australian Office of Financial Management, ‘Inaugural Green Treasury Bond syndication’ <<https://www.aofm.gov.au/investors/wholesale-investors/investor-insights/inaugural-green-treasury-bond-syndication>>.

Government's three key Green Goals (climate change mitigation, climate change adaptation and improved environmental outcomes).⁴¹ Environmental projects financed through the first Green Treasury Bond include funding of the Urban Rivers and Catchments Program, Saving Koalas Fund, Reef 2050 and Murray-Darling Basin Plan.⁴²

There is an opportunity for future issuance of Australian Green Treasury Bonds to widen the scope of environmental projects that are funded. Funding environmental projects through Green Treasury Bonds has the capacity to support the development of nature markets by establishing a benchmark upon which other lending can be based.⁴³

We recommend an expansion of Australian Green Treasury environmental projects that would support the development of nature markets.

2.4 Advancing adaptation priorities through governance, management skills and finance

While there is evidence of increasing awareness of the need to adapt to changing climate and a substantial number of projects labelled as adaptation⁴⁴, there is little systemic activity and transformative change. Many of these activities are simply 'wheel spinning' on project funding that lack clear direction, are too often short term and lack M&E criteria focused on outcomes. Many people working on local adaptation lack agency and are being burnt out chasing limited funds for boutique projects that are not part of a broader plan and are not followed through⁴⁵. Adaptation is essentially local. While local government is often seen as the vehicle for locally led adaptation, it lacks people, resources and skills for implementing a comprehensive adaptation strategy⁴⁶.

Australia's adaptation shortcomings start at a federal level and work their way down through the states to local government and communities. Australia has not submitted a National Adaptation Plan to the UNFCCC. The government committed to a national risk assessment and adaptation plan during the term of the last Parliament, but it was not delivered prior to the election. The risk assessment is understood to be completed but at the time of writing, no date has been set for its release. Further, there does not appear to be a strategy for follow-up once these documents are released. How will adaptation be implemented? What are the outcomes that will measure success? How will local leadership be provided with the skills and, most importantly, how will a national adaptation strategy secure the very substantial finance required.

Acting urgently on adaptation is not an optional policy initiative. The growing cost of climate impacts for Australia has been documented in the Treasury's Intergenerational Report.⁴⁷ The Colvin Review⁴⁶ estimated the cost of disasters

⁴¹ Australian Office of Financial Management, *Australian Government Green Bond Framework* (December 2023).

⁴² Australian Office of Financial Management, *Australian Government Green Treasury Bond Allocation and Impact Report* (February 2025).

⁴³ Gordon Noble, *Investors have bid against each other to buy Australia's first green bond. Here's why that's a great sign.* (11 June 2024), <<https://theconversation.com/investors-have-bid-against-each-other-to-buy-australias-first-green-bond-heres-why-thats-a-great-sign-231807>>.

⁴⁴ See for example the Australian Adaptation Database (<https://australianadaptationdatabase.unimelb.edu.au/>) and proceedings of the Climate Adaptation Conference 2025

⁴⁵ Spencer, M, Stanley, J, Wohlgezogen, F, Zhu-Maguire, I, *Report on the Goulburn Broken Catchment Workshop on Adaptation to Climate Change*, Melbourne Climate Futures, Monash Business School and Strathbogie Ranges Conservation Management Network, August 2022, <https://www.strathbogie.org.au/wp-content/uploads/Spencer-et-al.-2022-Strathbogie-Ranges-Adaptation-to-Climate-Change-Report-V.5.4-.pdf>

⁴⁶ In addition to Spencer et al. *ibid*, personal conversation with Katrina Graham, Local Government Climate Practitioner, August 2025

⁴⁷ The Australian Treasury, *2023 Intergenerational Report* (24 August 2023).

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will rise from \$12 billion in 2023-24 to more than \$40 billion in 2049-50 while the annual cost to the federal budget will be \$9 billion.⁴⁸ The cost of slow-moving changes associated with changing weather may double those figures with those costs being borne disproportionately by the nation's most vulnerable people.⁴⁹

While disaster costs have been well canvassed, the structural implications for private, corporate and public assets are still poorly understood.⁵⁰ Insurance is becoming too costly, creating an insurance gap (underinsurance or no insurance). As a result, risk is being passed on to households that are least able to bear it, and governments are often called upon to fill the gap. This issue compounds when homes and businesses can no longer be used as security because they are uninsured and are denied access to conventional loan funds. Chambers of Commerce across northern Australia have drawn attention to this problem⁵¹ but it also has implications for homeowners, banks and fiscal stability.⁵² An inability to access affordable insurance, and therefore availability of bank finance, will only exacerbate housing affordability challenges.

The way that these impacts play out geographically is cause for further concern. Climate-resilient communities attract new residents due to moderate increases in insurance, driving a rise in property values and economic growth. Other regions face a future of declining property values and economic contraction. Local governments face eroding tax bases just as adaptation needs grow. In the United States, a recent First Street report argues that these forces are not just reshaping housing markets, they're reconfiguring the economic geography of the US, reshaping patterns of development and migration.⁵³ The report anticipates \$1.47 trillion of net property losses over the next 30 years due to climate-related risks. Some communities will approach a climate-driven tipping point.

It is not just small and medium businesses and homeowners that stand to be impacted. S&P recently assessed the exposure of its S&P 1200 to climate impacts. The group collectively owns about 3.5 million assets. The financial implications of those assets' exposure to climate hazards was estimated at US\$25 trillion by 2050. Steven Bullock of S&P said the results were 'baked in, irrespective of the climate scenario and without adaptation' and noted that the impacts would be most severe for capital intensive sectors such as utilities and energy. He reinforced the point that even though acute hazards (disasters) were costly, 'the most significant impacts we identified related to chronic hazards such as water stress and extreme heat.'⁵⁴

Building a resilient and climate adaptive Australia is key to a prosperous, harmonious and equitable future. A maladapted Australia is inefficient, inequitable, uncompetitive and vulnerable.

⁴⁸ Andrew Colvin, *Independent Review of Commonwealth Disaster Funding, Final Report* (30 April 2024).

⁴⁹ The costs and distribution of slow-moving impacts are canvassed for example in R. Jisung Park, *Slow Burn; The hidden costs of a warming world* (Princeton University Press, 2024).

⁵⁰ For a discussion of the evolving insurance implications for Australian homeowners and small businesses, see Michael Spencer, 'How climate change is reshaping real estate and economic geography,' *Monash Lens*, 11 February 2025, <<https://lens.monash.edu/@michael-spencer/2025/02/11/1387336/climate-change-a-cost-of-living-and-housing-affordabilityissue>>.

⁵¹ Townsville Chamber of Commerce, *Submission: Market Failure in Insurance in Northern Australia*, 1 February 2025, <<https://www.townsvillechamber.com.au/insurance-submission/>>.

⁵² See Reserve Bank of Australia, *Finance Stability Review* (April 2025), <<https://www.rba.gov.au/publications/fsr/2025/apr/>>.

⁵³ First Street, *High Water, High Stakes: FEMA, Flood Risk, and the NFIP* (3 February, 2025), <<https://firststreet.org/researchlibrary/property-prices-in-peril>>.

⁵⁴ *Building an investment case for adaptation and resilience, discussion facilitated by S&P Global Sustainable and Responsible Investor*, 14 July 2025; <https://www.responsible-investor.com/building-an-investment-case-for-adaptation-and-resilience/?utm_source=newsletter-daily&utm_medium=email&utm_campaign=ri-daily-bronze&utm_content=15-07-2025>.

The biggest obstacles to effective climate change adaptation in Australia are governance or institutional arrangements, skills and finance. The Australian government needs to explore a range of reforms to help address these obstacles, including:

2.4.1 Strengthen Adaptation Leadership and Governance

Both the Colvin⁵⁵ and Glasser reviews⁵⁶ highlighted that Australia lacks clear leadership on adaptation.⁵⁷ Even at the National Cabinet, resilience is included in the brief for two different ministerial councils.⁵⁸ Given the scale of the adaptation challenge, national leadership needs to signal the importance the Government attaches to adaptation and promote the involvement of federal and state agencies as well as the private sector. Breakthrough innovation on adaptation is a potential source of competitive advantage but will require a coordinated national effort.⁵⁹

While national leadership is critical, it is also widely acknowledged that adaptation needs to be locally driven and responsive to local contexts. Yet to lead effectively, local communities require support in accessing and analysing climate science, data, risk assessment, planning, implementation, governance and finance. Recently released guidelines by the NSW Government, highlight the need for collaboration between local governments on adaptation.⁶⁰ This will require new forms of local governance to better link municipalities, state agencies, chambers of commerce, traditional owner groups, industry associations, health, ageing and welfare providers as well as community groups. These initiatives will need to be given agency by state and federal governments.

In California, the state has legislated for Climate Resilience Districts to establish targeted local entities with the authority to establish and act on adaptation and resilience priorities including an ability to access public and private finance to undertake works.⁶¹ This provides a model that could be adapted to the Australian context, a project that Green Lab is currently developing.⁶² This will also require bringing new skills into the local domain to both manage and finance large complex strategies for adaptation over the longer term.

There are institutional arrangements in Australia upon which a climate resilient districts approach could be built such as Joint Organisations in NSW, climate alliances in Victoria, pilot alliances in Queensland and West Australia and a regional model in Tasmania. The NSW government also recently passed legislation to provide for Community Improvement Districts (CIDs) that provide for place-based partnerships between local government and the

⁵⁵ Andrew Colvin, *Independent Review of Commonwealth Disaster Funding*, Final Report, (30 April 2024).

⁵⁶ Robert Glasser, *Independent Review of National Natural Disaster Governance Arrangements* (3 Dec 2023).

⁵⁷ Climate Change Authority, *Home Safe – National leadership in adapting to a changing climate* (June 2025), <<https://www.climatechangeauthority.gov.au/sites/default/files/documents/2025-06/HomeSafeNationalLeadershipinadaptingtoaChangingClimate.pdf>>.

⁵⁸ Adaptation and resilience is the domain of the Energy and Climate Change Ministerial Council, while disaster management and resilience is the remit of the National Emergency Management Ministers' meeting.

⁵⁹ See, e.g., The White House, *Resilience Game Changer Assessment*, July 2024, <<https://bidenwhitehouse.archives.gov/wpcontent/uploads/2024/07/Climate-Resilience-Game-Changers-Assessment.pdf>>.

⁶⁰ NSW Reconstruction Authority, *NSW Disaster Adaptation Plan Guidelines*, August 2025, <https://www.nsw.gov.au/departments-and-agencies/nsw-reconstruction-authority/our-work/disaster-adaptation-plans/guidelines>

⁶¹ See, e.g., <https://rcpa.ca.gov/about-rcpa/climate-resilience-districts/>.

⁶² Green Lab Monash Business School, *Climate Resilience Districts Pilot Program – bringing together governance, science and finance*, (November 2024). For a summary see, <<https://lens.monash.edu/@business-economy/2025/07/21/1387711/fromwarning-to-action-the-real-cost-of-inaction-on-disaster-resilience>>.

community.⁶³ The key innovation would be in providing an agency to lead on adaptation, upskilling to undertake systemic risk assessments and plans and linking plans to a broad range of private and public finance opportunities with a range of skills and instruments for implementation.

We recommend the Australian Government consider establishing a single focus institution that has two roles:

- **to provide leadership on adaptation including fostering new ideas, approaches and technologies; and**
- **to support local leadership of adaptation with legal agency, access to finance and skills to undertake risk assessments, planning, public and private financing and implementation.**

2.4.2 Facilitate new approaches to adaptation finance

Funding a comprehensive and systemic approach to adaptation is beyond the scope of government. Governments will need to make best use of available funds and combine their resources with private money either through blended finance or as a lead investor in adaptation projects. This will require new skills, markets and mechanisms. Local government and community groups typically rely on funding from higher levels of government and have limited capacity beyond applying for and managing their tax base and grants. A reliance on grants for adaptation can distort and disrupt long-term programs as government funding is switched on and off or priorities change. There are also often onerous application and reporting burdens, and funding is highly risk averse⁶⁴.

New approaches to financing adaptation are needed. A considerable proportion must come from private funds as either philanthropy, loans, social investment or innovative financial products. In considering these matters, thought needs to be given to the legal entities receiving the funds.

A key challenge for accessing private finance is that Australia does not have a deep and liquid municipal bond market. While local governments can borrow for their needs, local government debt is ultimately considered as a part of state government debt obligations. In an environment where state governments risk credit rating downgrades there is a disincentive to encourage local governments - or other entities that may be created under state legislation - to borrow. This reveals a critical policy limitation—namely, the absence of scalable, non-grant financing mechanisms to fund investments that build community resilience.

One important opportunity for innovative financing of climate change adaptation is the issue of sovereign green bonds or specific adaptation bonds - to provide a pool of funds for local adaptation initiatives.

Australia issued its first sovereign green bond in June 2024. Green sovereign bonds are important, not only to raise project funds but also to establish a benchmark for the development of a green finance market. The scale of the adaptation challenge suggests there are opportunities for private investment, but governments will need to help overcome concerns over uncertainty and unpredictability as well as the timeframe for returns. This will involve

⁶³ *Community Improvement Districts Act 2025 (NSW)* and see also <https://www.transport.nsw.gov.au/projects/current-projects/community-improvement-districts-new-south-wales>

⁶⁴ Spencer et al. op cit.

structuring incentives or removing disincentives. Lessons can be learnt from recent experience in the United States, where there is increasing private sector interest and engagement in green bond markets.⁶⁵

A model that could be used for this purpose is House Australia's Housing Bond Aggregator where the Australian Government provides loans to Community Housing Providers (CHPs). Since March 2019, Housing Australia has issued over A\$2.8 billion in social bonds and sustainability bonds. Monash Business School Green Lab is currently developing this model via a team with experience in sustainable finance, venture capital, banking and finance as well as governance, in collaboration with local government stakeholders.

We recommend the Australian Government establish a Community Futures Resilience Fund (or similar) to provide access to finance for communities and local entities for the purposes of climate adaptation and resilience, based on the Housing Aggregator model.

Deploying renewable energy infrastructure

3 What are the main challenges to deploying the renewable energy and related infrastructure needed to reach Australia's targets, including:

- **the 82% renewable energy target by 2030**
- **the Capacity Investment Scheme targets (at least 26 GW of renewable generation capacity and 14 GW of clean dispatchable capacity by 2030)**
- **net zero by 2050**

4 What can the Australian Government do to address these challenges?

A key challenge to deploying renewable energy and related infrastructure needed to reach Australia's targets is the long-overdue need to reform environmental approval regimes.

Progressing reforms to national and state level biodiversity protection laws (including the *Environment Protection and Biodiversity Conservation Act 1999* (Cth)) is critical to ensuring that biodiversity is adequately protected in the roll out of clean energy infrastructure. These regimes have been ineffective in stemming nature loss due to a project-by-project assessment approach that ignores cumulative impacts and a heavy reliance on inadequately regulated biodiversity offsets. The lack of clear outcome-focused standards and constraints for decision-making has also led to inefficiencies and duplication.⁶⁶

As reforms progress, increased attention must be given to ensuring that:

⁶⁵ For further discussion, see Gordon Noble, *Investors have bid against each other to buy Australia's first green bond. Here's why that's a great sign.* (11 June 2024), <<https://theconversation.com/investors-have-bid-against-each-other-to-buy-australias-first-green-bond-heres-why-thats-a-great-sign-231807>>.

⁶⁶ See, Australian Government, Department of Agriculture, Water and the Environment (now renamed DCCEEW), Graeme Samuel, *Independent Review of the EPBC Act* (October 2020); Rebecca Nelson, 'Breaking Backs and Boiling Frogs: Warnings From a Dialogue Between Federal Water Law and Environmental Law' (2019) 42(4) *UNSW Law Journal* 1179; Rebecca Nelson, 'Broadening Regulatory Concepts and Responses to Cumulative Impacts: Considering the Trajectory and Future of Groundwater Law and Policy' (2016) 33 *Environmental and Planning Law Journal* 356.

- the energy transition is not unnecessarily delayed by inefficient and duplicative environmental assessment processes; AND
- adequate safeguards are established to ensure that the energy transition does not come at the expense of continued nature loss and associated loss of critical ecosystem services.

Australia's environmental laws must include:

- **clear protections for areas and habitat features that are irreplaceable;**
- **tighter constraints on the use of biodiversity offsets to ensure that all efforts are made to avoid and minimise biodiversity loss before resorting to an offset; and**
- **better provision for strategic bioregional planning to guide development decisions – not only for clean energy infrastructure but also other priority areas such as affordable housing.**

The Safeguard Mechanism

- 5 How effective is the Safeguard Mechanism in driving onsite emissions reductions at Australia's largest industrial facilities since its 2023 reform?**
- 6 What changes could the Australian Government make to the mechanism to help achieve Australia's emissions reductions targets, considering for example:**
 - **coverage**
 - **baseline settings**
 - **decline rates**
 - **flexibility mechanisms**
 - **rules on ACCU use?**

The Safeguard Mechanism is currently the central means of achieving the GHG emissions reduction targets set in the *Climate Change Act 2022* (Cth). Following reforms in 2023, the Safeguard Mechanism now imposes declining emissions reduction obligations (known as baselines) on a selection of Australia's highest emitting industrial facilities. These baselines align with Australia's 2030 and 2050 emissions reduction targets.⁶⁷ Facilities that reduce their emissions beyond their baselines generate Safeguard Mechanism Credits (SMCs) which can be sold to other facilities or kept and surrendered to meet future obligations in line with a facility's declining baseline. Facilities can also purchase and surrender carbon credits, generated under the ACCU scheme, to meet their baselines. The only limit on the use of ACCUs is a transparency measure. Where a facility surrenders ACCUs equal to or more than 30 per cent of its baseline, they must also submit a statement to the regulator explaining why more direct carbon abatement was not undertaken and discussing any future carbon abatement opportunities.⁶⁸

There are several opportunities to expand and strengthen the Safeguard Mechanism to achieve greater emissions reductions in an efficient and timely manner:

⁶⁷ *Safeguard Mechanism (Crediting) Amendment Act 2023* (Cth) s 1 which repeals and replaces s 3(2) of the NGER Act.

⁶⁸ National Greenhouse and Energy Reporting (Safeguard Mechanism) Amendment (Reforms) Rules 2023 r 72C(4), r 72C(5)(b)-(d).

6.1 Lower the emissions threshold

The Safeguard Mechanism applies to a selection of Australia's largest industrial 'facilities' that emit more than 100,000 tonnes of CO₂-e in scope 1 emissions per year.⁶⁹ There are currently only 219 facilities with safeguard mechanism obligations, across the mining, oil and gas production, manufacturing, transport and waste sectors, covering only approximately 30% of Australian GHG emissions.⁷⁰ **This high threshold has the effect of excluding many companies and should be lowered.** Recent research by the Carbon Market Institute estimates that lowering the facility-level compliance threshold could result in an additional 8% GHG emissions covered under the scheme.⁷¹

6.2 Expand the sectoral coverage of the mechanism

The Safeguard Mechanism applies to the largest industrial facilities across the mining, oil and gas production, manufacturing, transport and waste sectors.⁷² **Consideration should be given to expanding the Safeguard Mechanism to more sectors.**

6.3 Reconsider the way that the Safeguard Mechanism applies to the electricity sector

The Safeguard Mechanism applies to the electricity sector in a different way to other sectors. A single 'sectoral' baseline is applied across all electricity generators connected to one of Australia's main electricity grids. Individual grid-connected electricity generators are not covered if total emissions from grid-connected electricity generators do not exceed the sectoral baseline. The collective baseline figure has been set so high – 198 million tonnes CO₂-e – that it is not likely to be exceeded until 2030,⁷³ and the individual assessment process has not yet occurred.⁷⁴ **Consideration should be given to applying the Safeguard Mechanism to electricity generators in the same way as obligation holders from other sectors.**

6.4 Reconsider the application of the mechanism at the scale of facility

Under the current rules, if a company has multiple facilities with emissions that fall below the large facility threshold, these are not aggregated to impose emissions reduction obligations on that company.⁷⁵ This may result in only a portion of the emissions of a responsible emitter being covered by a declining baseline, or indeed companies in high emitting sectors with multiple facilities not subject to emissions reduction obligations at all. As well as limiting the overall scope 1 emissions that are subject to the Safeguard Mechanism, the facility construct does not support the most efficient decarbonisation at the company scale. It may also present perverse incentives for companies to restructure in order to operate multiple facilities under the threshold. **To address these issues, the facility construct**

⁶⁹ *National Greenhouse and Energy Reporting Act* (Cth) ss 9, 22XI.

⁷⁰ Australian Government, Clean Energy Regulator, 'Safeguard Mechanism' (Web page).

⁷¹ CMI, 'Future opportunities for Australia's Safeguard Mechanism' (media release, 21 July 2025)

<<https://carbonmarketinstitute.org/2025/07/21/future-opportunities-for-australias-safeguard-mechanism/>>.

⁷² <<https://www.dcceew.gov.au/climate-change/emissions-reporting/national-greenhouse-energy-reporting-scheme/safeguardmechanism>>.

⁷³ Sophie Power, 'Australia's climate safeguard mechanism: a quick guide' (Research Paper, Parliamentary Library, Parliament of Australia, 3 December 2018) 4.

⁷⁴ According to the Australian Government Clean Energy Regulator, National Greenhouse and Energy Reporting data for the 2022-23 reporting year (reported in February 2024), emissions in the electricity generation sector were 139.2 million tonnes of CO₂-e.

⁷⁵ *NGER Act* ss 9, 22XF, 22XI.

could be removed and the emissions reduction obligations applied at the entity scale. Recent research by the Carbon Market Institute argues that this could increase the scope 1 emissions covered by the Safeguard Mechanism by up to an estimated 30 per cent.⁷⁶

6.5 Reconsider flexibility measures for large facilities that operate in ‘trade exposed industries’

Trade exposed industries are afforded tailored treatment under the Safeguard Mechanism.⁷⁷ What constitutes ‘trade exposed industries’ is not defined in legislation, but definitions for two types of facility are set out in a Government position paper.⁷⁸ ‘Trade-exposed facilities’ are eligible to apply for competitive grants through the \$600 million Safeguard Transformation Stream within the Powering the Regions Fund. This funding is to ‘support on-site decarbonisation activities across the full spectrum of technological maturity on a technology neutral basis’.⁷⁹ ‘Trade-exposed baseline adjusted facilities’ are eligible to apply for a lower baseline decline rate.⁸⁰

Approximately 80 per cent of facilities covered by the Safeguard Mechanism fall into the ‘trade-exposed facilities’ category,⁸¹ which includes facilities that provide the products or services listed in Schedule 2 of the Safeguard Mechanism Rules. This extensive list includes some of Australia’s highest emitting industries like coal, oil and gas, industries that must be phased-down in order to meet global climate goals.⁸² **Instead of affording special treatment to the industries that worsen the climate crisis, special measures to support the phase out of fossil fuels and the industries that contribute to climate solutions – for example renewable energy – should be prioritised.**

6.6 Restrict the use of credits generated outside the scheme

The Safeguard Mechanism adopts a highly permissive approach to the use of credits generated outside the scheme (ACCUs) raising concerns that it will fail to sufficiently incentivise direct decarbonisation of high emitting industries. This permissive approach is of particular concern given the considerable and ongoing critique of the integrity of the ACCU scheme and particularly of widely used land sector methods such as human-induced regeneration and avoided deforestation. These methods have been heavily criticised for their failure to achieve real, additional and permanent carbon abatement.⁸³

Environmental offsetting schemes around the world typically employ the mitigation hierarchy as a core standard to constrain the use of offsets. The hierarchy requires that proponents demonstrate genuine efforts to avoid and reduce harmful impacts, before relying on offsets to compensate for residual impacts. While this standard is being

⁷⁶ CMI, ‘Future opportunities for Australia’s Safeguard Mechanism’ (media release, 21 July 2025)

<<https://carbonmarketinstitute.org/2025/07/21/future-opportunities-for-australias-safeguard-mechanism/>>.

⁷⁷ Australian Government, Department of Climate Change, Energy, the Environment and Water, *Safeguard Mechanism Reforms* (Position Paper, January 2023) 41.

⁷⁸ Ibid 41-49. ‘Trade exposed facilities’ are determined at an activity level. A trade exposed activity list is set out in Safeguard Mechanism Rule. ‘Trade exposed adjusted baseline facilities’ are those assessed as having an elevated risk of carbon leakage.

⁷⁹ Ibid 43.

⁸⁰ Ibid 44.

⁸¹ Ibid 43.

⁸² See submissions in relation to phasing down fossil fuel consumption and production in response to Issues Paper Questions 1 and 2 above.

⁸³ Andrew Macintosh et al, ‘Australian human-induced native forest regeneration carbon offset projects have limited impact on changes in woody vegetation cover and carbon removals’ (2024) 5 (149) *Communications Earth & Environment* 1.

adopted in voluntary schemes to guide companies on the use of offsets towards their net zero targets,⁸⁴ it is noticeably absent from the regulatory settings in the Safeguard Mechanism.

We recommend the mitigation hierarchy be introduced to the Safeguard Mechanism as a core standard and that specific rules be developed to give effect to this standard in an efficient manner. For example, regulated entities could be required to use any available SMCs (created within the scheme) to meet their baselines, before using ACCUs created outside the scheme. The option of limiting the total number of ACCUs available for purchase to meet Safeguard Mechanism obligations or phasing out the use of ACCUs over time should also be explored.

⁸⁴ Voluntary Carbon Markets Integrity Initiative (VCMI), *Claims Code of Practice – Building integrity in voluntary carbon markets*, V2.1 (August 2024).