Investor Group on Climate Change

Futureproofing Industry

Investor Priorities For a Reformed Safeguard Mechanism

August 2026

Image: A battery-powered earth loader, producing no on-site emissions, and able to run on renewable electricity.

Investor Group on Climate Change

About the Investor Group on Climate Change

We are the leading network for Australian and New Zealand investors to understand and respond to the risks and opportunities of climate change.

Our members include our countries' largest superannuation and retail funds, specialist investors and advisory groups. Their beneficiaries include more than 15.8 million Australians, and millions more New Zealanders. Our members manage more than $4.6 trillion locally.

We are a not-for-profit and our work is funded by members' fees and philanthropy from supporters who understand the power of capital to support climate action.

We acknowledge the traditional custodians of the lands on which we work. They include the Boonwurrung, Gadigal, and Ngunnawal people.

Acknowledgements

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This acknowledgement should not be interpreted as them or their employers necessarily endorsing any particular part of the final paper.

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Evolving the Safeguard Mechanism

The 2026-27 review of the Safeguard Mechanism presents an opportunity to accelerate Australia's energy transition, strengthen energy resilience and support industrial competitiveness and development, with targeted adjustments.

The Safeguard Mechanism is a critical first step in Australia's industrial transformation.

Its reform is an opportunity to improve the scheme's contribution to the government's goals of emissions reduction, industrial competitiveness, new industry and job development, and energy resilience. This aligns well to investors' goals, to manage transition risk in decarbonising their assets, and grow new industries to invest in.

Without reform the scheme will present cost to industry without developing any new competitive advantage.

Our research has found the present design of the Safeguard Mechanism will not drive significant on-site abatement and the credibility challenge associated with overreliance on offsets will worsen. Absent further reforms the Safeguard Mechanism will not improve the competitiveness of existing industry nor support the growth of new industries other than carbon farming.

Near-term opportunity already exists.

A key finding of this report is that significant abatement opportunities are available at incentive prices consistent with existing cost containment settings. Most lower cost abatement available to fossil fuel facilities is fugitive methane. The scheme is not currently capturing this opportunity as the carbon signal sits below the cost of most on-site abatement, so facilities offset instead.

IGCC's proposed reforms would address these challenges, building on the success of the scheme to date:

- Adjustments to Australian Carbon Credit Unit (ACCU) use and reserve pricing which lift the carbon price signal and will help business make the business case for on-site abatement.
- Differential decline rates which allow the scheme to target lowest cost, lowest margin impact abatement, which is presently not accessed.
- Shifting government support mechanisms into a long-term, defined funding structure designed to assist with the most difficult and competitively significant emissions reduction actions with minimum, targeted cost to government.
- Adjustments to decline rates to align with the 2035 target range, and a modest expansion to the scheme's coverage threshold.

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Recommendations

IGCC has developed the following recommendations for the Safeguard Mechanism Review based on technical analysis provided by EY, together with industry consultation.

IGCC Objective	No.	Recommendation to Government
The Safeguard Mechanism delivers its proportional share of Australia's 2035 Nationally Determined Contribution	**1**	Set an average decline rate of 7 per cent from 2031 to 2035, with differential decline rates calibrated to sector-specific circumstances.
	2	Develop a metric to inform setting differential decline rates.
Deliver lowest-cost, most-efficient abatement to the Australian economy	**3**	Improve long-run price visibility in the carbon market via Contracts for Difference (CfDs).
	4	Improve emissions-intensity disclosure under facility and government reporting.
Encourage more on-site abatement, and earlier	**5**	Replace the Cost Containment Measure (CCM) – the price cap on ACCUs – with a price corridor.
	6	Build an enduring form of financial support to bring forward investment in on-site decarbonisation.
Expand carbon signals across more of Australia's economy	**7**	Expand coverage of the Safeguard Mechanism by progressively lowering the facility emission threshold, starting with 75,000 tonnes of CO2-equivalent in 2031.

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Key Findings and Insights

A **5-7% p.a.** decline rate from 2031-2035 is proportionate to the **62-70%** 2035 target

But ACCU prices only reach **$100/t by 2040**

Delivering **almost zero additional on-site abatement** between 2030-2035

Of the low-cost on-site abatement available, **fossil fuel sectors have 2.5x** more than other sectors

Lowering the threshold can deliver **5Mt/year** additional abatement

Better tailored finance vehicles can deliver **20% (10 Mt/year)** additional on-site abatement

The Safeguard Mechanism has **solid foundations but requires additional reforms** to **deliver industrial transformation through on-site abatement.**

By 2040, almost half of abatement delivered by the scheme is through offsets. With only 10 years left to reach net-zero emissions, this risks emissions-intensive assets being locked-in. Simply put, the ACCU price does not get high enough, soon enough, to motivate a switch from offsetting to on-site abatement.

Continued early reliance on offsets means the same industrial transformation is left to be completed in fewer years, at higher cost to investors and their beneficiaries. Limitations on ACCU surrender would motivate the switch, without depending on price increases.

Without reform, the government similarly risks **failing to meet broader objectives to strengthen energy resilience, support sovereign capability through a Future Made in Australia and remain an attractive destination for investment.**

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Strengthening Long-term Investment Certainty

Institutional investors are long-term investors.

IGCC members manage A$4.6 trillion locally on behalf of more than 15.8 million Australians and millions more New Zealanders. They invest with a multi-decade horizon that aligns the retirement outcomes of their members and investors.

Uncertainty is a barrier to capital deployment.

Investors identify policy and regulatory uncertainty as a leading barrier to deploying capital in Australia. IGCC's 2026 State of Net Zero report saw 56 per cent of respondents highlight this as a barrier, up from 40 per cent in FY24.

Durable policies that will deliver on the government's stated ambition now need to be implemented. The cost being paid today is in deferred investment.

The effectiveness of the Safeguard is financially material to investors' assets and value chains in the short and long term. It impacts their future investment decision making and it's important to get right.

Financial risks from delayed decarbonisation compound over time.

IGCC members are universal owners — invested across the entire economy, with no capacity to diversify away from a system-wide risk. A drag on national productivity is a drag on their investments, and ultimately on the retirement savings of the Australians whose money they manage.

Climate damage is projected to **reduce Australia's Gross Domestic Product (GDP) by 14 per cent annually if current global climate policies continue, wiping $6.8 trillion from the economy between now and 2050** and cutting thousands of dollars a year out of the pockets of Australians.

Delayed decarbonisation escalates physical damage from climate impacts across existing portfolios, while also facing the risk that Australian industries don't decarbonise fast enough to maintain competitiveness.

Simply put, the cost of inaction is far greater than the cost of action.

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The Abatement Task Is Unevenly Distributed

The Safeguard Mechanism's present design relies on offsets.

Eliminating industrial emissions means changing the energy inputs Australian industry runs on: electrifying mine fleets and process heat, using low-carbon liquid fuels, and supplying facilities with firmed renewable electricity in place of gas and diesel.

This highlights a key tension that the review must grapple with: how facilities should demonstrate compliance with the Safeguard Mechanism into the future. Currently, this is balanced between two pathways that are not equivalent in what they leave behind:

- **On-site abatement** is capital spent inside the facility. It modernises the asset, lowers its operating energy costs, and reduces exposure to fossil fuel price and supply shocks.
- **Offsetting** is real abatement, but nothing about the facility changes. Money leaves the facility and can be invested in nature-based offsets, supporting economic opportunities in regional communities and nature repair.

Facilities that continue to offset instead of investing do not develop that capability and risk capital being deployed elsewhere.

Ultimately, strengthening Australia's energy security and resilience demands more focus on incentivising on-site abatement.

Reform is required to avoid industry competitiveness challenges.

Extractive sectors have the strongest margins and the most readily available transition options. This report finds around 29 per cent of their abatement task is available on-site below $120 per tonne, roughly 2.5 times the share available to manufacturing. Manufacturing facilities generally have thinner margins and fewer feasible on-site options.

A single scheme-wide decline rate applies the same signal to both. The result is a transfer from manufacturing to extractive industries, as fossil fuel facilities generate credits from comparatively cheap on-site abatement and sell them to facilities with harder transitions.

The Safeguard Mechanism will require more nuanced design into the future to avoid significant industry competitiveness challenges and to preserve Australian industry with a future in a net zero emissions economy.

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Remaining an Attractive Destination for Capital as Our Trading Partners Transition

What it builds

Facilities that transition their energy inputs become the platform for the industries Australia is trying to grow — critical minerals processing, green metals, low-carbon liquid fuels, low-emissions cement. These are regional jobs, export revenue, and sovereign industrial capability, and they are where transition capital is looking to go.

Australia has the abundant and cheap renewable energy resources to support increased sovereign energy security as well as the increasing demand from our neighbours for low-emissions energy, materials and products to meet their own development goals.

Australia's major trading partners are decarbonising their own industrial bases and pricing carbon at their borders. Over the period of 2030-2035, the question of competitiveness will shift from what compliance costs are to whether Australian exports still enter those markets, and whether capital is still committed here.

Australia's ability to seize the economic upside from this transformation depends on having the right policy settings in place early enough to drive an efficient, least cost transition of fossil-fuel based exports to renewables-based exports.

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The Safeguard Mechanism 2026-27 Review

What the Safeguard Mechanism does.

The Safeguard Mechanism is Australia's primary policy for reducing emissions from its largest industrial facilities. It covers facilities emitting more than 100,000 tonnes of CO2-equivalent a year across mining, manufacturing, oil and gas, and transport – around 30% of national emissions.

Each covered facility is set an emissions baseline that declines annually. Facilities must cut emissions intensity over time or pay for the difference. Those that reduce emissions below their baseline earn tradeable Safeguard Mechanism Credits (SMCs); those that exceed it surrender ACCUs or SMCs to cover the gap. A Cost Containment Measure caps the price facilities pay for compliance.

Reformed in 2023, the scheme is designed to help Australia meet its 2030 and 2050 emissions targets while limiting competitiveness impacts on trade-exposed industries.

What the review will decide.

The Australian Government's review of the Safeguard Mechanism has two objectives:

1. Determine whether the 2023 reforms are working as intended and calibrated to deliver emissions reductions in line with Australia's targets.
2. Inform the best policy settings to achieve the Safeguard Mechanism's share of the 2035 target, in the context of the government's plan to achieve net zero emissions by 2050.

The review will run over the financial year 2026-27. Key issues being examined include setting the decline rates for the 2031-35 period, the extent to which on-site abatement is being driven by the scheme, coverage, arrangements for emissions-intensive and trade-exposed facilities, and further consideration of findings in the government's Carbon Leakage Review.

Through the review, the government is seeking to establish post-2030 policy settings and strengthen long-term investment certainty.

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IGCC Goals for the Review

The current settings of the Safeguard Mechanism will not drive the transformation necessary to secure Australia's energy security and industrial competitiveness in an environment of increased competition for investment.

To understand the potential impacts and effectiveness of different reform options, IGCC engaged EY-Parthenon Strategy to model a range of scenarios that deliver against IGCC members' key objectives.

The following core objectives for the review of the Safeguard Mechanism were identified by IGCC members:

1. Deliver lowest-cost, most-efficient abatement to the Australian economy.
2. Encourage more on-site abatement, and earlier.
3. Expand carbon signals across more of Australia's economy.
4. Ensure the Safeguard Mechanism delivers its proportional share of Australia's 2035 NDC, ensuring alignment with the Net Zero Plan.

A 7 per cent decline rate

from 2031-2035 would align with the top of the 2035 NDC target range of 62-70 per cent.

Australia's 2035 Nationally Determined Contribution (NDC) includes a target range of 62-70 per cent emissions reduction by 2035, on a 2005 baseline. IGCC members consider that the top of this range should be used to calibrate the Safeguard Mechanism's average decline rate from 2031 to 2035 – which is a 7 per cent decline each financial year.

The following reforms not only make this achievable but would allow Australia to achieve emissions reductions at a lower average cost and with lower scheme-wide emissions, compared to a base-case without these reforms.

Achieving reductions aligned with this target range will require action across the full breadth of the economy. Other sectors outside of the Safeguard Mechanism must support and keep pace with the decarbonisation happening under Safeguard-regulated facilities.

IGCC recommends that the government adopt reforms detailed on pages 11-14 in the 2026-27 Safeguard Review and proposes several additional reforms for government's further consideration on page 15.

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Recommendations: **Ensure the Mechanism Delivers its Proportion of Australia's 2035 NDC**

What IGCC is recommending	Supporting modelling and analysis
1. **Set an average decline rate of 7 per cent from 2031 to 2035, with differential decline rates calibrated to sector-specific circumstances.**	An average decline rate of 7 per cent aligns with the top of the 2035 target range and is projected to drive 15 Mt in increased average annual abatement, with around 61 per cent of abatement delivered on-site without non-compliance. Frontloading on-site abatement at facilities where there are near-term, cost-effective options means that hard-to-abate sectors have more time to find solutions. Differential decline rates rebalance emissions compliance burdens more equitably across the scheme. They don't force more emissions reductions or increase ACCU prices, compared to a single average decline rate. Differential rates with 2 per cent higher declines for coal, oil, and gas help align the fossil fuel sector's task with their access to attractive on-site abatement, with around 29 per cent of their task available on-site below $120 per tonne, around 2.5 times the share for manufacturing. Overall, this improves efficiency of capital allocation decisions across Safeguard facilities and keeps finite ACCU supply available for long-run, hard-to-abate sectors.
2. **Develop a metric to inform setting differential decline rates.**	Decisions on differential decline rates should be informed by expert analysis and evidence on abatement potential for a given price, with government setting out a transparent process for implementing changes to decline rates. There is no universally accepted source of truth that determines what facilities are ready to transition, and when. IGCC recommends implementing differential decline rates based on the Marginal Abatement Cost Curves underlying the EY model. Drawing on existing expert analysis, including as part of the Carbon Leakage Review, the government should assess sector (and relevant sub-sector) abatement options, accounting for their cost effectiveness and relative technology readiness, to develop metrics that underpin differential decline rates and an ongoing process for review.

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Recommendations: **Deliver Lowest-Cost, Most-Efficient Abatement to the Australian Economy**

What IGCC is recommending	Supporting modelling and analysis
3. Improve long-run price visibility in the carbon market via Contracts for Difference (CfDs).	*Qualitatively assessed by EY.* Currently, it is challenging for the market to predict the long-run price of ACCUs, both due to policy uncertainty (the future of the Cost Containment Measure) and uncertainty of future supply and demand. Being able to trade CfDs at a lower and a higher price allows traders to reveal roughly where within that range they think that the mostly likely future price sits and competition between them narrows in on the best estimate. Government should broker these CfDs, in a similar way that it regarding the Capacity Investment Scheme. Appropriately designed, these could be budget neutral and fungible with ACCUs in a given year. IGCC does not recommend a specific design. Better price discovery on the scheme's implicit carbon price will provide greater clarity for investment decision-making, helping facilities plan for when to make on-site abatement investments. This would also support ACCU developers to start new projects now, so that supply is available when it is needed most.
4. Improve emissions-intensity disclosure under facility and government reporting.	Tracking overall emissions is important, but emissions-intensity is critical to differentiate clearly, so investors can distinguish on-site abatement from changes in production quantities. This will help investors determine whether their investments are on-track for their transition to net zero emissions.

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Recommendations: **Encourage More On-Site Abatement, and Earlier**

What IGCC is recommending	Supporting modelling and analysis
5. Improve certainty for investors and ACCU project developers by replacing the Cost Containment Measure (CCM) with a price corridor.	The CCM – the price cap on ACCUs – protects facilities from significant volatility. However, it curtails the long-run carbon price and diminishes the incentive to decarbonise early. Reforming the CCM to act as a price corridor, where prices are able rise predictably over time in response to market demand signals, but are supported by a price floor, would provide increased certainty for buyers and suppliers of ACCUs. We ask government to consider the design of this. This might look like government taking any value above a price ceiling, or paying any value below a floor price, which would create a collar. A price corridor would give facilities clarity on when to make decarbonisation investments and allows ACCU project developers to plan with certainty, providing welcome support for regional economic growth.
6. Build an enduring form of financial support to bring forward investment in on-site decarbonisation.	Without additional and better targeted financial support, modelling results show that decisions to bring forward on-site abatement and make significant capital expenditures with long asset lifetimes largely don't happen before 2040. An illustrative scenario modelling a 50 per cent capital subsidy could lift on-site abatement by around 20 per cent (up to 10 Mt per year) to 2035 without impacting industry competitiveness. This demonstrates that meaningful financial support does bring forward on-site abatement and reduces compliance costs for facilities to reach net-zero emissions. Short-lived or one-off grant programs are subject to shifting political and budget imperatives and can't be relied on by investors and companies planning over decades-long asset replacement lifecycles. The task of industry decarbonisation out to 2050 demands establishment of a more enduring framework of financial support to bring forward capital expenditure for on-site abatement. This should redirect funding from established, under-utilised sources and could include a focus on production subsidies, complemented with tax concessions or concessional and blended finance. Industries that are part of a net zero economy with genuine transition pathways should be prioritised for this support. IGCC is undertaking further work on this recommendation and will produce further analysis to support a proposed detailed design.

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Recommendations: **Expand Carbon Signals Across More of Australia's Economy**

What IGCC is recommending	Supporting modelling and analysis
7. **Expand coverage of the Safeguard Mechanism by progressively lowering the facility emission threshold, starting with 75,000 tonnes CO2-equivalent in 2031.**	Currently, facilities could drop out of the scheme at just below 100,000 tonnes CO2-equivalent and the signal to decarbonise would cease. Lowering the threshold in predictable increments, capturing new facilities, will mean that mid-sized industry is incentivised to decarbonise before they're captured. A modelled reduction in the facility threshold in three steps to 25,000 tonnes CO2-equivalent from 2031 to 2037 would motivate around 5 Mt per year of additional abatement across the economy by 2040.

Anaergia's world-leading anaerobic digestion solutions, reducing emissions rom waste.

A battery-powered earth mover, producing no on-site emissions, and able to run on renewable electricity.

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For the Government's Further Consideration

IGCC recommends the government further consider the following measures, noting some measures were only partially modelled, were outside the scope of our modelled analysis or were assessed qualitatively.

- **Consider capping the surrender of ACCUs at a system-level.** EY's analysis found that higher baseline decline rates are not enough to motivate a switch from offsetting to on-site abatement in most cases, and other interventions will be needed. A modelled scenario of a 50 per cent cap on ACCUs, at the facility level, lifts on-site abatement but increases compliance costs and results in non-compliance. This was anticipated as a simplistic way of modelling a cap. IGCC suggests government assesses capping the surrender of ACCUs at the system-level. This would offer more flexibility to facilities in meeting their obligations than a facility-level cap and could be designed with differentiation at the sector-level. This would strengthen the signal to decarbonise earlier, without the ACCU price needing to increase dramatically in price in the short-term.
- **Remove or phase out Diesel Fuel Tax Credits**. Diesel Fuel Tax Credits discourage mine fleet electrification by keeping diesel trucks cheaper to run. Offsetting this would require a much higher ACCU price, raising compliance costs scheme-wide.
- **Extend the Safeguard Mechanism to include a carbon signal for electricity generators to support the energy transition.** This was beyond the scope of EY's modelling, however IGCC members note stalling renewables rollout and uncertainty on closure dates for coal fired power stations necessitating further action.

IGCC supports implementation of the NEM Review's recommendations and changes to improve the Capacity Investment Scheme (CIS). Further action in the Safeguard Mechanism may be warranted.

- **Apply a Safeguard liability to coal generators from their stated closure date, discouraging state governments from further extending plant life and signalling renewables to fill the gap**. Costs would be predictable and avoidable. Coal closure delays have hampered the CIS and put the 82% renewables target by 2030 at risk.
- **Allow facilities eligible for the R&D tax incentive to get access to higher ACCU limits, if an ACCU surrender cap is introduced**. R&D spend isn't rewarded under Safeguard despite its role in industrial transition.
- **Tie SMC crediting more closely to emissions-intensity improvement against appropriate benchmarks,** rather than generous baselines, so credits require genuine on-site abatement.
- **Model a public cost-recovery mechanism where government funds upfront decarbonisation costs and recoups them by selling SMCs once the facility is operational.** This addresses the "double whammy" hard-to-abate facilities face — long delays plus high upfront costs — and should apply only where government is confident of recovering costs.

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Complementary Measures

The Safeguard Mechanism is one lever to achieve the government's 2035 NDC. Safeguard facilities must be supported in lockstep with decarbonisation accelerating across the rest of the economy. Frontloading on-site abatement early means that costs are kept lower for hard-to-abate sectors in the long term, keeping industry in Australia.

IGCC suggests the government implement complementary measures, between now and 2030:

- Create a level playing field for Australian industry by implementing a border carbon adjustment, aligned with the Carbon Leakage Review's recommendations – this should focus initially on cement, clinker and lime as the most trade-exposed commodities, and then consider hydrogen, ammonia and derivatives, steel and iron, and glass.
- Implement measures outside of the Safeguard Mechanism to accelerate methane abatement, recognising the many near-term opportunities for fugitive methane emissions reductions, which are over 80 times more potent than carbon dioxide over a 20-year period. Measures should include dual representation of NGER reported methane emissions, using both a 100-year and 20-year GWP conversion.
- Implement enduring electricity market reforms that will bring forward more renewable energy capacity and storage, in line with the National Electricity Market (NEM) review.
- Consider near-term opportunities to improve the Capacity Investment Scheme's remaining tender rounds, to bring more renewable energy capacity and storage online before 2030.
- Support the rapid acceleration of energy efficiency and electrification of buildings, heavy transport, and industry.
- Implement a policy package to support Low Carbon Liquid Fuel demand, as well as production, supporting sectors that cannot readily electrify.

IGCC will continue engaging with government and other stakeholders on the 2026-2027 Safeguard Mechanism Review as part of its policy advocacy program and stewardship activities with investee companies.

IGCC will release new analysis for consideration in the Review on adjacent policies that impact on-site abatement at Safeguard-regulated facilities.

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Analysis of Safeguard Mechanism (SGM) policy options

Report to the Investor Group on Climate Change (Australia and New Zealand)

TECHNICAL REPORT 12 August 2026

EY Parthenon Strategy

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Ernst & Young ("EY") was engaged on the instructions of the Investor Group on Climate Change (Australia and New Zealand) ("**Client**")] to undertake Analysis of potential Safeguard Mechanism (SGM) policy options ("**Project**")], in accordance with the engagement agreement dated 23 March 2026.

The results of EY's work, including the assumptions and qualifications made in preparing the report, are set out in this EY report dated August 2026 ("**Report**"). The Report should be read in its entirety, including the applicable scope of the work and any limitations. A reference to the Report includes any part of the Report.

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Our work commenced in March 2026 and was completed on 12 August 2026. No further work has been undertaken by EY since the date of the Report to update it. Therefore, our Report does not take account of events or circumstances arising after 12 August 2026 and we have no responsibility to update the Report for such events or circumstances arising after that date.

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The analysis and Report do not constitute a recommendation on a future course of action.

Readers are advised that the outcomes provided are based on many detailed assumptions underpinning the scenarios, and the key assumptions are described in the Report. The modelled scenarios represent a range of possible future options for the development and operation of the Safeguard Mechanism and Australian Carbon Credit Unit (SGM-ACCU) market, and it must be acknowledged that many alternative futures exist. Alternative futures beyond those presented have not been evaluated as part of this Report.

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Contents

- **Introduction and summary of key findings**
- Project context and process
- Overview of modelled policy options
- Key results and insights
- More details on the modelling framework

This document reports key insights and results from EY-Parthenon Strategy analysis of potential SGM reform options using the EY-CARBON VIEW model

Context and purpose

- The Investor Group on Climate Change (IGCC) has identified the Safeguard Mechanism (SGM) as a key Australian emissions reduction policy, which has material impacts on the assets, value chains and future decision making of IGCC members
- The Australian federal government is conducting a review of a range of SGM settings over coming months, including:
  - the 2031-2035 decline rate for baselines
  - whether the scheme is appropriately incentivising onsite abatement
  - scheme coverage arrangements
- To understand the potential impacts and effectiveness of potential reform options the IGCC engaged EY-Parthenon Strategy (EYPS) to analyse a range of options using the EY CARBON VIEW model, developed by the EY Net Zero Centre
  - The specific options analysed were developed by EYPS to illustrate potential responses to issues identified by IGCC and wider climate policy discussions. The options are stylised and do not seek to represent detailed policy proposals.
  - The analysis aims to capture complex interactions between long-term investment decisions made by both SGM facilities and ACCU project proponents. As with any modelling exercise, this involves a number of simplifying assumptions and limitations (see slide 12 and slides 44-51 for more details)
- This report presents key findings and insights from that analysis under a range of scenarios, reflecting different contexts and assumptions
- The results presented are general in nature and should not be interpreted or relied on as financial advice

We find current SGM settings provide a sound foundation for net emissions reductions but refinements could support improved market outcomes

Overview of key findings by goal

IGCC HIGH LEVEL GOALS	IMPLICATIONS	KEY FINDINGS
Ensure SGM and heavy industry make an appropriate contribution towards national targets	Calibrate SGM decline rate to 2035 national emissions target	Annual decline rate of 5-7% for 2031-35 achieves substantial national abatement and lifts the projected ACCU incentive price from $50-60/t to around $100/t, but involves higher total costs to industry
	Recognise how the aims and implications of the net zero transition differ across sectors	Differentiated decline rates with higher rates for fossil fuel extraction reduce the risk of competitive pressures on margin-based processing and support orderly national transition consistent with global climate goals
Deliver efficient low-cost abatement	Maintain market-based approach to motivating decarbonisation	SGM design provides a sound foundation for industrial decarbonisation but would benefit from refinements to improve investor confidence and risk management, and support an orderly transition
	Support market function via improved forward price risk management	Market participants have low forward price confidence, which discourages desired investment, suggesting a case for government auction of forward contracts for difference for ACCU prices (perhaps linked to new on- or off-site abatement) to support investor risk management and the delivery of the SGM's objectives
Support on-site abatement and orderly long-term decarbonisation	Ensure incentives and support are sufficient to drive long-term abatement planning and implementation	Lifting on-site abatement over time is essential for the net zero transition but could be economically challenging in the short term as off-site ACCU abatement accounts for around two thirds of available cost-effective abatement
		Government financial support (such as though grants, tax provisions or concessional finance) could accelerate on-site abatement, reduce compliance costs, and strengthen national economic resilience
		Current cost containment settings help manage price risks in a maturing market, but extending these could dampen incentives for deep decarbonisation. Policy should explore alternative approaches.
Expand carbon signals and abatement incentives across the economy	Broaden SGM coverage over time	Expanding coverage by lowering the SGM threshold contributes to meeting national emissions targets, motivates additional on-site abatement in newly covered facilities, and lifts SGM abatement incentives over time
	Strengthen abatement policies in other sectors	Not assessed: The EYPS modelling is focused on SGM faculties and ACCU supply, and does not assess abatement policies in other sectors

We find higher decline rates would be required to drive emissions consistent with the 2035 target range, and that policy refinements could increase on-site abatement and improve price visibility, investor confidence, and alignment to polluter pays

Summary of key findings and results

- **Baseline decline rates around ~5-7% p.a. from 2031-35 would be consistent with meeting the national 62-70% emissions reduction target for 2035**
  - Reverting to the statutory 3.3% decline rate after 2031 is projected to result in ACCU prices and abatement incentives around $50-60/tCO2e (real) to 2040, while falling short of the 2035 target range by ~10 Mt CO_2e.
  - **Higher decline rates** (of 5-7% p.a.) are projected to drive 7-15 Mt in increased average annual abatement from 2031-40, with ~57-61% of abatement delivered on-site. This lifts ACCU prices and abatement incentives to around ~$100/t, increasing the likelihood that cost containment settings (CCM) will be triggered. While average costs per tonne are similar, the larger abatement volumes mean the 7% decline rate has ~5% higher compliance costs than the 5% decline rate.
  - **Differentiated decline rates** across sectors could reduce competitive pressures on margin-based manufacturing and be more consistent with polluter pays principle, without affecting abatement incentives or efficiency of the SGM. Lower decline rates for processing and other mining could help align different sectors task with their access to attractive on-site abatement, with ~29% of fossil fuel sectors' task available on-site below $120 / t, ~2.5 times the share for manufacturing.
- **SGM design provides a sound foundation for reducing net emissions but would benefit from refinements to improve investor confidence and risk management, and support an orderly long-term transition**
  - **The market lacks forward price visibility** and bankable risk management options, suggesting a case for government auction of forward contracts for difference (particularly for new ACCU supply and on-site abatement) to support investor confidence and improved market function.
  - **Lifting on-site abatement over time** is essential for the net zero transition but could be economically challenging in the short term, as off-site abatement from ACCUs account for around two thirds of available cost-effective abatement, and attractive new on-site industrial abatement options will take time to emerge.
  - **Government financial support** through grants or tax provisions could lift on-site abatement by ~20% (up to 10 Mt p.a.) to 2035 and reduce industry costs.
  - **Cost containment settings** help manage risks of ACCU price spikes and excessive industry costs in a maturing market, but extending current arrangements could dampen incentives for deep decarbonisation. Policy should explore alternative approaches to managing price spikes and industry costs.
  - **Capping facility level ACCU use** at 50% of pre-abatement emissions could drive increases in on-site abatement but could also see large increases in compliance costs (~3x) and significant non-compliance, suggesting any consideration of limits on ACCU use could be framed at a system level.
- **Progressively expanding SGM coverage** by lowering the facility emission threshold in three steps to 25,000 tCO_2e from 2031 to 2037 could motivate ~5 Mt p.a. of additional abatement by 2040 and improve the efficiency of climate policy, but is only projected to have modest effects on ACCU prices

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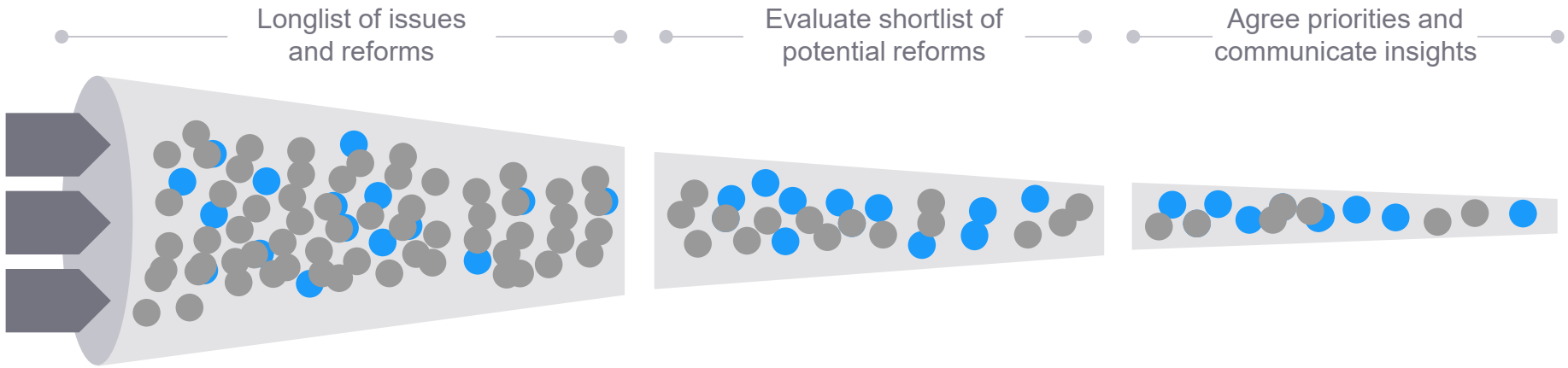
This project used a staged approach to gathering evidence and building consensus

Process for identifying priorities for analysis and action



	Reform identification and prioritisation	Reform modelling and evaluation	Interpretation and communication
Focus	▪ Confirm objectives, scope and assumptions ▪ Identify and prioritise key issues and reform options	▪ Model and evaluate shortlisted policy reform options ▪ Stress-test findings against key uncertainties or contextual factors ▪ EY-Parthenon Strategy prepares technical report documenting key findings and insights on potential reform options	▪ Syndicate findings to support member deliberations ▪ IGCC members agree Safeguard Mechanism reform priorities ▪ IGCC prepares submission to SGM review

Consideration of key issues helped prioritise a shortlist of policy options for evaluation, which were mapped to high level goals

Issues, options and high-level goals

General issues considered

- Reducing industry emissions and supporting on-site abatement
- Supporting industry competitiveness
- Burden sharing across sectors
- Supporting investment and managing credit price risk
- Methane accounting and abatement incentives
- Orderly transition away from fossil fuels

Options short listed for evaluation

- SGM decline rates
- SGM coverage
- Differential decline rates aligned to sector context
- Forward credit price visibility and risk management
- Support for on site abatement
- Constraints on ACCU use

… and options that were not short listed

- SGM coverage of transport fuel (outside covered facilities)
- Scope 2 emissions
- Use of international credits

High-level goals

Ensure appropriate contribution to national targets

Deliver efficient low cost abatement

Support on-site abatement and long term decarbonisation

Expand abatement incentives across the economy

Shortlisted options were assessed against a broad suite of indicators

Reform goals and associated performance metrics

High-level goals

- **Ensure appropriate contribution to national targets**
- **Deliver efficient low cost abatement**
- **Support on-site abatement and long term decarbonisation**
- **Expand abatement incentives across the economy**

Each goal is assessed through relevant indicators

Category	Indicator	Features
Emissions & compliance outcomes	**Emissions and abatement task**	Baseline emissions and required total abatement task, relative to production-adjusted pre-SGM emissions
	Abatement shares	Volume of on-site abatement (including SMCs) vs off-site abatement through ACCU surrender
Cost burdens &compliance	**Compliance costs**	Costs of delivering abatement and opportunity costs, in aggregate and per tonne of abatement achieved
	Sector level outcomes	Average costs per tonne of abatement by sector
	Compliance outcomes	Facilities projected to be non-compliant and emissions from these facilities
Market & unit dynamics	**ACCU incentive price**	ACCU price path (and SMC prices where relevant), setting the marginal system-wide abatement cost trajectory
	Unit demand	Total surrender volumes
	Unit supply	ACCU and SMC supply volumes
Stress testing	**Key driver sensitivities**	Structured sensitivities to assess effects of key uncertainties (such as incremental ACCU supply costs, facility production and credit demand)

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The analysis provides useful insights into SGM-ACCU market dynamics and likely broad outcomes, but precise effects of policy variations remain uncertain

Modelling approach and limitations

The modelling aims to capture complex market dynamics

- The modelling framework represents the complex interactions and dynamics that drive SGM and ACCU outcomes, reported as scenario projections
- The model represents the behaviour and financial decision making of forward-looking facilities and ACCU suppliers with good but not perfect information and foresight
  - This includes decisions on abatement investment and the timing of credit supply to the market
- The framework is based on current SGM and ACCU policy settings, published data on facility emissions and ACCU generation, information and estimates on sector-relevant international abatement options and costs, and long run land sector abatement potential from the CSIRO LUTO model
- The model was developed by the EY Net Zero Centre (EY NZC) and used for EY NZC publications and EYPS client engagements

But has inherent limitations

- The modelling does not assess the effects of compliance obligations on facility production or profits, and assumes production levels are determined by external circumstances
- A key finding from the modelling is that ACCU and SMC prices are very sensitive to relatively small variations in supply and demand balance, which is shaped in turn by a large number of market characteristics and decisions
  - In addition, projected outcomes are sensitive to forward price expectations, which have a significant impact on investment decisions and credit purchases
  - This implies specific scenario results should be treated as indicative, with close attention to sensitivity analysis to assess the effects of different assumptions

We have analysed higher decline rates and five other policy options, and two combinations of measures

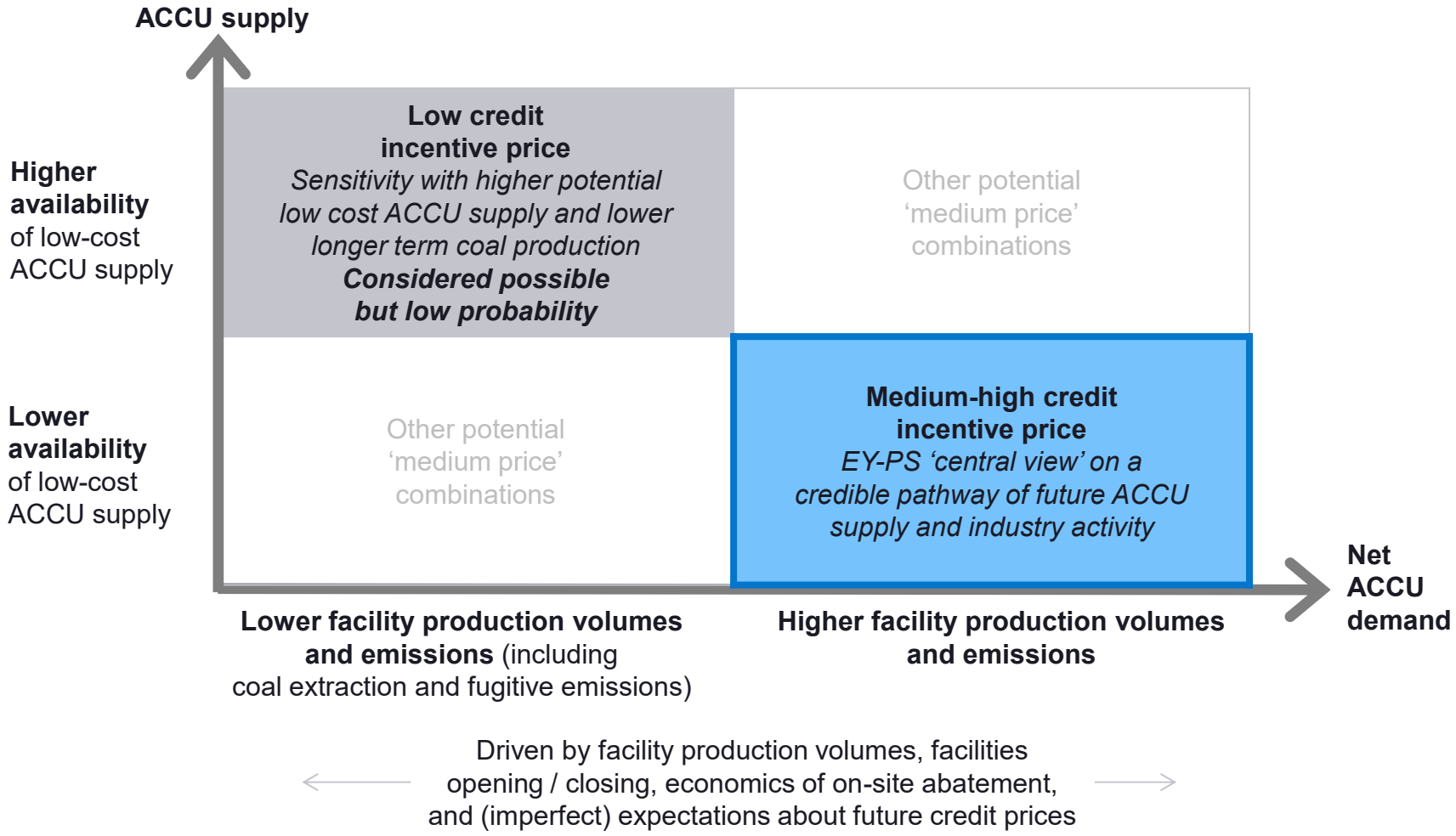
Reform option overview

Option		Implemented as
Higher baseline decline rates	HD	4 baseline decline rates: 3.285%, 5%, and 7% from FY31-35, and 7% FY31-35 then 5% FY36-40. All treatments decline linearly to net zero afterwards, with TEBA[1] adjustments until FY40
Lower SGM facility threshold	LT	SGM coverage is progressively extended to facilities below the current 100 kt p.a. emissions threshold, including ≥75 kt p.a. from 2031, ≥50 kt p.a. from 2034 and ≥25 kt p.a. from 2037
Sector-differentiated decline rates	DD	From FY31-35 fossil fuel extraction (coal and O&G) facility decline rates are 2% pts points higher than other facilities' decline rates, with other facilities' decline rates eased to maintain same aggregate SGM baseline
Support to manage price risk	SR	Analysed qualitatively
Support for on-site abatement	SA	Government funds 50% of on-site abatement capital expenditure for SGM facilities
Cap ACCU use at facility level	AC	Facility level ACCU use capped at 50% of pre-SGM abatement task, with SMC generation as per current rules
Core options package (HD LT DD)		Combination of measures to drive deeper and wider abatement (HD+LT), and share average abatement costs more evenly across sectors (DD)
Core options plus external support (HD, LT, DD + SA)		Core options package plus on-budget financial support

1. TEBA refers to Trade Exposed Baseline Adjusted facilities, which qualify for slower baseline decline rates.

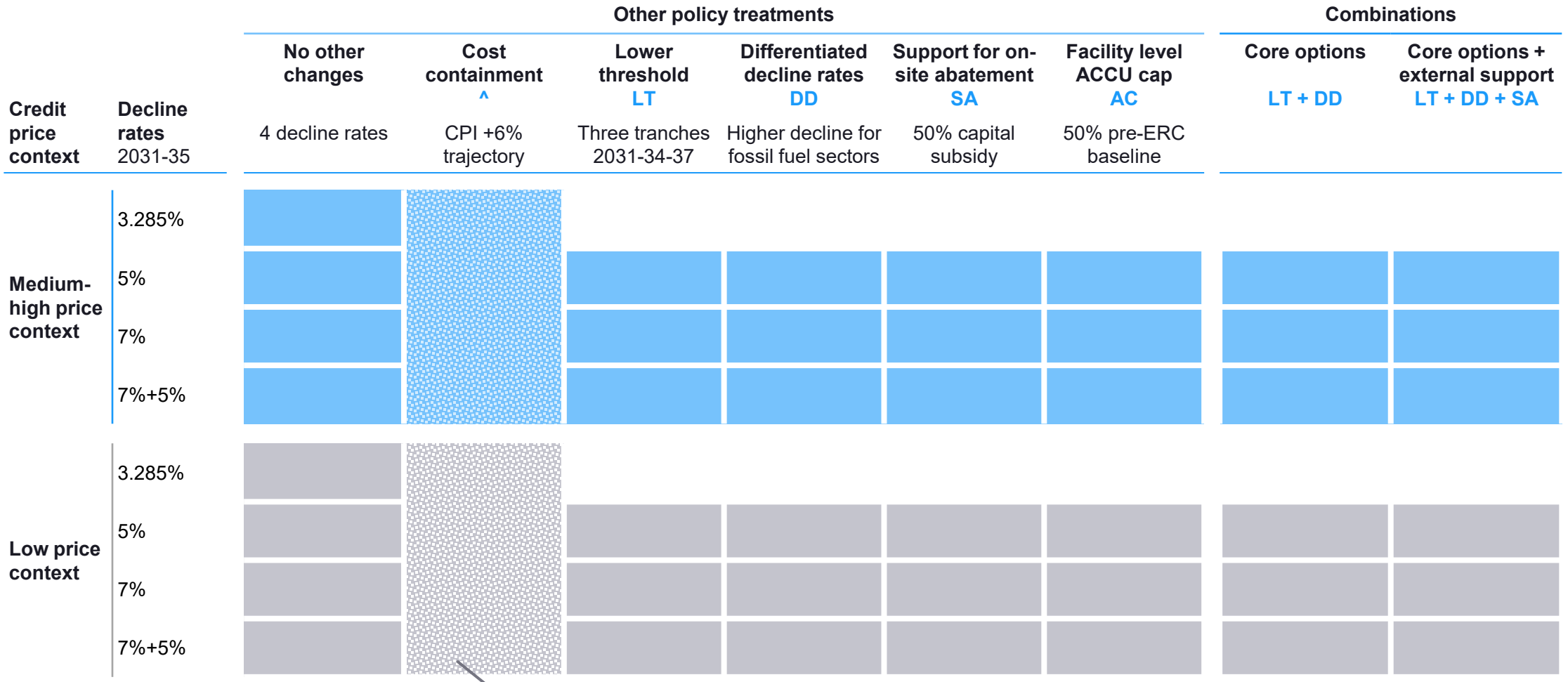
We complement our central reference case for ACCU supply-demand conditions against a second 'low price' context to test sensitivity of projected outcomes

Context | Central 'medium-high price' and alternative 'low price' contexts for modelled scenarios



The analysis involves modelling ~80 scenarios combining different decline rates, other policy treatments and multiple underlying contexts

Overview of modelled scenarios | Context and policy combinations



The modelling assumes current cost containment settings are extended to 2050, rather than lapsing, rising at **Current CPI +2%**. Many scenarios are also modelled with a **Higher CPI +6%** trajectory

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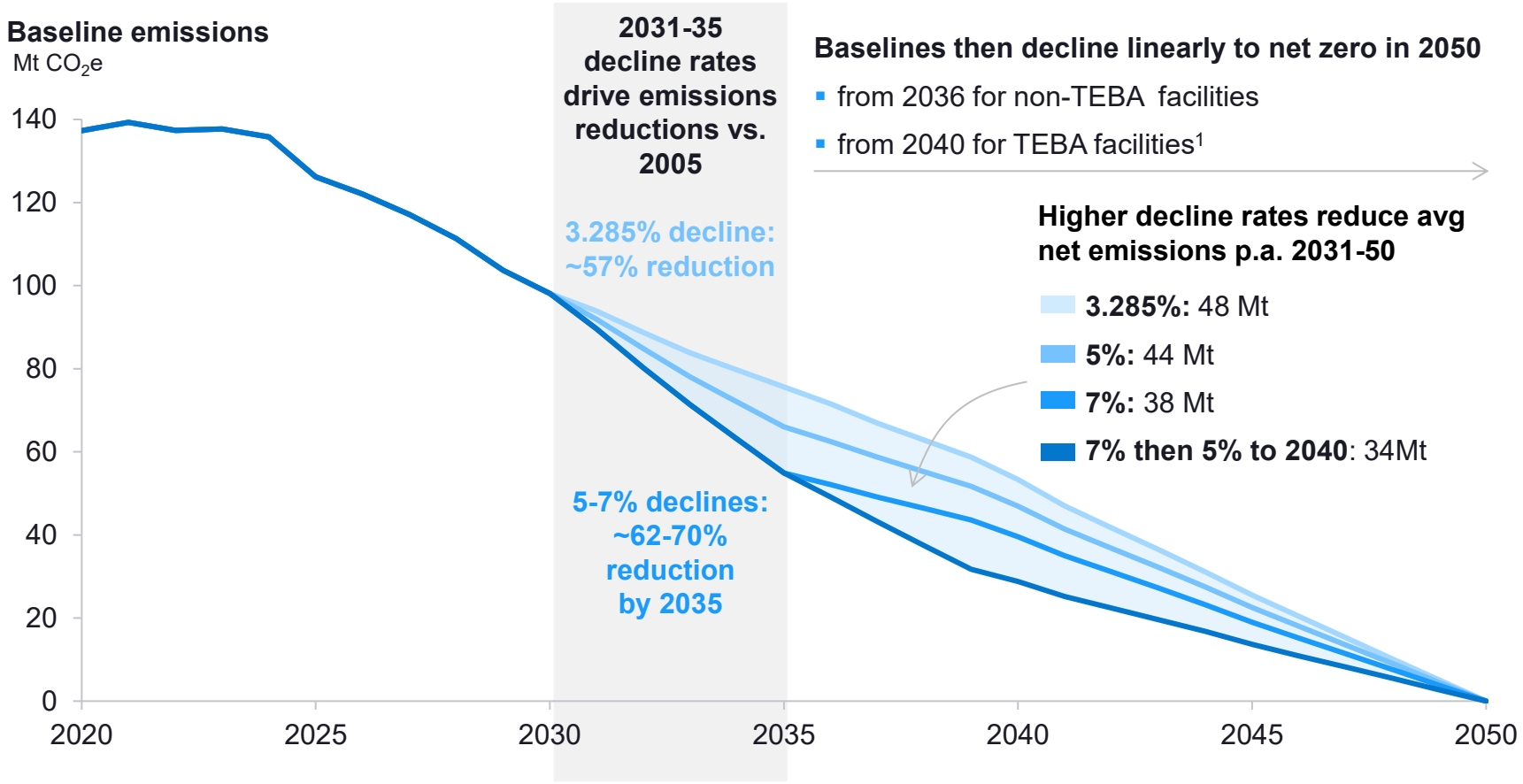
Baseline decline rates around 5-7% p.a. would be consistent with the 2035 national target range, with the SGM reaching net zero in 2050 in all scenarios

Decline rates | Overview



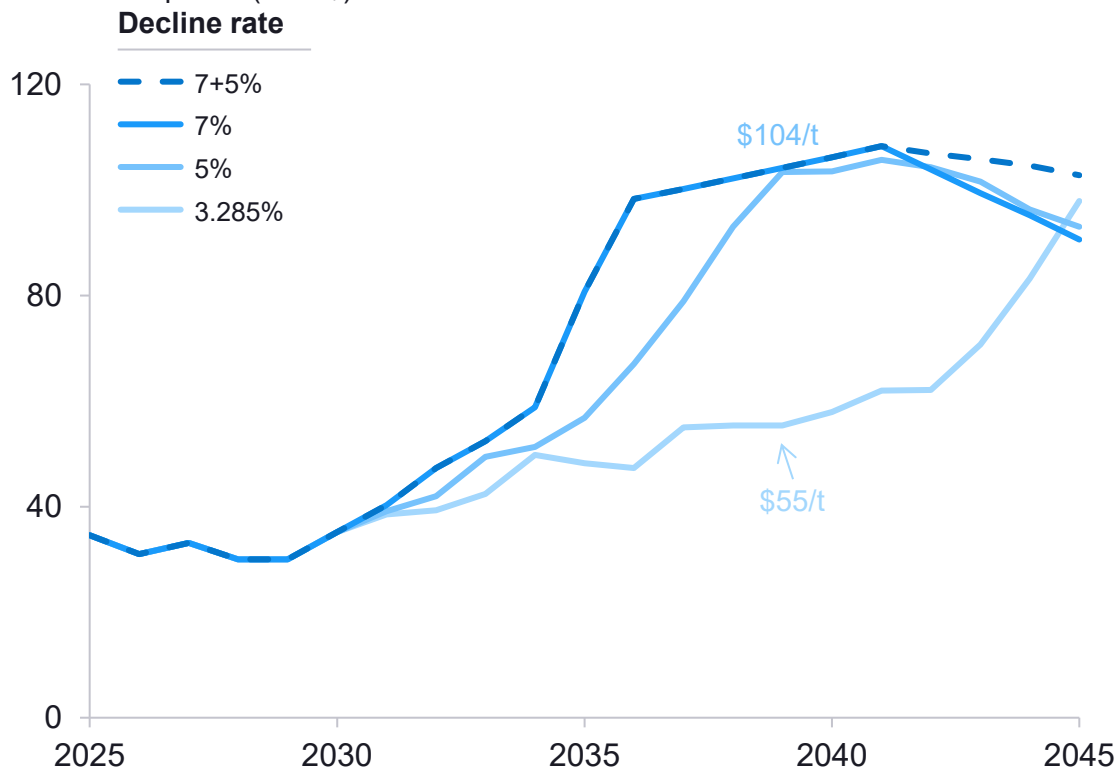
1. TEBA facilities continue under the 2031-35 rules to 2040 (i.e. receive discounts vs. the 2031-35 non-TEBA decline rates, where these are more advantageous than linear decline)

Source: EY-CARBON-VIEW model (July 2026). Results shown for medium-high price context.

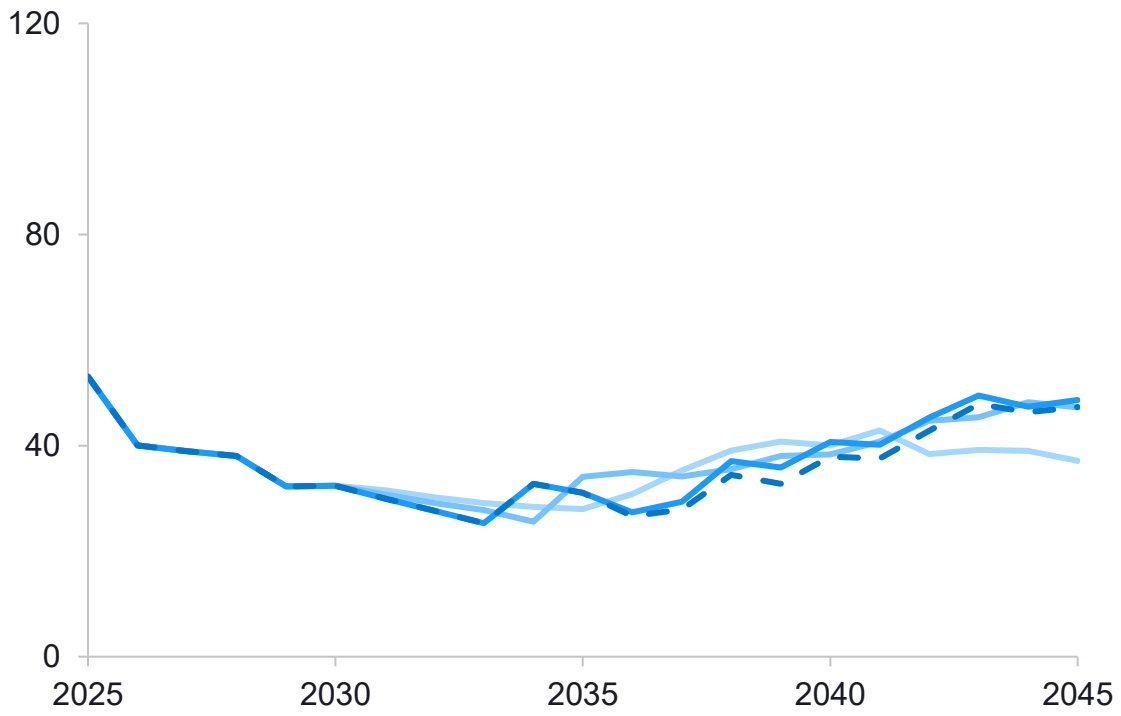
Baseline decline rates of 5-7% p.a. lift abatement incentives from $50-60/t to around $100/t, but have only modest impacts on average abatement costs

Decline rates | Impact on ACCU prices and average abatement costs

Decline rates ~5-7% p.a. lift projected ACCU prices to ~$100/t from 2035



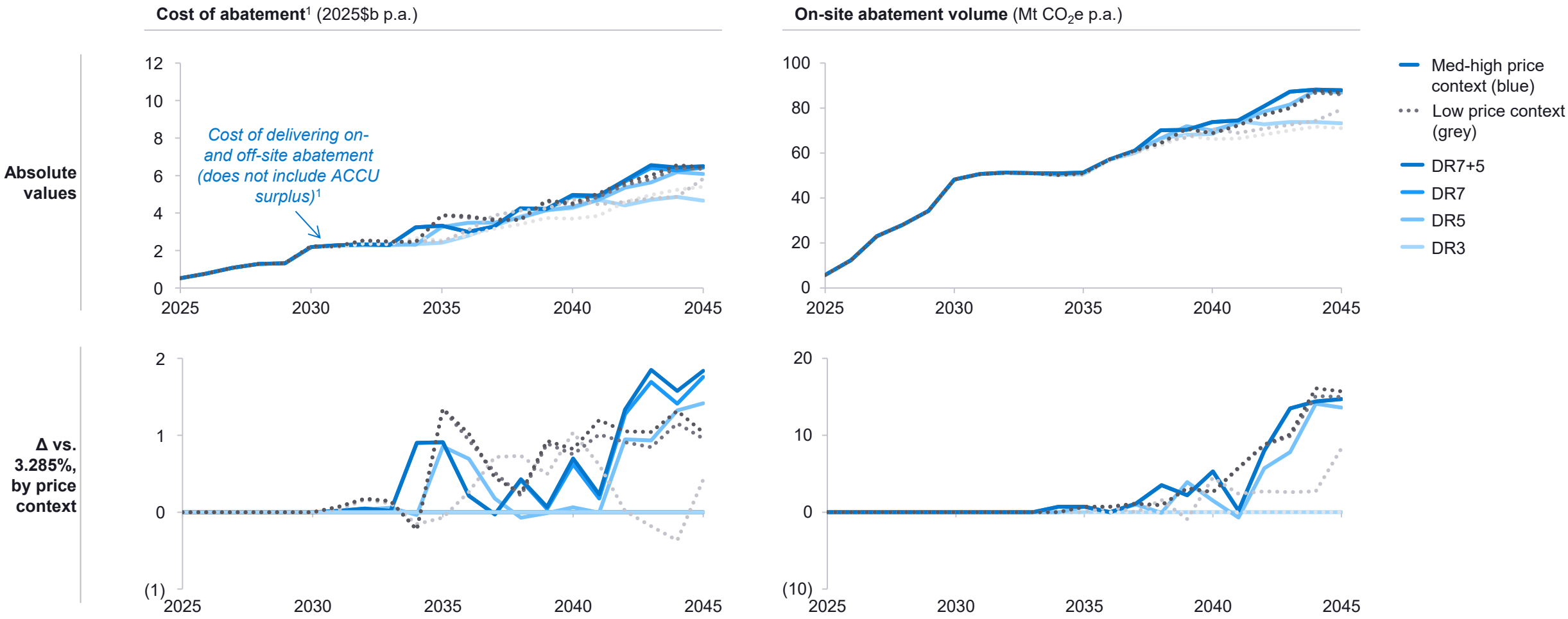
Average abatement costs are up to ~$70/t lower than ACCU prices and marginal abatement incentives before 2040



Note: All results shown for medium-high price context
Source: EY-CARBON VIEW Model (July 2026)

These increased abatement volumes drive higher total compliance costs, with much of the additional abatement projected to be achieved off site

Decline rates | Impact on compliance costs and on-site abatement



1. Cost of abatement = cost of delivering on-site abatement (annualised) plus ACCU delivery costs, and does not include the 'book value' of ACCU surplus or margin where market prices in the year surrendered are higher than the incentive price required to induce ACCU supply and project establishment. Opportunity costs (reported elsewhere) includes value of ACCU surplus in the year surrendered. See slide 48 for details.
Source: EY-CARBON VIEW Model (July 2026)

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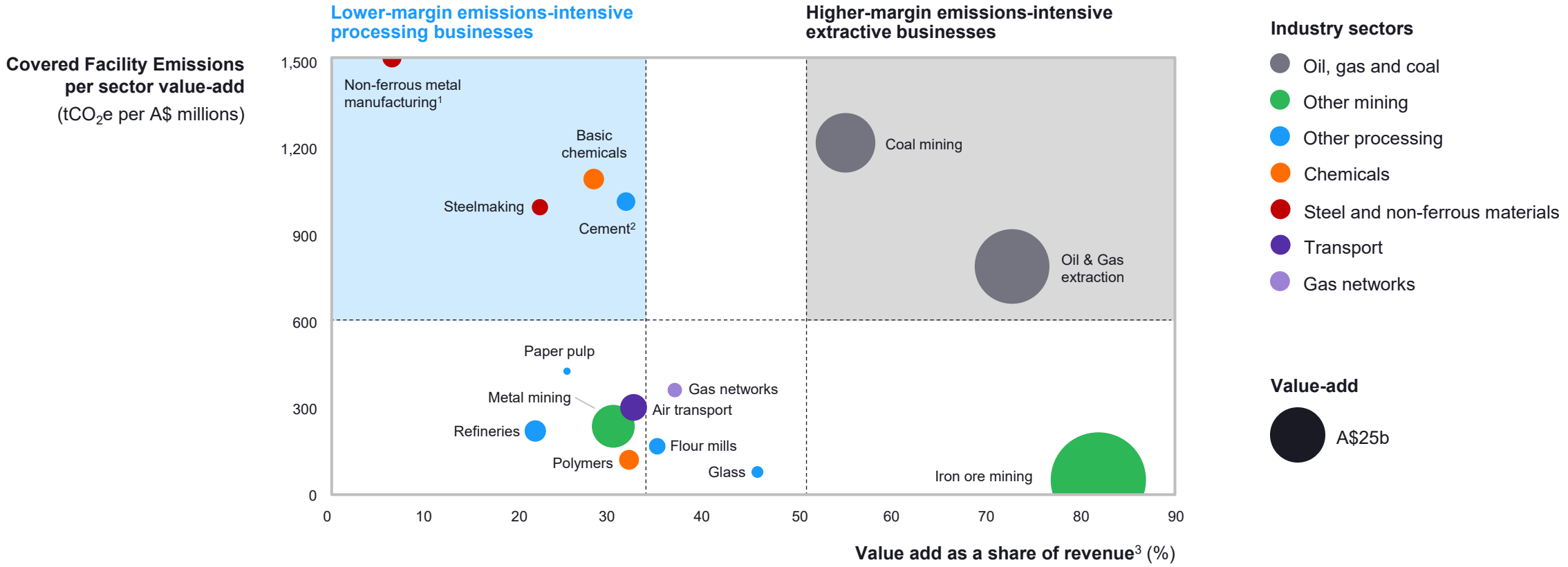
Emissions intensive trade-exposed processing facilities have significantly lower margins than extractive industries

Sector emissions intensity vs sector margins



1. Emissions intensity of basic non-ferrous metal manufacturing is approximately 3,000 tCO2e per A$ million value add but shown lower than this to increase readability. 2. Clinker import exposure not captured in allocation to Cement segment in import export table. Treated as “non-metallic mineral mining”. 3. Value added as a share of revenue is effectively based on cash flow and does not account for depreciation or required rates of return to previous investments.

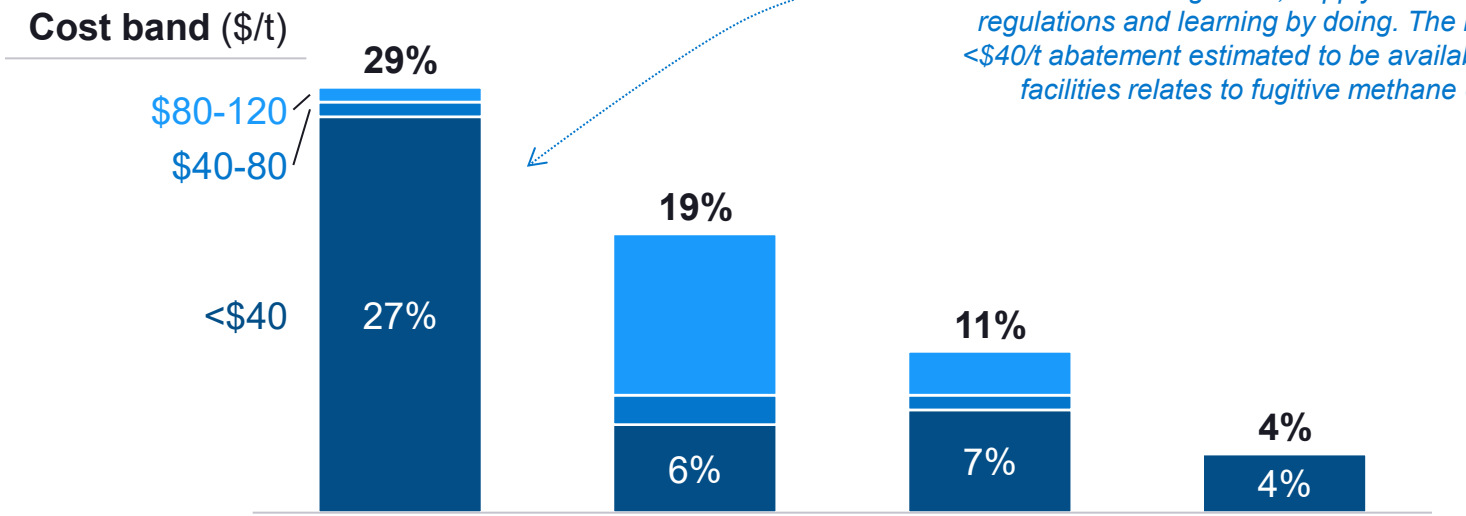
Source: EY Net Zero Centre, *A time for clarity and confidence: Australian carbon market outlook 2026*, Exhibit 05.

Coal, oil and gas also have more access to early low-cost abatement opportunities as a share of their abatement task, relative to other sectors

On-site abatement potential under $120/t (real) by sector

Mt CO2e p.a. available by price band (% of total abatement required[1])

Modelled abatement options and costs are based on estimates, while actual costs will be influenced by local factors including scale, supply chain factors, local regulations and learning by doing. The majority of the <$40/t abatement estimated to be available to fossil fuel facilities relates to fugitive methane emissions.



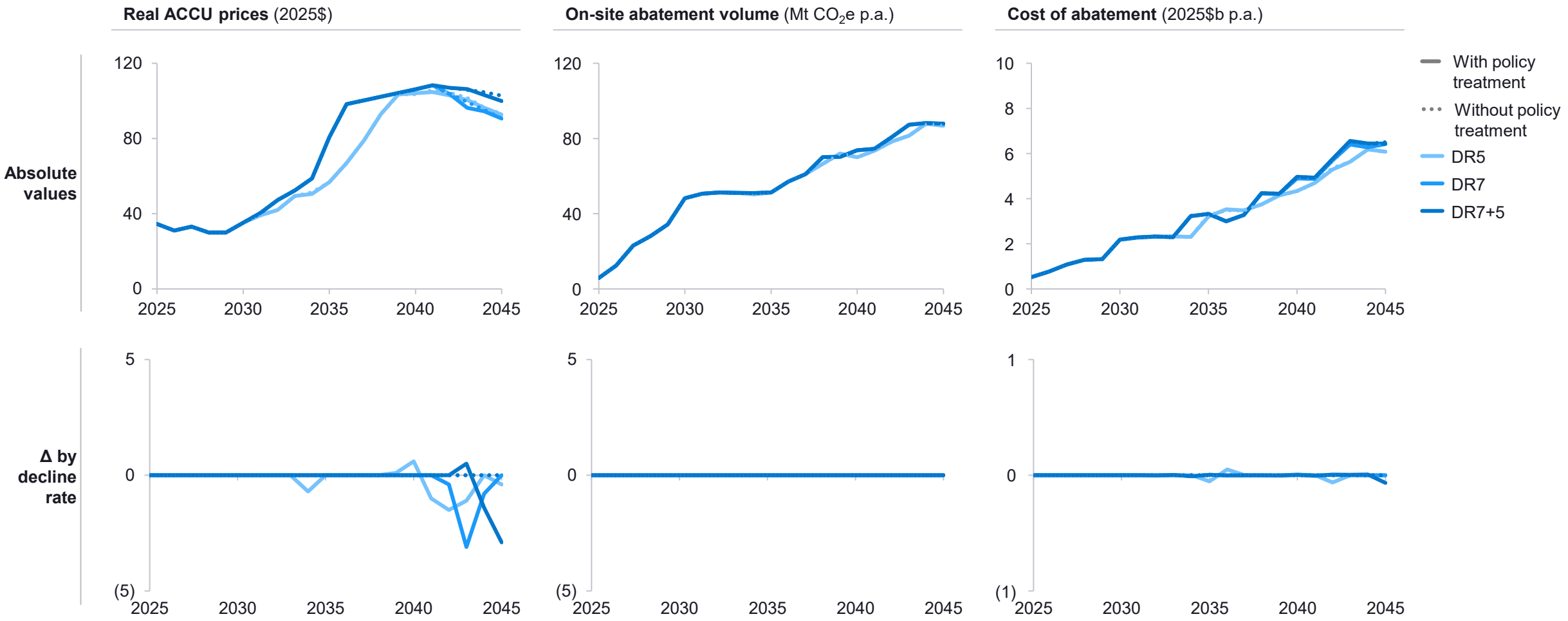
Mt	Fossil	Other mining	Manufacturing and other	Transport
Total abatement required	81	8	42	9
On-site potential <$120	23	1	5	0
On-site potential <$40	22	0	3	0

1. Costs are real 2025$. Total abatement required is defined here as pre-2025 unabated gross emissions. This is the amount that would need to be abated by 2050 if production volumes were unchanged from pre-2025 levels.

Source: EY-CARBON VIEW Model (July 2026)

Differential decline rates for different sectors have little or no effect on system-wide abatement incentives, market function and efficiency, or total compliance costs

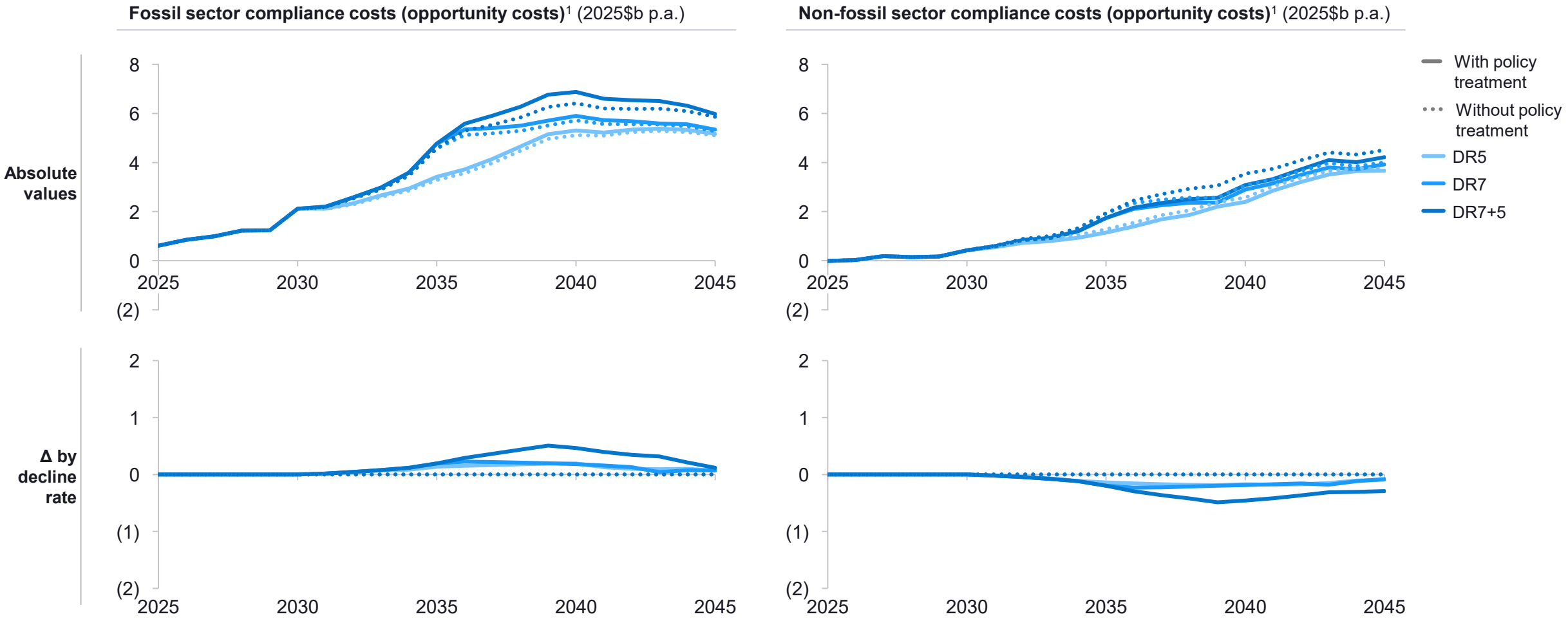
Differential decline rates[1] | Impact on ACCU prices, on-site abatement and gross costs



1. Modelling assumes decline rates for fossil fuel sectors are 2 percentage points higher than system-wide average, and reduces rates for all other sectors to achieve the same system-wide net emissions trajectory.
Source: EY-CARBON VIEW Model (July 2026). Results shown for medium-high price context.

But differential decline rates can help to align sector abatement tasks more closely to available low-cost abatement, with relatively modest impacts on sector costs

Differential decline rates | Impact on opportunity costs for sector groups[1]



1. Opportunity cost perspective on compliance costs includes the book value of ACCU margin in the year surrendered, in addition to the cost of delivering on- and off-site abatement. See slide 48 for details.
Source: EY-CARBON VIEW Model (July 2026). Results shown for medium-high price context.

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Current settings do not provide price visibility, discouraging abatement investment, suggesting consideration to government auction of contracts for difference

Price visibility and investment risk

Current settings do not provide forward price visibility

- **SGM and ACCU arrangements are still maturing** following major SGM reforms in 2023, and there is limited visibility and experience of credit supply and demand drivers
- **The SGM and ACCU reviews are themselves a source of policy uncertainty**, preventing informed and bankable investment decisions in on-site and off-site abatement
- SGM facilities and ACCU project proponents have a shared interest in negotiating long term offtake price and volume agreements, which can help derisk new projects and facility abatement decisions.
  - However, **existing agreements are generally commercial-in-confidence and not disclosed**.
- **The ACCU market provides only limited visibility of forward prices** and does not provide bankable forward price risk management (in contrast to traditional commodity markets)

Government auction of contracts for difference (CfD) is one option to consider

- **Forward price risk could be addressed through government auction of forward-dated contracts for difference**, particularly for new ACCU supply
  - Auctions of CfDs reallocate risk in return for payment, providing bankable risk management for investors, and could generate net government revenues
- **The case for de-risking is strongest for near term supply** given lags in credit delivery and likelihood of higher volumes of ACCUs required for SGM decline rates aligned to the 2035 national target
- **Issuing contracts for at least two price levels** could support improved future price discovery and visibility
- **Contracts for difference could also be used to support the lower end of an ACCU price corridor**, depending on the chosen price level

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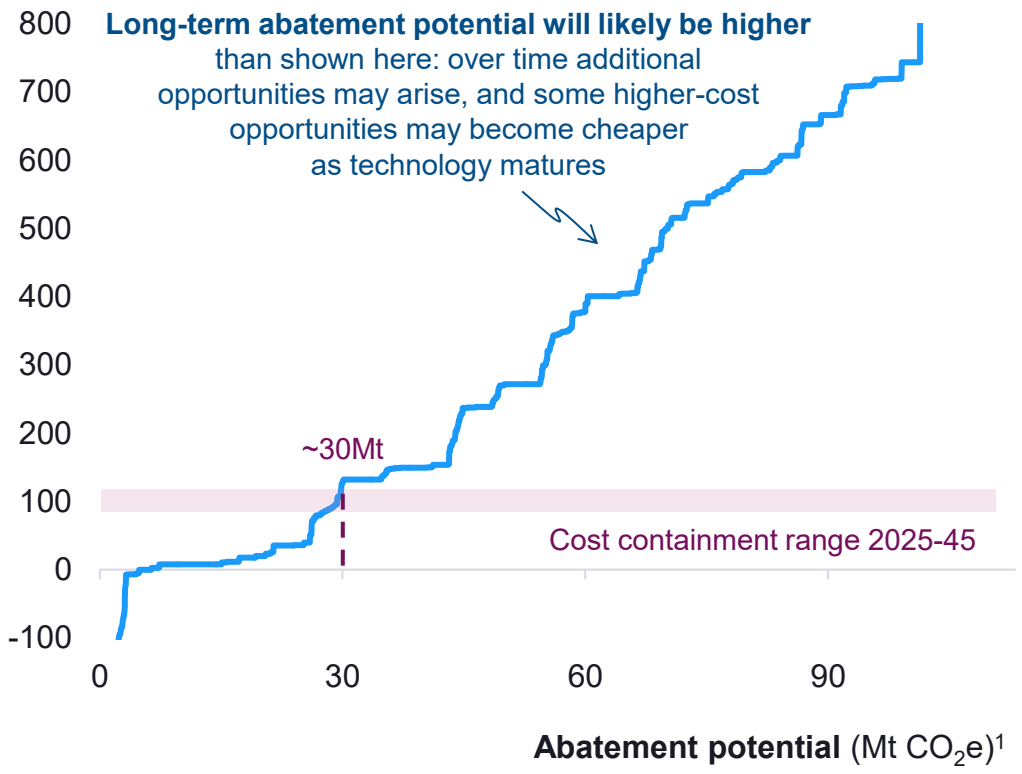
Lifting the share of on-site abatement is essential but challenging in the short term, with ACCUs accounting for up to two thirds of cost-effective abatement potential

On-site MACC vs. off-site ACCU abatement potential

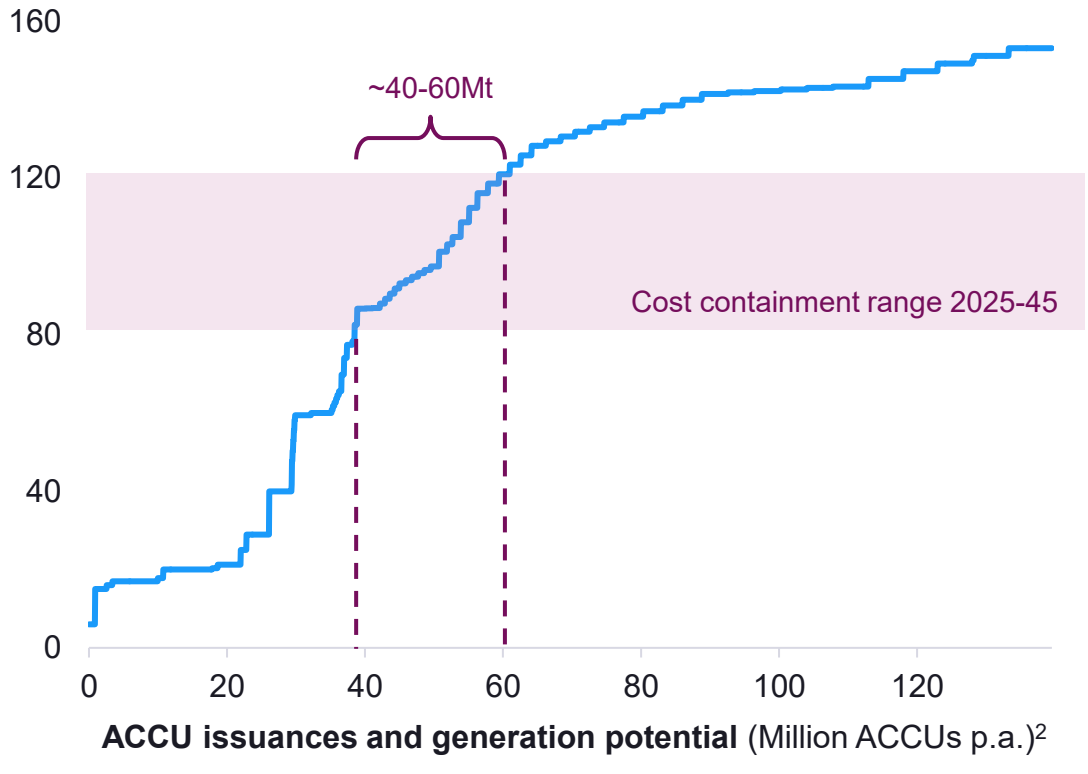
~30Mt of early onsite abatement potential is available at incentive prices consistent with existing cost containment settings

On-site abatement price (2025$ / t CO_2e)



Total potential ACCU supply within the same price range is ~40-60Mt – and there is significant additional potential below $200/t

'Off-site' abatement price (2025$ / t CO_2e)



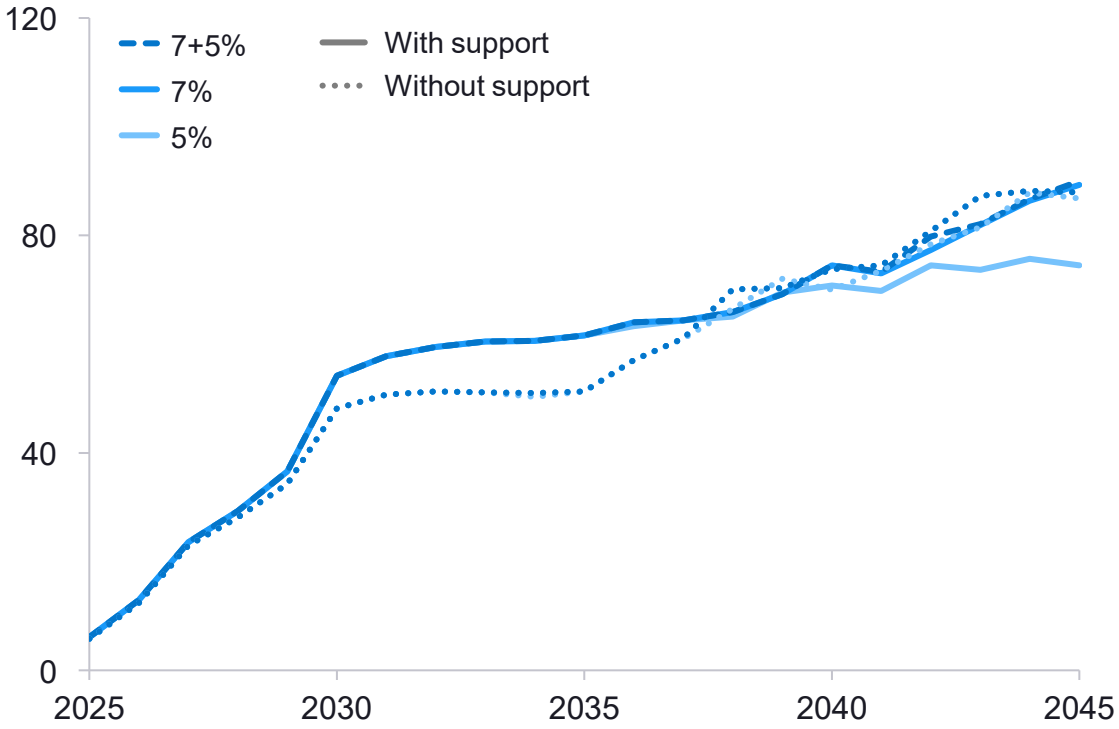
1. Reflects pre-SGM reform (2023) abatement potential. 2. ACCU issuance potential p.a. is shown as an average over the life of the relevant ACCU projects.
Source: EY-CARBON-VIEW model (July 2026). Results shown for medium-high price context.

Additional grant or tax support for on-site abatement is projected to lift and bring forward on-site abatement, without impacting industry competitiveness

Support for on-site abatement | Impact on on-site abatement

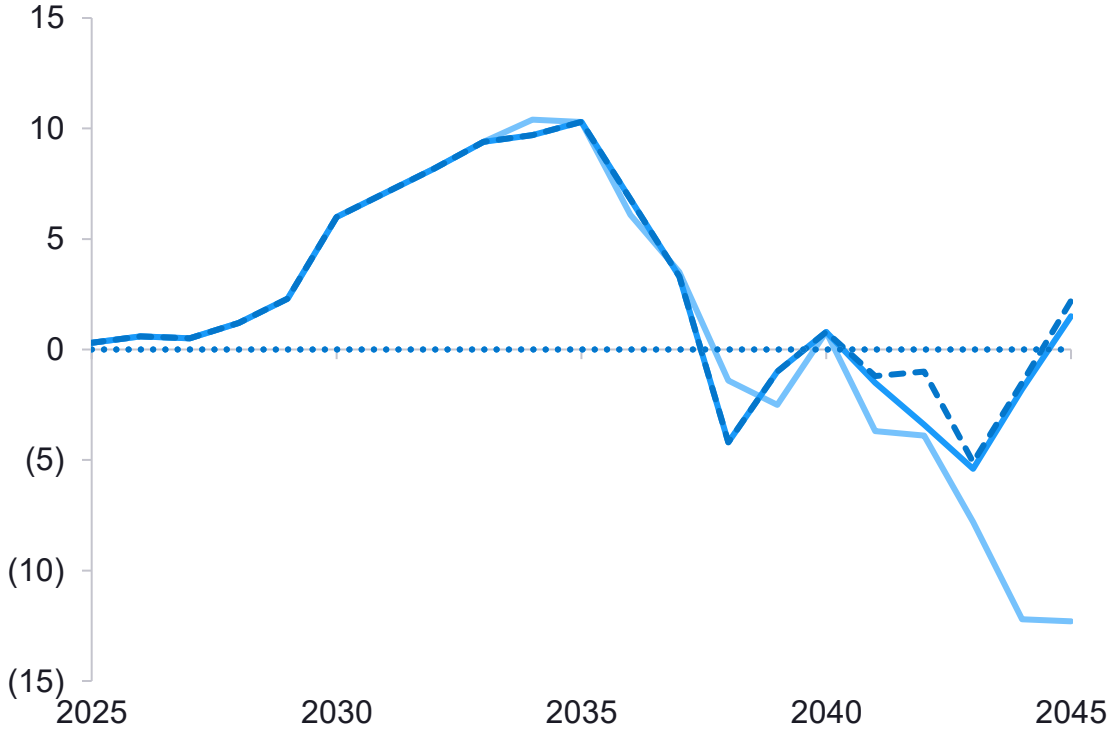
A 50% capital subsidy could lift and bring forward on-site abatement

On-site abatement (Mt CO_2e p.a.)



With increases of up to 10Mt p.a. to 2035

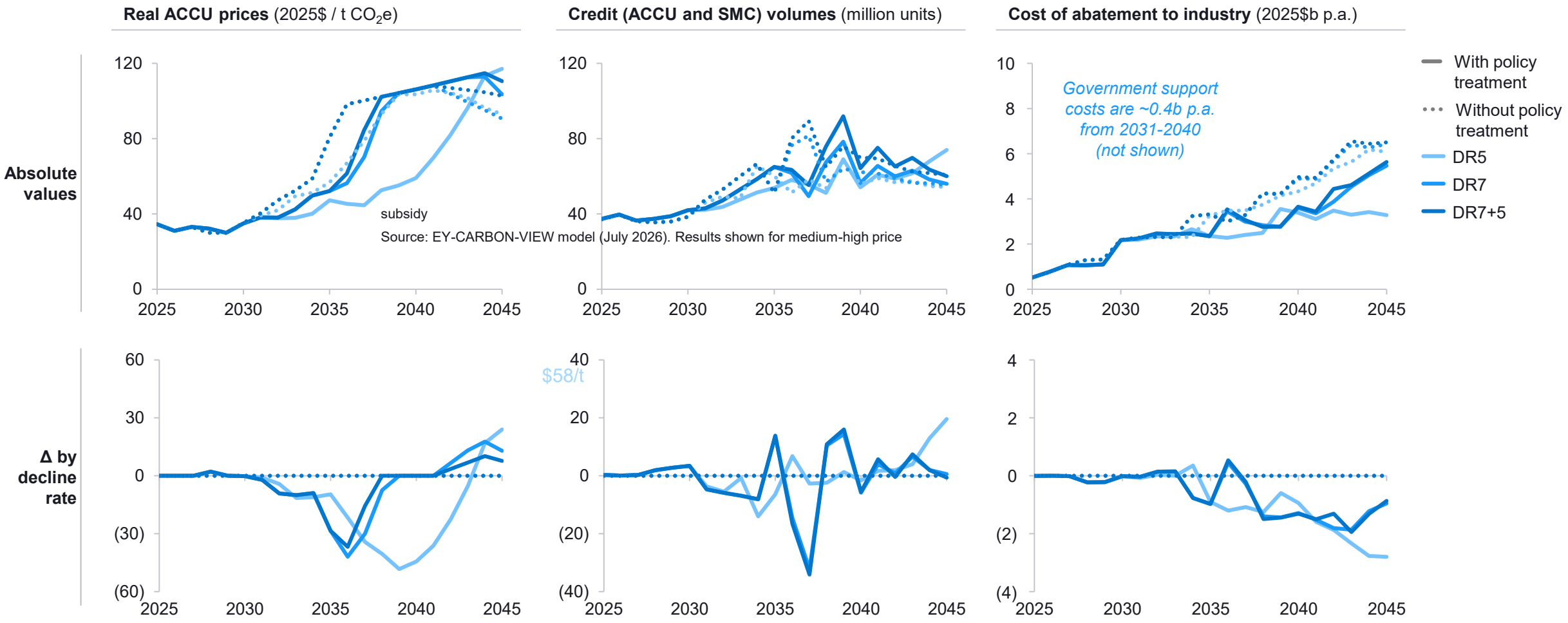
Change in on-site abatement vs. corresponding decline rate scenario (Mt CO_2e p.a.)



Source: EY-CARBON-VIEW model (July 2026). Results shown for medium-high price context.

Government funding for abatement lowers early ACCU and SMC demand and incentive prices, and reduces SGM credit volumes before 2035

Support for on-site abatement | Impact on ACCU prices, credit volumes and industry abatement costs[1]



1. Industry abatement cost excludes cost to government of providing 50% capital subsidy

Source: EY-CARBON-VIEW model (July 2026). Results shown for medium-high price context.

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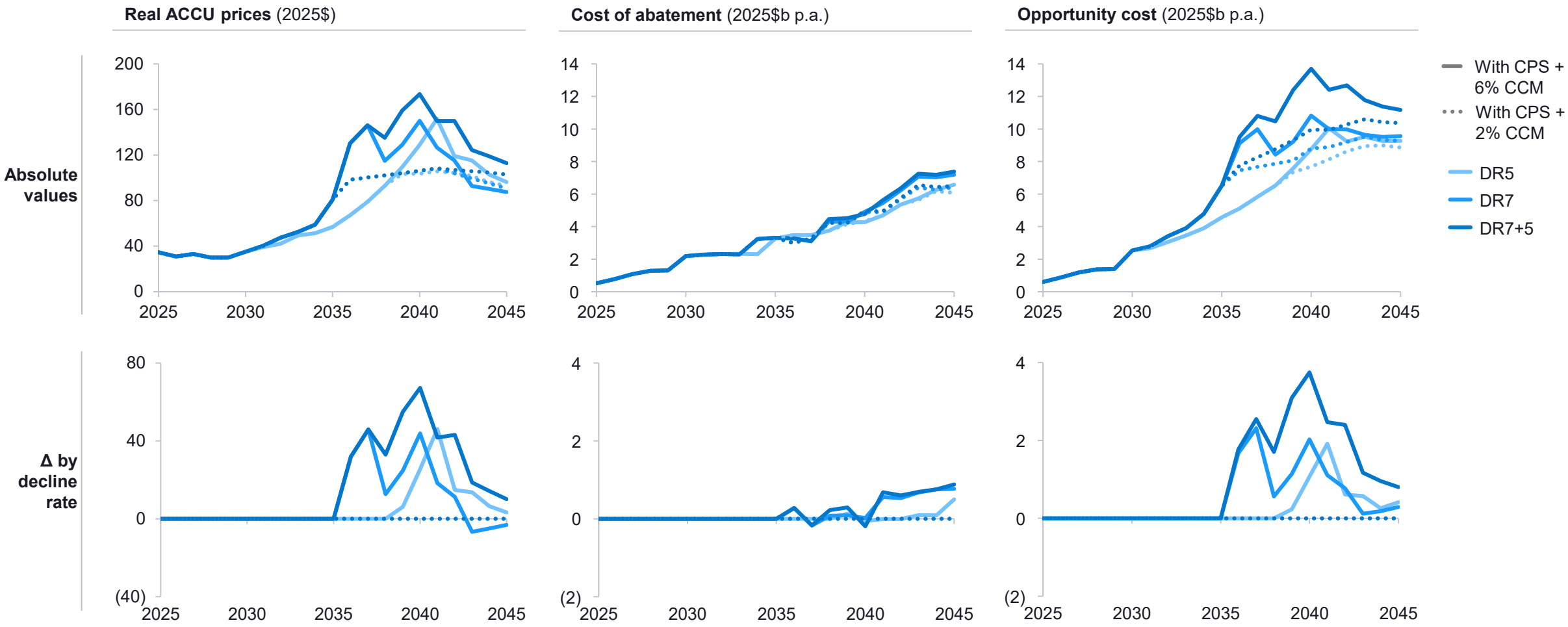
Continuing current cost containment settings would help manage the risk of price spikes in a maturing market, but could impact incentives for deep decarbonisation

Cost containment[1] | Impact on ACCU prices and compliance costs



1. The modelling assumes current settings continue rather than lapsing, rising at CPI+2% and contrast this with an alternative trajectory rising at CPI+6% after 2028.
2. Opportunity cost perspective on compliance costs includes the book value of ACCU margin in the year surrendered, in addition to the cost of delivering on- and off-site abatement. See slide 45 for details.

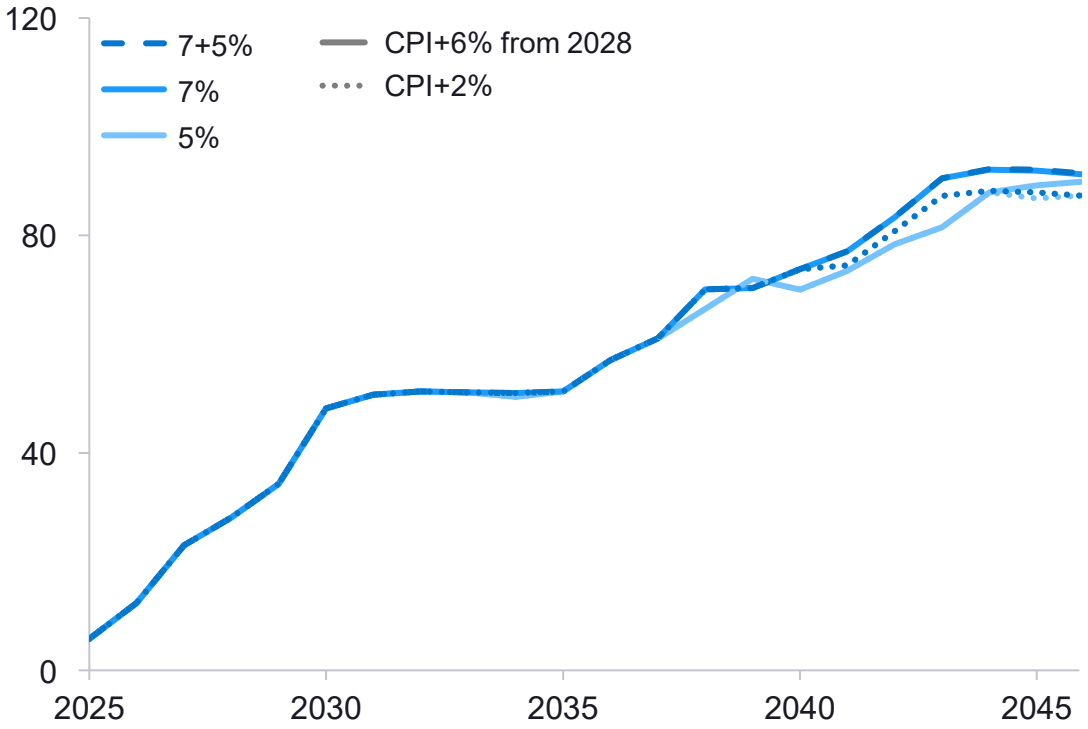
Source: EY-CARBON VIEW Model (July 2026). Results shown for medium-high price context.

Relaxing the cost-containment results in higher ACCU prices from 2035 in the option analysed, increasing on-site abatement by ~2-4Mt p.a. beyond 2040

Cost containment[1] | Impact on on-site abatement

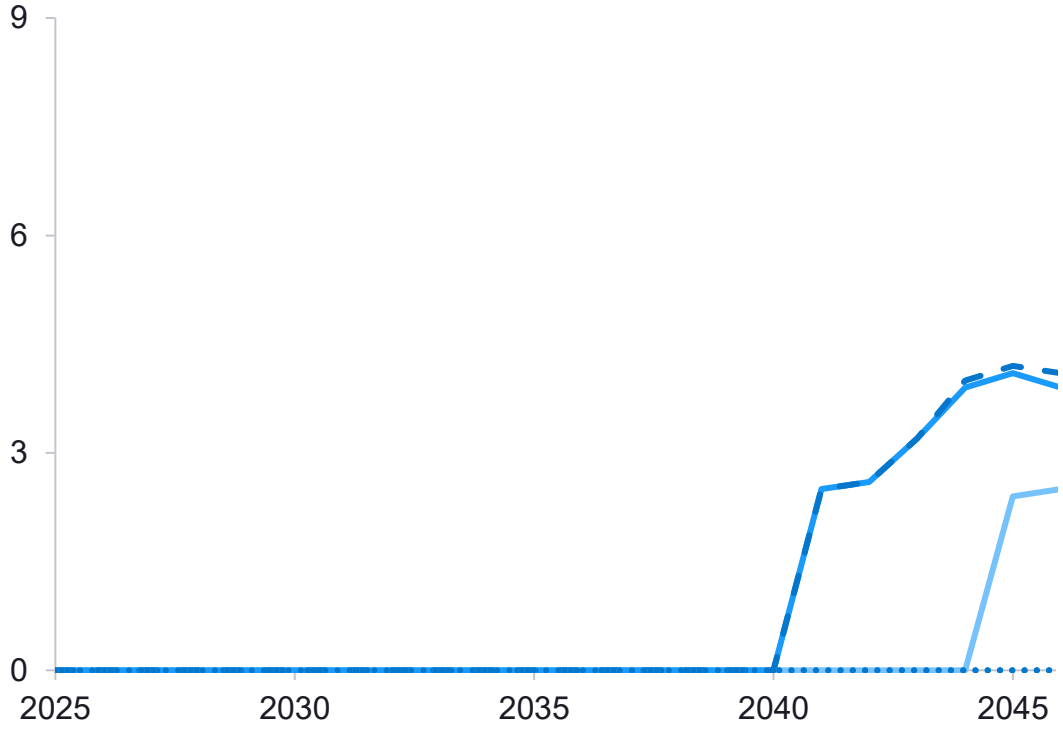
A looser cost containment threshold could lift incentives for on-site abatement

On-site abatement (Mt CO_2e p.a.)



Resulting in ~2-4Mt p.a. additional on-site abatement after 2040

Change in on-site abatement vs. corresponding decline rate scenario (Mt CO_2e p.a.)



1. The modelling assumes current settings continue rather than lapsing, rising at CPI+2% and contrast this with an alternative trajectory rising at CPI+6% after 2028

Source: EY-CARBON VIEW Model (July 2026). Results shown for medium-high price context.

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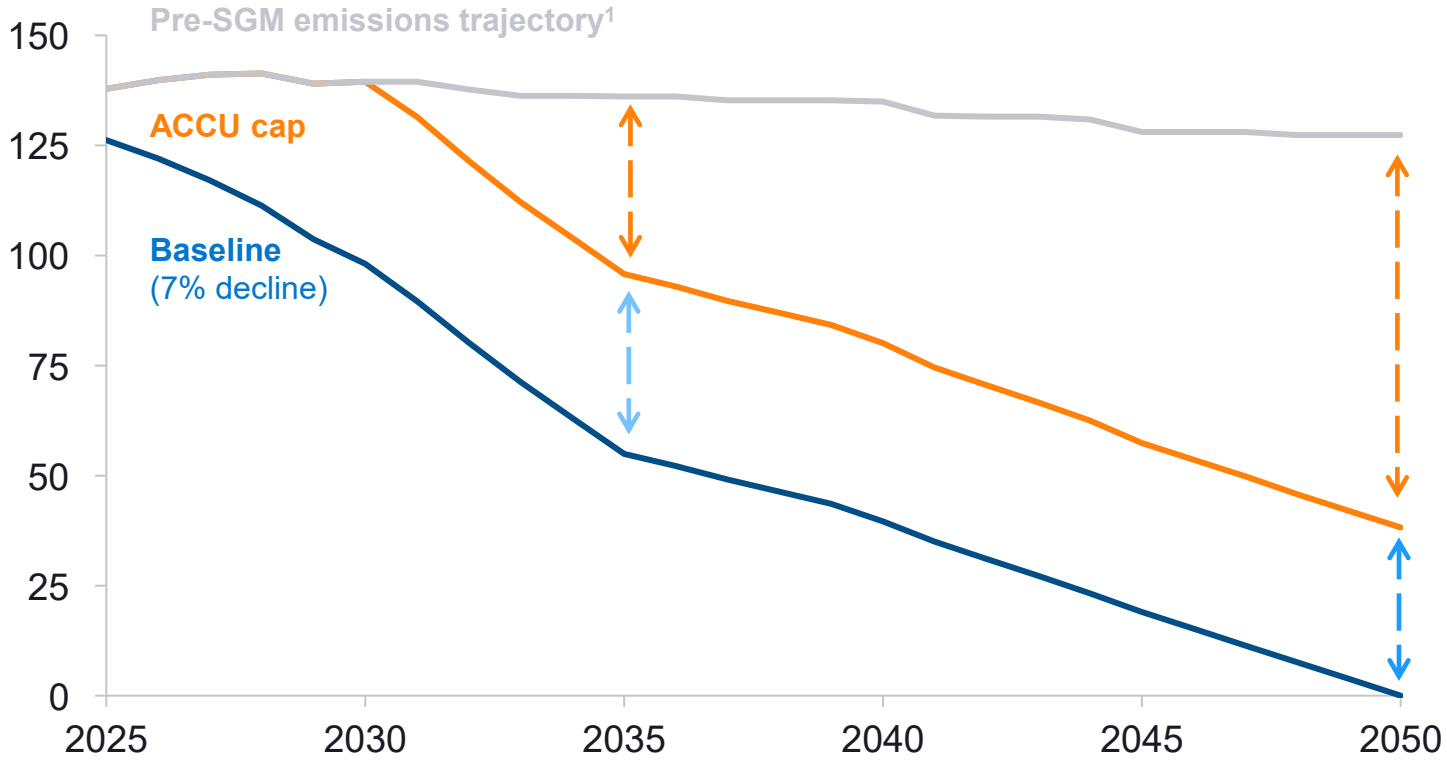
Capping ACCUs as a percentage of pre-SGM emissions trajectories could increase on-site abatement, while allowing some ACCU use

ACCU caps | Overview

Aggregate baselines and caps (Mt CO_2e)



- **Above cap, abatement must be delivered on-site**, either by an individual facility or by buying SMCs
- **Share of on-site** abatement required increases over time

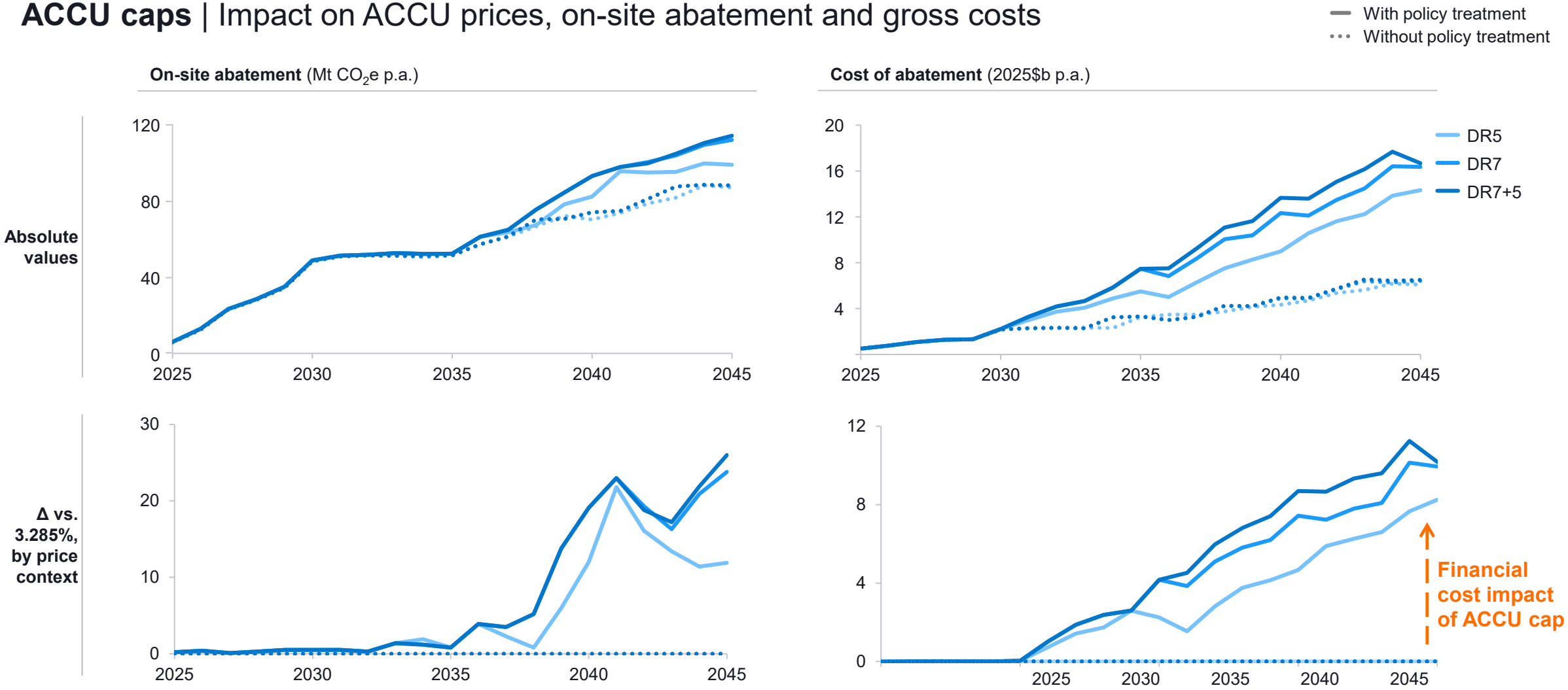
- **Within cap, abatement can be delivered w/ ACCUs**
- 2050 task may be calibrated to views on technologically and economically feasible on-site abatement potential

1. 'Pre-SGM emissions trajectory' is equivalent to 'pre-ERC' baselines (or Baseline / Emissions Reduction Contribution).

Source: EY-CARBON-VIEW model (July 2026)

Capping facility ACCU use at 50% of pre-SGM emissions lifts on-site abatement but increases compliance costs by around ~3x

ACCU caps | Impact on ACCU prices, on-site abatement and gross costs



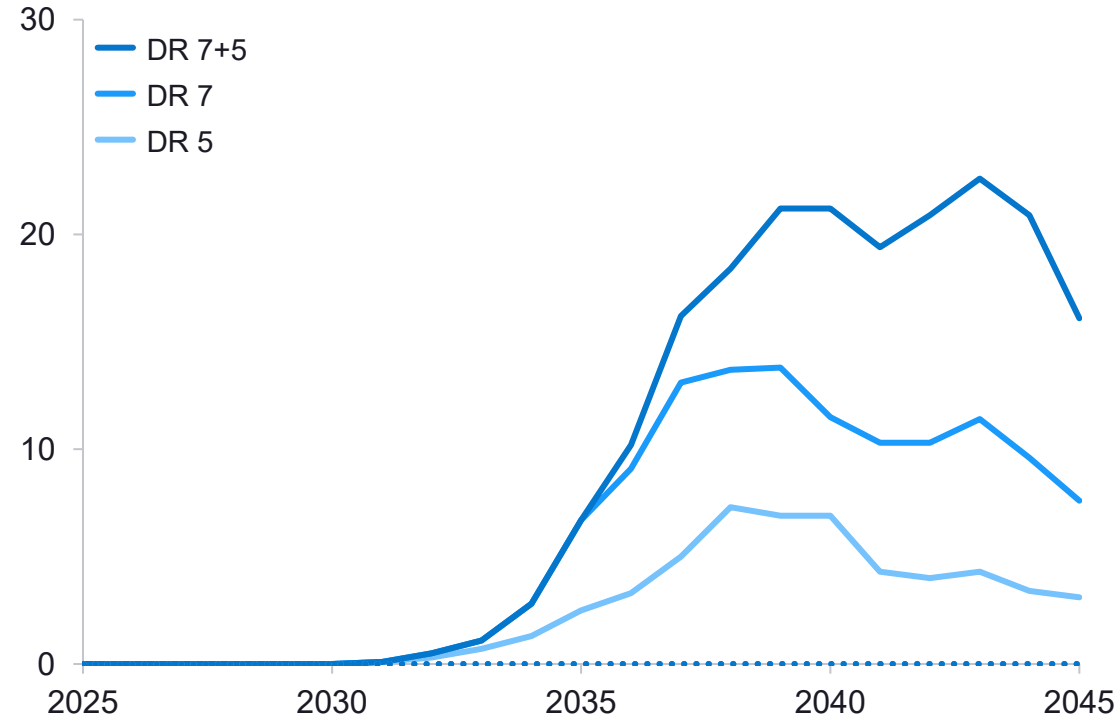
Note: Costs include per-tonne non-compliance penalties (but not daily non-compliance penalties, which are not feasible to model reliably, but could be material).
Source: EY-CARBON VIEW Model (July 2026). Results shown for medium-high price context.

We find a 50% facility-level cap on ACCU use would see total abatement fall due to increased non-compliance, due to a lack of cost-effective abatement options

ACCU caps | Impact on projected non-compliance

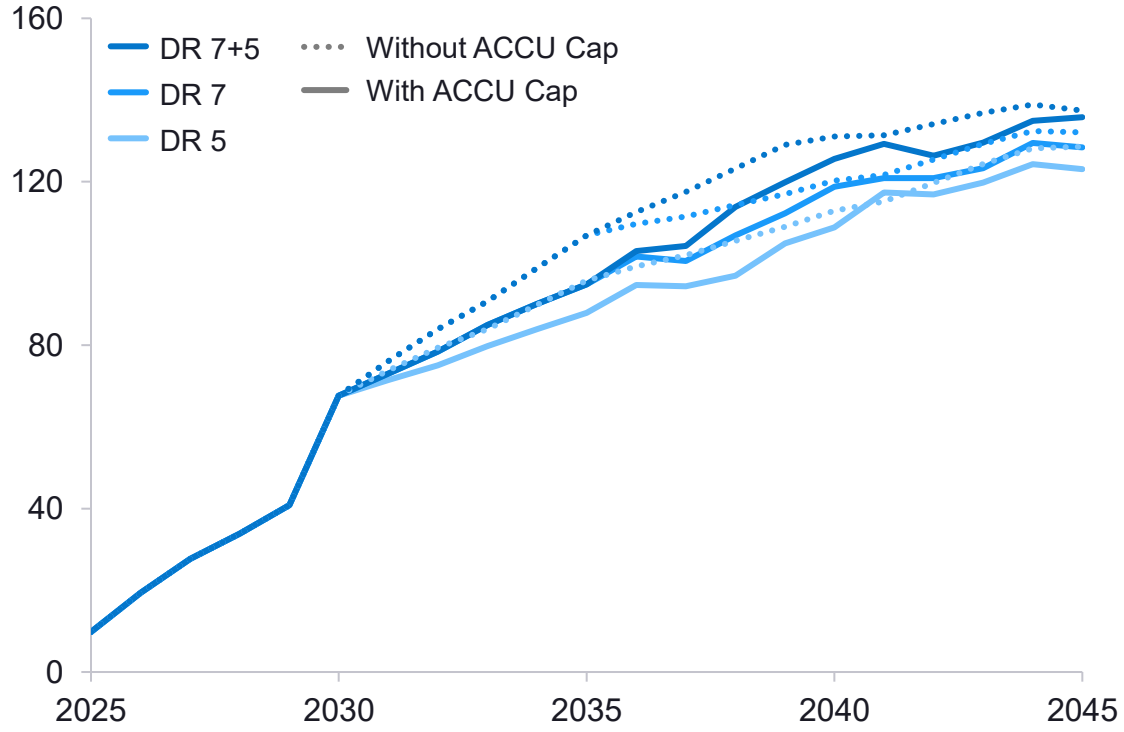
Capping ACCUs results in material non-compliance

Accumulated non-compliant obligations[1] (Mt CO_2e)



Which reduces actual net abatement achieved vs. uncapped scenarios

Change net abatement vs. corresponding decline rate scenario (Mt CO_2e p.a.)



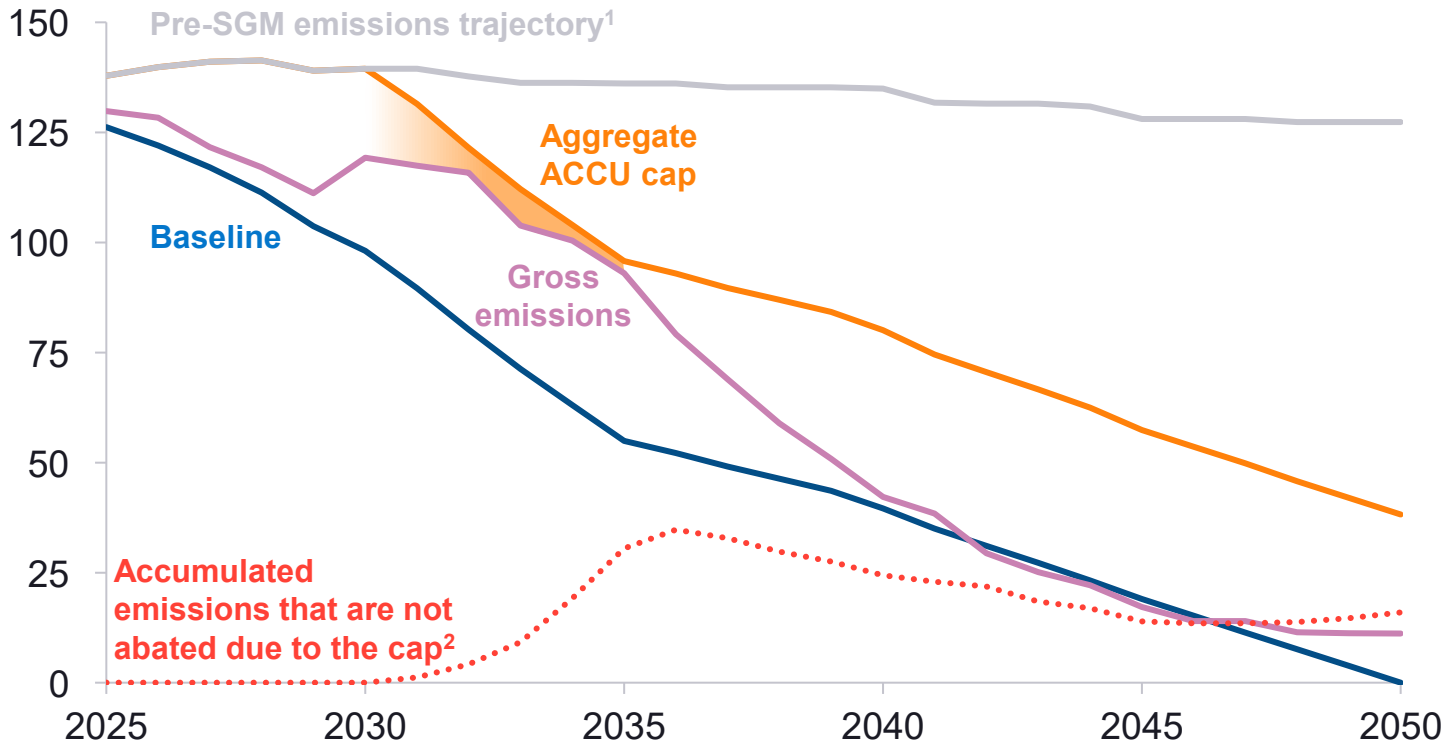
1. Non-compliance excludes new facilities. If new facilities enter above best practice emissions intensities, then they will likely breach caps immediately, and so may not enter without some form of exemption or transition arrangement. Government would need to take a view on whether this were a desirable outcome.

Source: EY-CARBON VIEW Model (July 2026). Results shown for medium-high price context.

Variations in facility context imply that any limits on ACCU use could be explored at the system level, rather than being imposed at facility level

4 ACCU caps | Potential impact of ACCU caps on compliance

Aggregate baselines, caps, and non-compliance (Mt CO_2e)



- **Discontinuous incentives created by a facility-level cap increase costs and system risks**, and can be difficult for market participants to respond to effectively
- Effects of a facility-level cap vary with context:
  - Facilities above their caps (incl. many non-TEBA facilities in higher decline scenarios) require SMCs to avoid non-compliance
  - Facilities between their baseline and their cap (incl. many TEBA facilities) do not generate SMCs because current settings do not allow facilities to 'generate' SMCs by purchasing ACCUs up to their cap
  - Facilities below their baselines can generate SMCs, but volume is typically low in the early 2030s, until SMC price signals flow through to incentivise more expensive on-site abatement
- **Material non-compliance is likely under a facility-level approach** when the aggregate ACCU cap comes too close to aggregate gross emissions
- This suggest any consideration of caping ACCU use could **explore imposing limits at the system-level**, to provide flexibility and support SMC generation

1. 'Pre-SGM emissions trajectory' is equivalent to 'pre-ERC' baselines (or Baseline / Emissions Reduction Contribution). 2. Excludes new facilities. If new facilities enter above best practice emissions intensities, then they will likely breach caps immediately, and so may not enter without some form of exemption or transition arrangement.

Source: EY-CARBON-VIEW model (July 2026)

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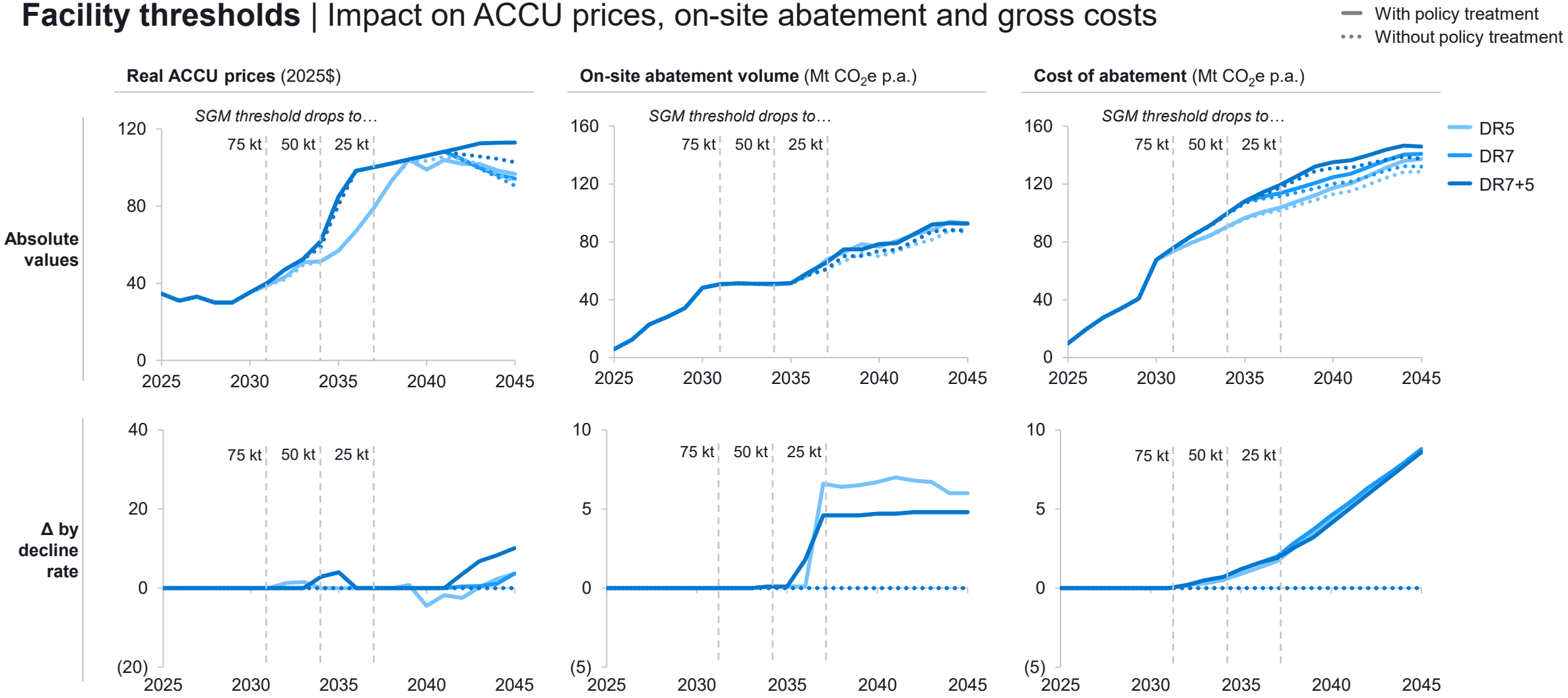
- Context of the analysis
- Overview of modelled policy options
- **Key results and insights**
  - Higher baseline decline rates
  - Sector differentiated decline rates
  - Price visibility and investment risk
  - Context of on-site abatement, and financial support
  - Cost containment
  - Capping ACCU use
  - **Lower SGM facility threshold**
  - Combinations of measures
- More details on the modelling framework

Progressively lowering the facility threshold to 25kt p.a. increases on-site abatement by ~5 Mt p.a. before 2040, with relatively modest impacts on credit prices

Facility thresholds | Impact on ACCU prices, on-site abatement and gross costs



Source: EY-CARBON VIEW Model (July 2026). Results shown for medium-high price context.

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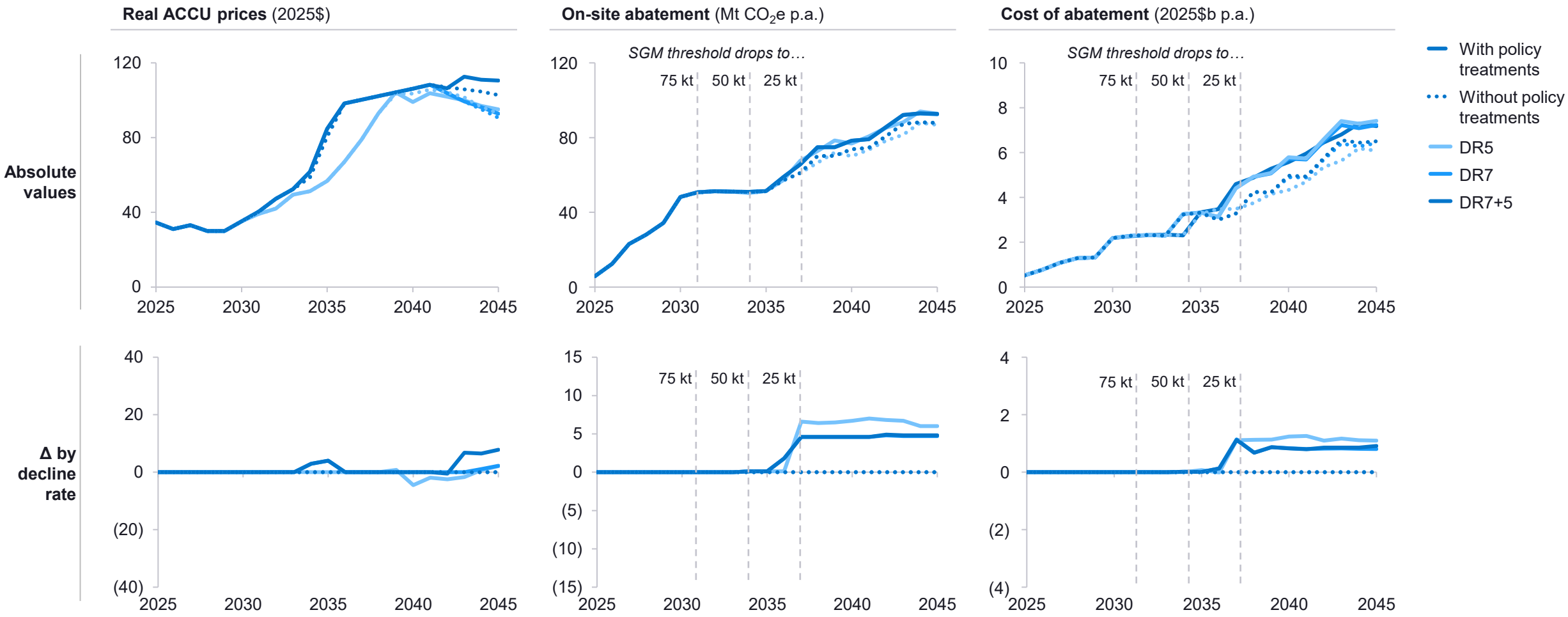
Combining differentiated decline and lower thresholds supports orderly increases in credit prices and incentives, with wider facility coverage driving higher total costs

Higher decline, differentiated rates and lower threshold | Impact on ACCU prices, abatement and costs

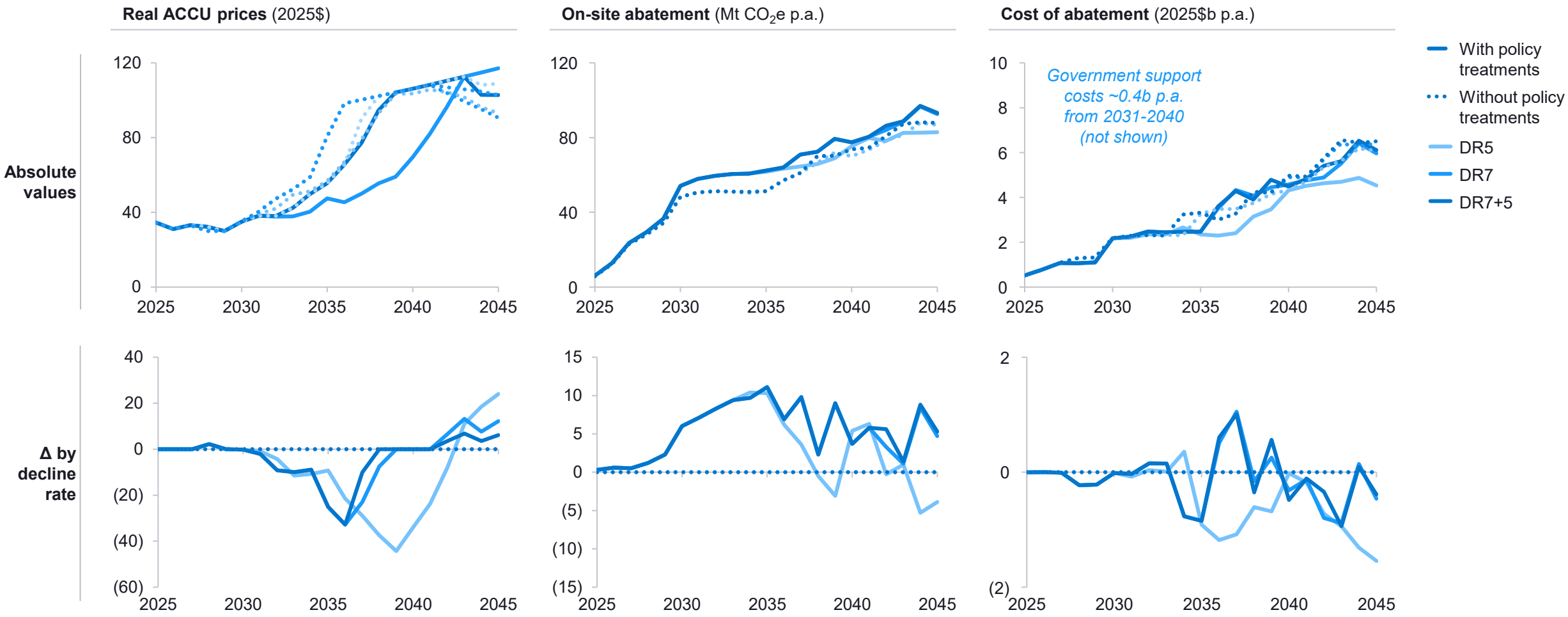


1. The package of measures includes differential decline rates, helping align sector level abatement task with low-cost abatement, which impacts the distribution of costs across sectors but has little or no impact on aggregate outcomes (such as credit prices, total and on-site abatement, and total compliance costs). Contracts of difference are not formally modelled.

Source: EY-CARBON VIEW Model (July 2026). Results shown for medium-high price context.

Adding financial support to the package of measures lifts and brings forward on-site abatement, and smooths the increase in credit prices and incentives

Core options[1] **plus additional abatement support** | Impact on ACCU prices, abatement and costs



1. The package of measures includes differential decline rates, helping align sector level abatement task with low-cost abatement, which impacts the distribution of costs across sectors but has little or no impact on aggregate outcomes (such as credit prices, total and on-site abatement, and total compliance costs). Contracts of difference are not formally modelled.

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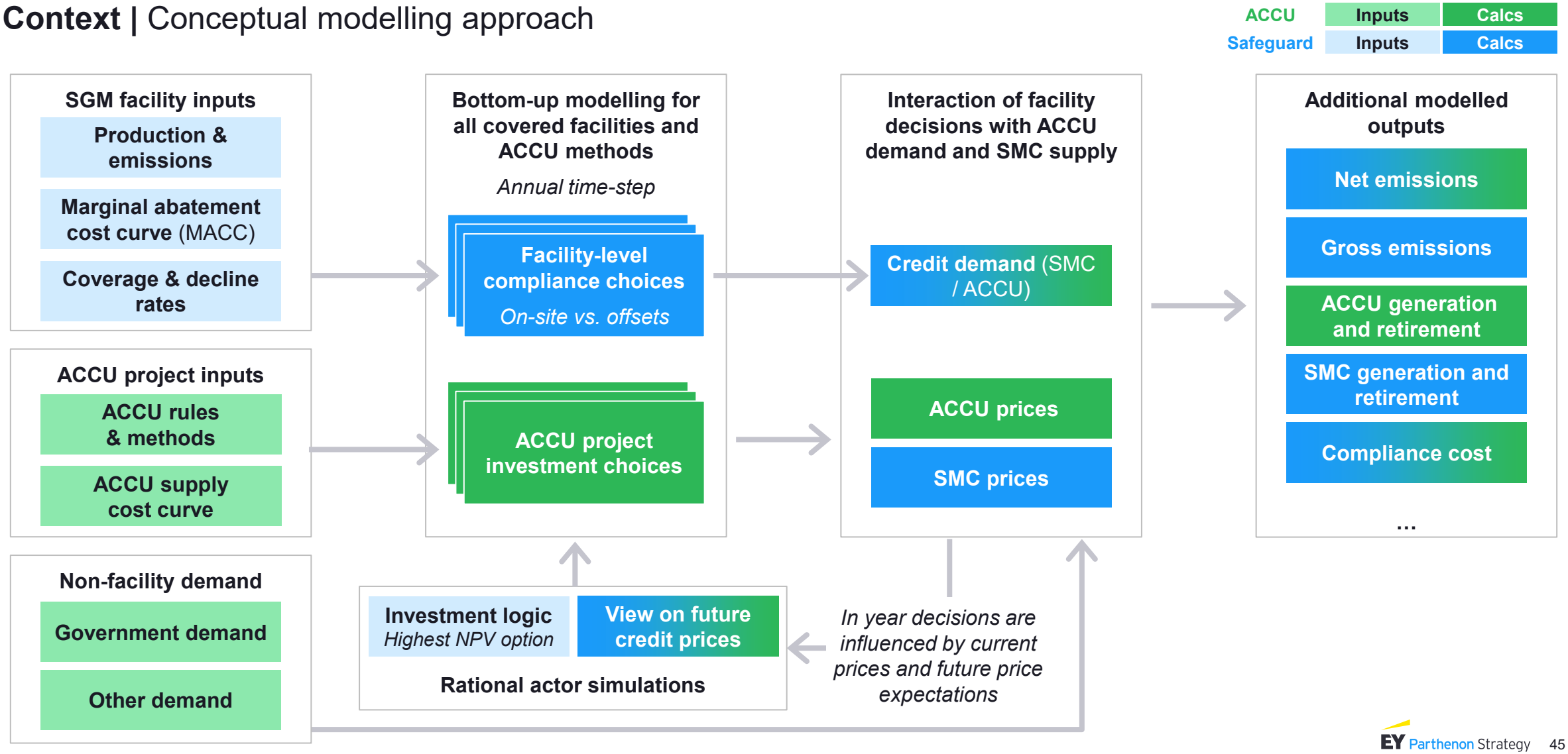
The EY-CARBON-VIEW model analyses facility-level compliance choices and their interactions with credit supply and markets to project system outcomes

Context | Conceptual modelling approach



EY-CARBON-VIEW simulates rational investment and market participation decisions based on bottom-up modelling of facility and ACCU project inputs

Core modelling assumptions | Overview of key assumptions

Facility inputs

- **Exogenous production** volumes based on announced new projects, expansions, and closures (and no other scheme exits)
- Availability and costs of different types and levels of **abatement opportunities** based on desktop research and market intelligence, and consistent with NGFS <2%
- Simplified application of **TEBA** rules:
  - Manufacturing fixed based on current application
  - Simplified modelling of non-manufacturing revenue test

ACCU inputs

- **ACCU supply** based on existing projects, and current ACCU rules (no new methods)
- Longer term carbon and environmental planting potential and economics based on **CSIRO LUTO model**, with annual conversion cap consistent with DISER 2021

Non-facility demand

- **Government** pre-commits to ACCU purchases and builds inventories, selling at cost containment prices when required
- Limited **voluntary demand**

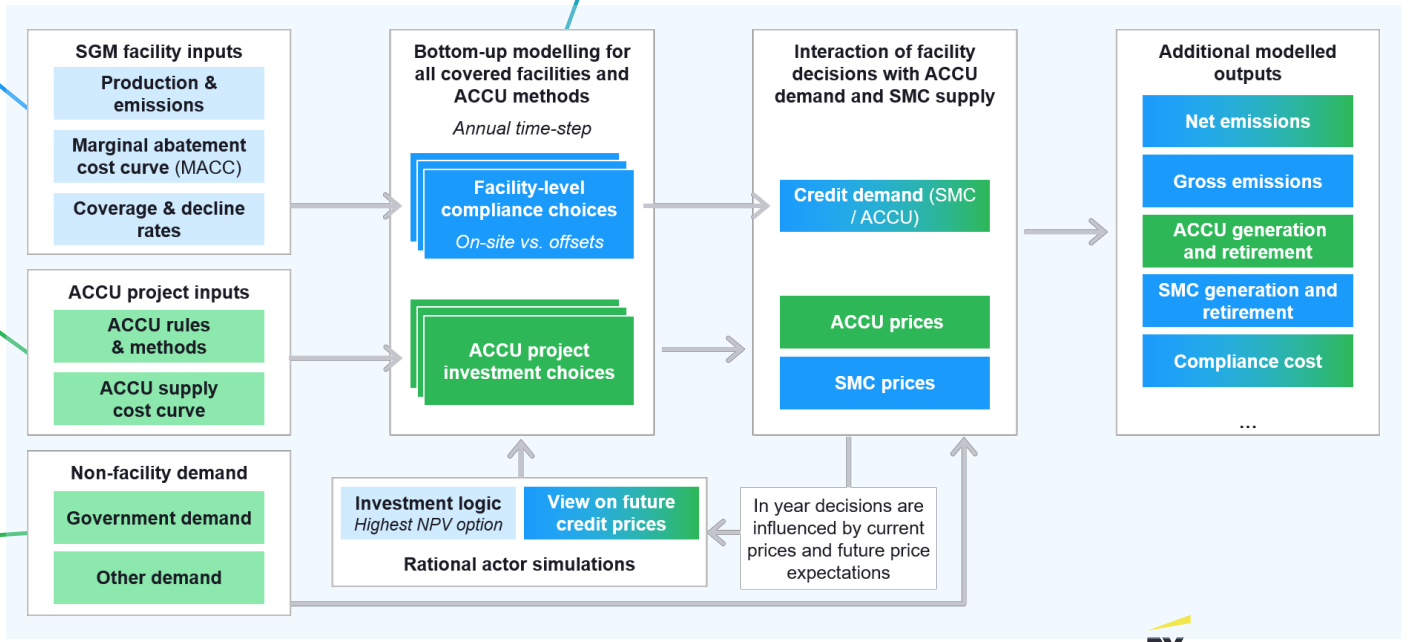
Rational investment behaviour and market participation

Models rational investment decisions and market participation by facilities and ACCU investors to give a more realistic view of market outcomes than least cost optimisation

Investment decisions reflect sector & technology-specific WACCs, asset cycles, lead times etc.

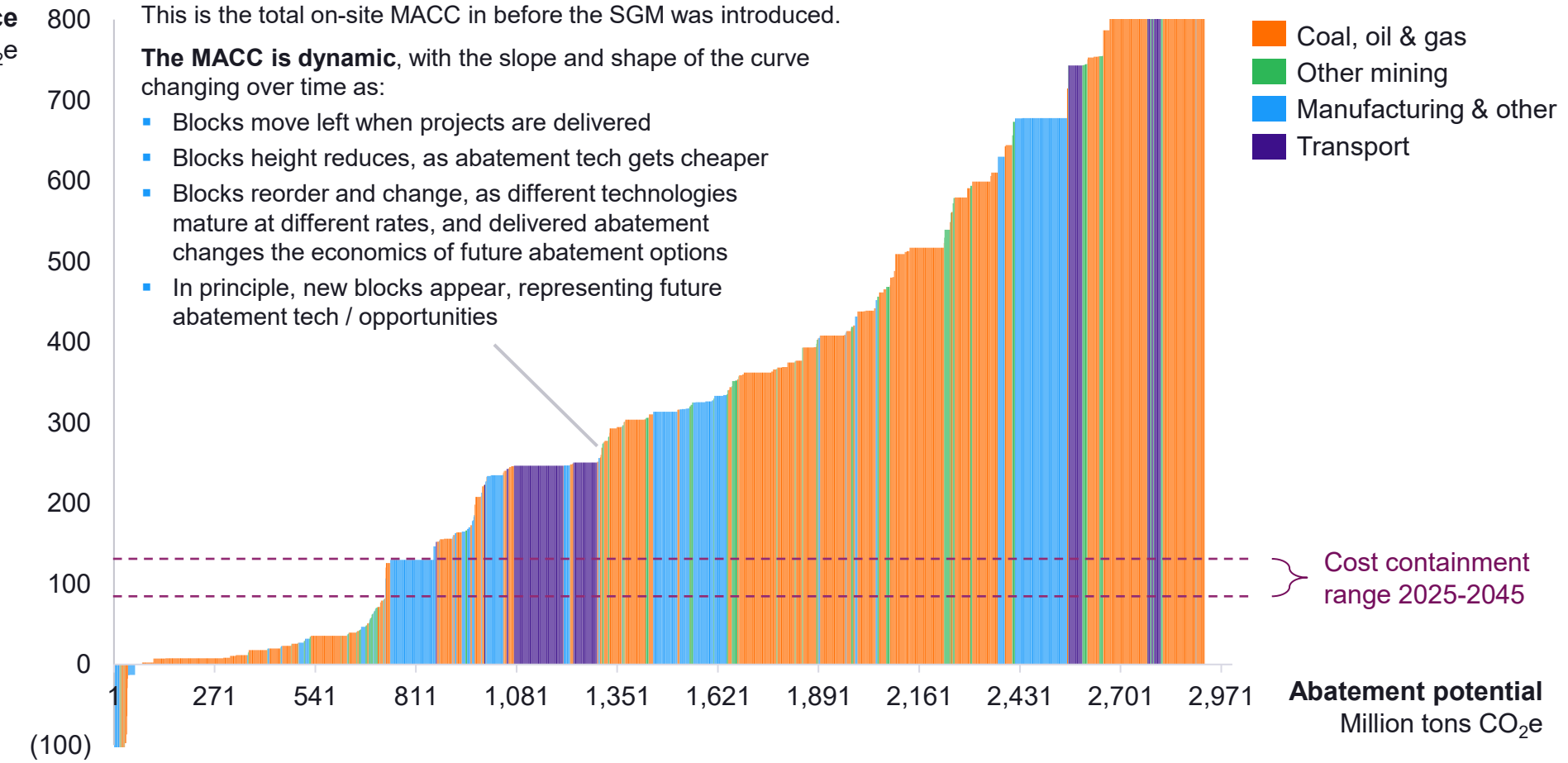
Future price expectations based on observed market signals, and tuned to minimise market instability (subject to not being able to 'see the future')

Facilities build credit inventories for future compliance, but do not actively engage in trading



A whole-of SGM marginal abatement cost curve (MACC) is estimated based on the cost and volume of abatement options for all emissions sources at each facility

Core modelling assumptions | Facility marginal abatement cost curve (pre-SGM reforms)

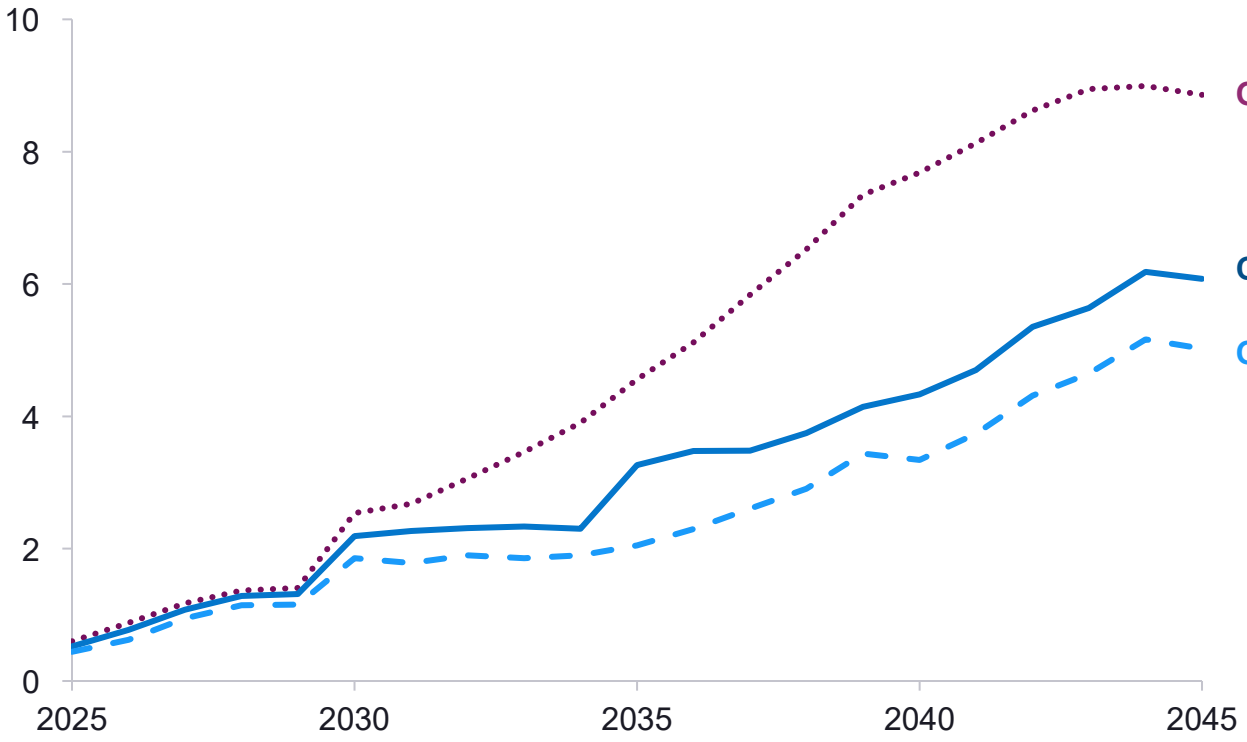


Note: Abatement options and costs are generally based on international estimates, while actual costs will be influenced by local factors including scale, supply chain factors, local regulations and learning by doing.
Source: EY-CARBON-VIEW model (July 2026)

We model several measures of compliance costs

Costs | Components of compliance costs

Components of compliance costs
2025$b p.a.



Opportunity cost *includes the cost of delivering abatement plus the ACCU margin in the year surrendered*

ACCU margin *is the producer or owner 'surplus' that arises when market prices are above the incentive price required to induce ACCU supply and project establishment*

Margin is shared between ACCU suppliers, facilities and government through forward purchase and contract arrangements

ACCU margin

ACCU delivery cost
including required return on investment

On-site abatement delivery cost
annualised over the life of each investment, less net SMC revenues where relevant

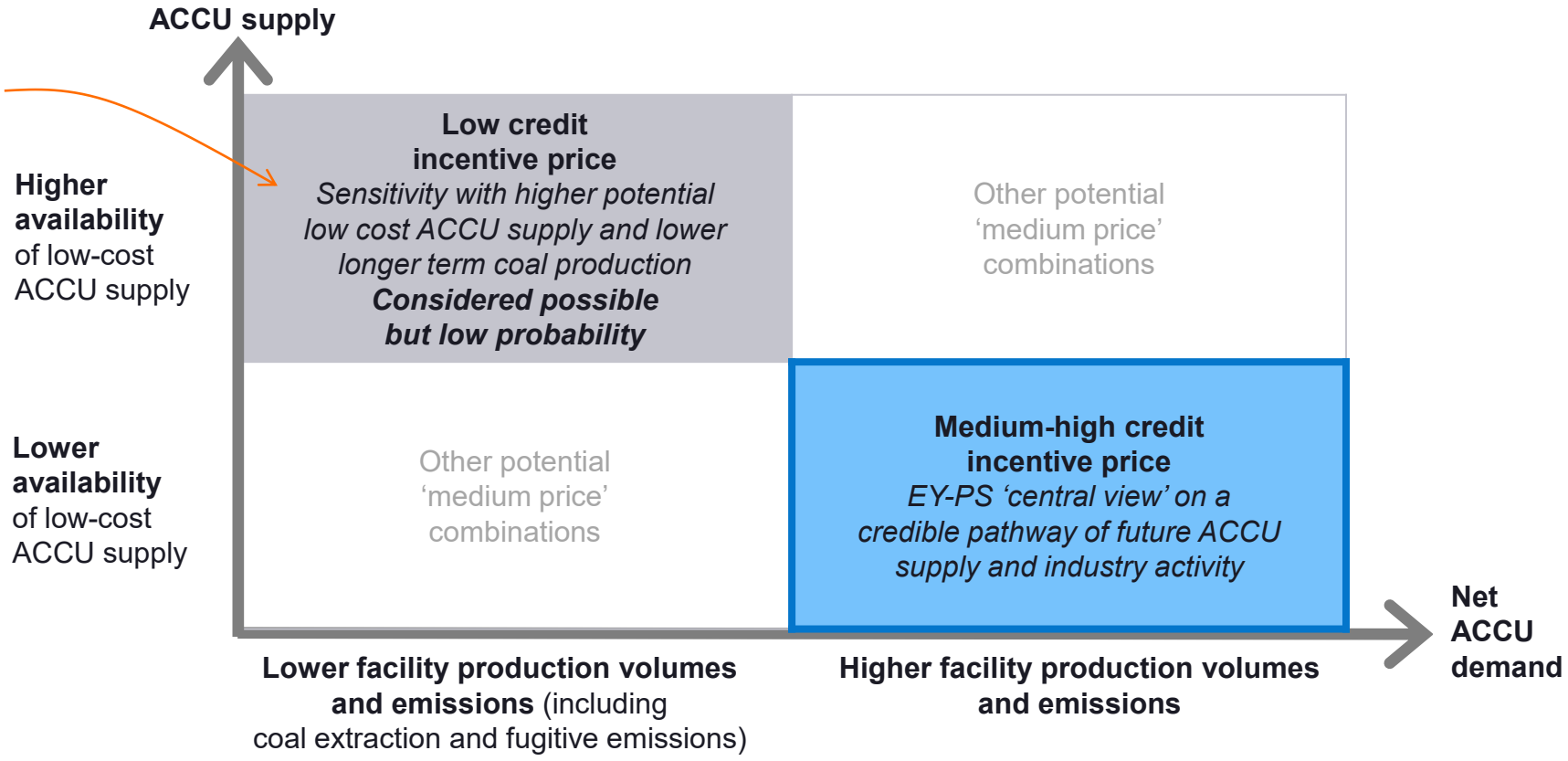
Market value of net credits in the year surrendered

Source: EY-CARBON-VIEW model (July 2026)

We distinguish *low* and *high* ACCU supply scenarios based on physical supply potential from new HIR projects

Context | Central and alternative reference contexts for modelled scenarios

HIR projects produce ~1/3 more ACCUs in low price context (may be interpreted as a proxy for other low-cost methods)



Driven by facility production volumes, facilities opening / closing, economics of on-site abatement, and (imperfect) expectations about future credit prices

We distinguish *low* and *high* net ACCU demand scenarios by varying the volume of industry output

Contexts | Facility volume assumptions for net ACCU demand scenarios

	Medium-High Credit Price scenarios **Higher facility volumes**	*Low Credit Price scenarios* **Lower facility volumes**
Overview	▪ **EY-PS 'house view' on a credible pathway of industry activity in the future**	▪ Varies from the EY-PS's 'house view': **External conditions mean fossil fuel sectors do not implement planned new projects**
Existing facility treatment	▪ Facilities produce at capacity until the end of their technical lives	▪ Facilities produce at capacity until the end of their technical lives
New capacity	▪ Announced expansions and other projects are delivered for **all sectors**	▪ Announced **expansions delivered for all sectors** ▪ New projects are: – **Not delivered for fossil fuel** – Delivered for other sectors

Glossary

Definitions of key variables

Abatement cost	Cost of on-site abatement less net SMC revenues plus cost of ACCU delivery, plus non-compliance fees where relevant. On-site costs are average annual costs over the investment life.
Abatement cost per tonne	Abatement cost divided by the total tonnes of abatement achieved in that year
ACCU margin	Market clearing ACCU price less the weighted average delivery cost ACCUs supplied in that year, multiplied by the volume of ACCU retirements
Opportunity cost	Abatement cost plus ACCU margin in the year surrendered
Opportunity cost per tonne	Opportunity cost divided by the total tonnes of abatement achieved in that year
Gross emissions	Facility emissions (after abatement actions)
Net emissions	Gross emissions less net credit (ACCU and SMC) surrenders
Non-compliant emissions	Above-baseline emissions that are not able to be offset through ACCU or SMC surrenders in scenarios involving facility level ACCU cap

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