A time for clarity and confidence

Australian Carbon Market Outlook 2026

An EY Net Zero Centre report

The better the question. The better the answer.
The better the world works.

Shape the future with confidence

A time for clarity and confidence: Australian Carbon Market Outlook 2026

Introduction

This report updates and builds on the EY Net Zero Centre report Changing Gears: Australian Carbon Market Outlook (2023).

It provides fresh analysis of current market dynamics and an assessment of the policy case, and potential consequences of further refinements or reforms to the Safeguard Mechanism (SGM) and Australian Carbon Credit Unit (ACCU) policy settings.

Australia has set an ambitious 2035 emissions reduction target. Now comes the hard part:

- Moving quickly to refine SGM and ACCU policies to boost investment confidence and activate deeper emissions reductions.
- Motivating broader emissions reductions across activities that currently lack appropriate abatement incentives, particularly in transport and other industry (see Exhibit ES-01).

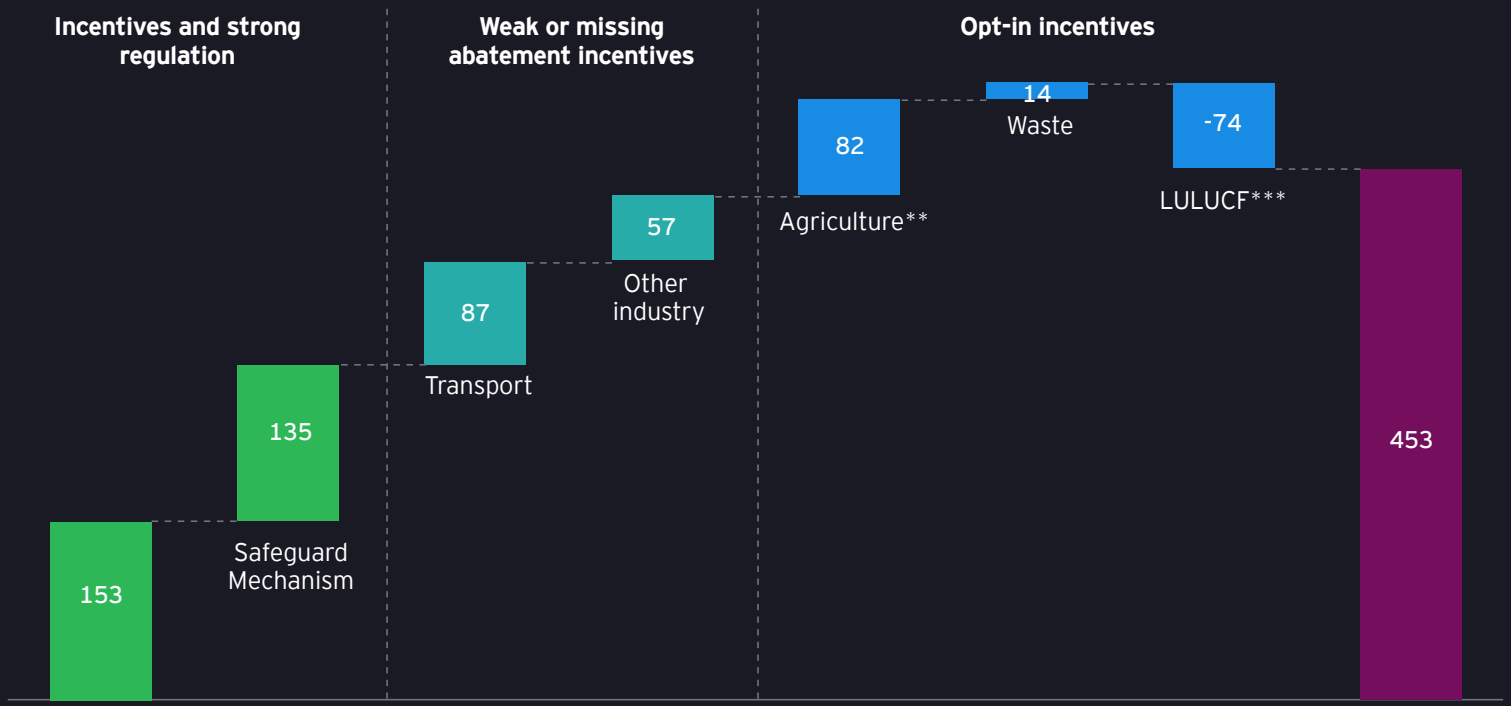
The 2023 reforms to the SGM and existing ACCU arrangements provide a strong foundation, and a 'light on the hill' for efficient and coherent economy-wide decarbonisation. But success will depend on maintaining policy momentum, building investor confidence, and ensuring incentives are aligned, transparent and effective.

This report is structured in four sections that reflect the evolving challenges and opportunities shaping Australia's carbon market outlook. The report's four organising themes – context, complications, clarity, and change – mirror the strategy cycle: understanding the current context; confronting the challenges and complexity; charting a clear course ahead; and implementing change to create value.

Together, the report's themes also trace the arc of effective policy development: from diagnosis to design, from challenge to change.

Exhibit ES-01. Transport and other industries account for around the same share of emissions as SGM facilities, and face weaker abatement incentives

Australian greenhouse gas emissions ($MtCO_2e$) by source sector, 2023



Share of gross emissions:	29%	26%	16%	11%	16%	3%	n.a	n.a
Share of emissions:	34%	30%	19%	13%	18%	3%	(16%)	100%

* Electricity as per reported by DCCEEW sector 1.A.1.a Public electricity and heat production.
** Agriculture as per reported by DCCEEW. Does not include fuel combustion for machinery as this is captured under Sector 1 Energy
*** LULUCF = Land Use, Land-Use change and Forestry.
Source: DCCEEW 2023 Paris Agreement inventory emissions; Clean Energy Regulator Emissions Reporting, 2023-24; EY Net Zero Centre analysis using EY CARBON-VIEW (AUS) model.

Context: SGM and ACCU policy settings provide a strong foundation for industry decarbonisation

Australia's 62-70% emissions reduction target for 2035 is ambitious, but achievable – only if every sector plays its part, and only with new policies, investment and sustained commitment.

The reformed SGM provides a flexible market-based framework to drive orderly and cost-effective reductions in net emissions.

The SGM covers around 220 large facilities, accounting for approximately 30% of national emissions. Facilities must reduce their emissions by around 4.9% per year – one of the steepest mandated decline rates for heavy industry globally.

Policy allows facilities to meet their obligations through on-site abatement, and the use of Australian Carbon Credit Units (ACCUs) and Safeguard Mechanism Credits (SMCs).

Carbon credits provide a visible carbon price and help organisations to fund immediate off-site emissions reductions and removals while supporting the transition to lower-carbon assets and business models.

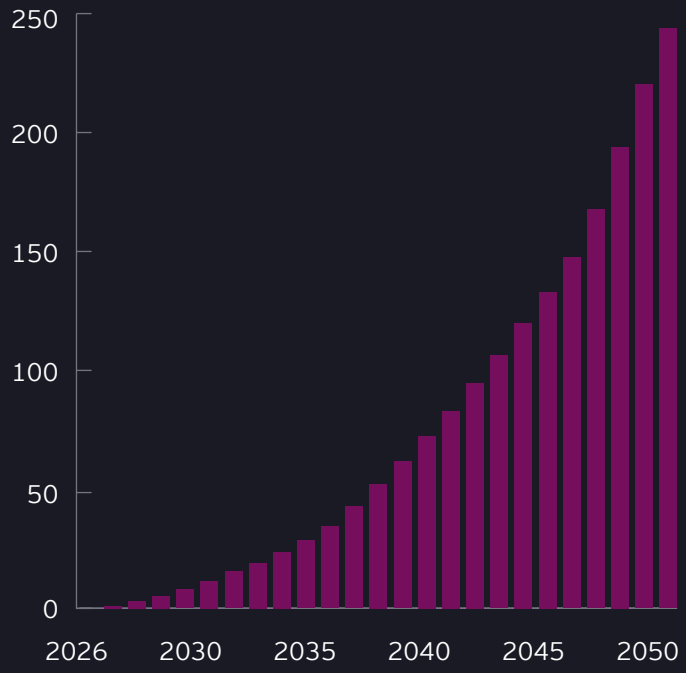
In most jurisdictions, carbon credits can only be used to meet voluntary commitments. Australia's approach, which embeds ACCUs into the SGM, is globally distinctive.

Allowing the use of high-integrity carbon credits within the SGM allows policy to impose more ambitious obligations, reducing total system-wide abatement costs by over 60%. The SGM cost containment measure further caps compliance costs.

Baseline adjustments for trade-exposed facilities help manage threats to competitiveness. But long-term solutions will require policy to evolve.

Exhibit ES-02. The use of ACCUs allows more ambitious baseline reductions without threatening jobs or competitiveness

Cumulative net avoided cost due to ACCUs
$ billions, Central Scenario



Source: EY Net Zero Centre analysis using EY CARBON-VIEW (AUS) model

Complications: Take practical steps now to reduce costs and emissions, across every sector

The fundamentals of SGM and ACCU policy settings are sound:

- Gross emissions from SGM facilities have fallen 2% in the first year, largely through low-cost measures.
- More than two-thirds of internal SGM abatement can be achieved at costs under AU$25/tCO$_2$e over the first five years of the reformed SGM.

But SGM and ACCU policy settings are not yet motivating investors to commit capital to higher-cost abatement from SGM facilities or new ACCU supply.

While this lack of investment could be explained by a variety of factors, greater clarity about future policy settings will be crucial to establish the bankable investments required for cost-effective emissions reductions.

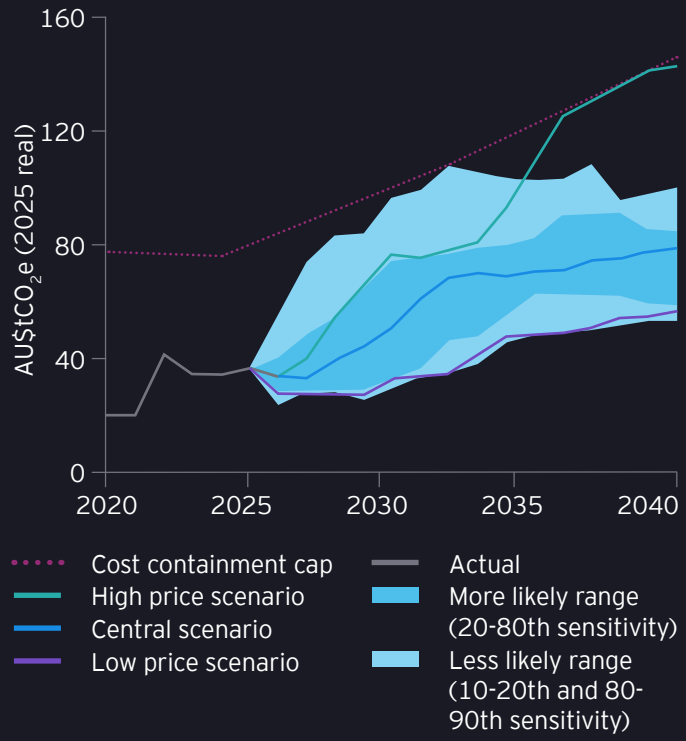
EY Net Zero Centre's updated central scenario projects a flat or falling market-clearing ACCU price of around AU$30-35/tCO$_2$e for the next two-to-three years, followed by gradual growth to around AU$70 by 2035.

This near-term ACCU price outlook is materially lower than our 2023 central projection, shaving off around AU$25/tCO$_2$e and avoiding a projected multi-year price spike.

But prices are uncertain. We find prices to 2040 could plausibly be around AU$14 higher or lower than our central estimate for current policies. Investors should consider scenarios involving sustained low prices, which cannot be ruled out.

Exhibit ES-03. The ACCU price outlook under current settings is highly uncertain

Scenarios and central estimate sensitivities



Notes: The central scenario and sensitivity range all assume current policies. The high price scenario may be interpreted as reflecting new ACCU demand from activities or facilities not currently covered by the SGM. See Supporting Information for more details.
Source: EY Net Zero Centre analysis using EY CARBON-VIEW (AUS) model.

Clarity: Effective policy will require sharper abatement incentives across the economy and greater confidence in forward ACCU prices

Achieving even the lower end of the range of Australia's new – and very ambitious – 2035 target will require new policies, providing the context for the forthcoming SGM and ACCU reviews. Aligning timing so both reviews report by the end of 2026 could improve policy coordination and enable timely action.

Government signals suggest a preference for maintaining the pace of current SGM obligations, complemented by new policies and broader SGM coverage.

Forthcoming reviews are expected to include options to improve investment confidence and mobilise business action; strengthen abatement incentives and support; and enhance the co-benefits of decarbonisation policies.

EY Net Zero Centre analysis of these options finds:

- Lowering the SGM threshold could more than double the number of covered facilities, expanding emissions coverage by around 10%, increasing ACCU demand and raising ACCU prices by up to $5 by 2040.
- Capturing transport fuels under the SGM could raise ACCU demand by an additional 7.6Mt per year by 2040 and prices by roughly $12.
- Targeted public investment could unlock more than 20Mt of additional abatement from trade-exposed industries by 2040 without harming competitiveness or adding to compliance obligations.
- Aligning carbon incentives with nature repair by leveraging ACCUs could support restoration of priority habitat at scale without government expenditure (that might otherwise cost $7.3 billion per year for 30 years) but may put upward pressure on ACCU prices.

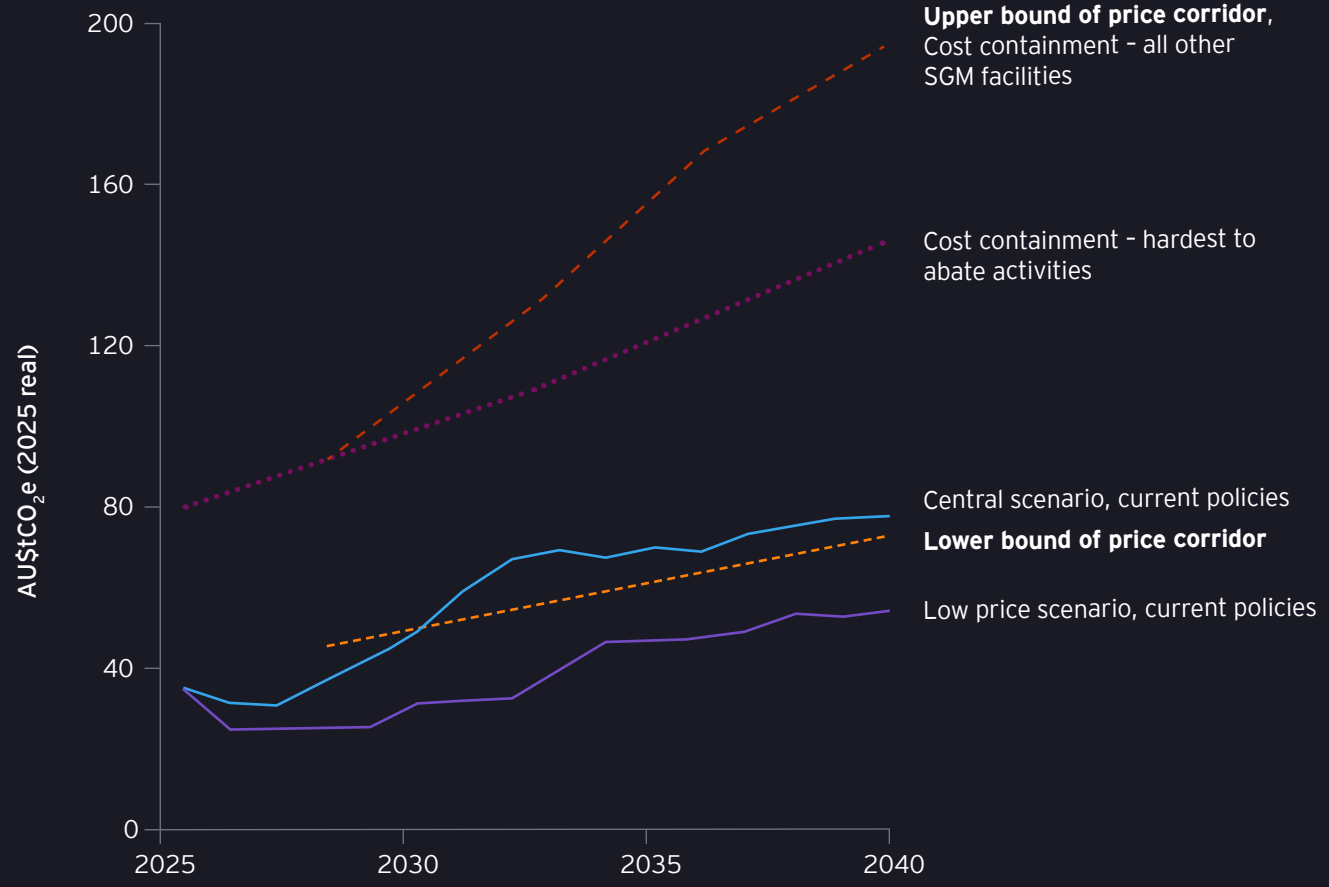
Australia should maintain incentives for efficient and effective climate action, improve the efficiency and coherence of economy-wide climate policy, and avoid excessively low ACCU prices. This implies broadening abatement incentives across all sectors, calibrated to context and competitiveness, beyond least-cost abatement by SGM facilities.

Higher ACCU prices could drive around 80Mt of additional internal abatement over the period to 2050, with the same total abatement achieved. This would see credits account for around 36% rather than 44% of SGM abatement over the decade to 2050.

Success will require clearer near-term policy signals, including a potential ACCU price corridor, as well as stronger abatement incentives, improved investment confidence, and well-designed and implemented support for innovation and near-commercial technology deployment.

Exhibit ES-04. Implementing a price corridor could improve abatement incentives and clarity for investors

Illustrative approach to ACCU market price corridor



Source: EY Net Zero Centre analysis. Central scenario using EY CARBON-VIEW (AUS) model

Change: A call to action for business and government as decarbonisation becomes a defining element of industry competitiveness

Australia's new 2035 emissions target will reshape expectations, and drive policy change and refreshed business strategy across every sector.

Successfully navigating the net zero transition will increasingly be seen as an investment, rather than a cost, that is essential to Australia's future economic security and success.

Companies should prepare for stronger abatement incentives, sharper scrutiny and new market opportunities as decarbonisation becomes a defining force in industrial competitiveness.

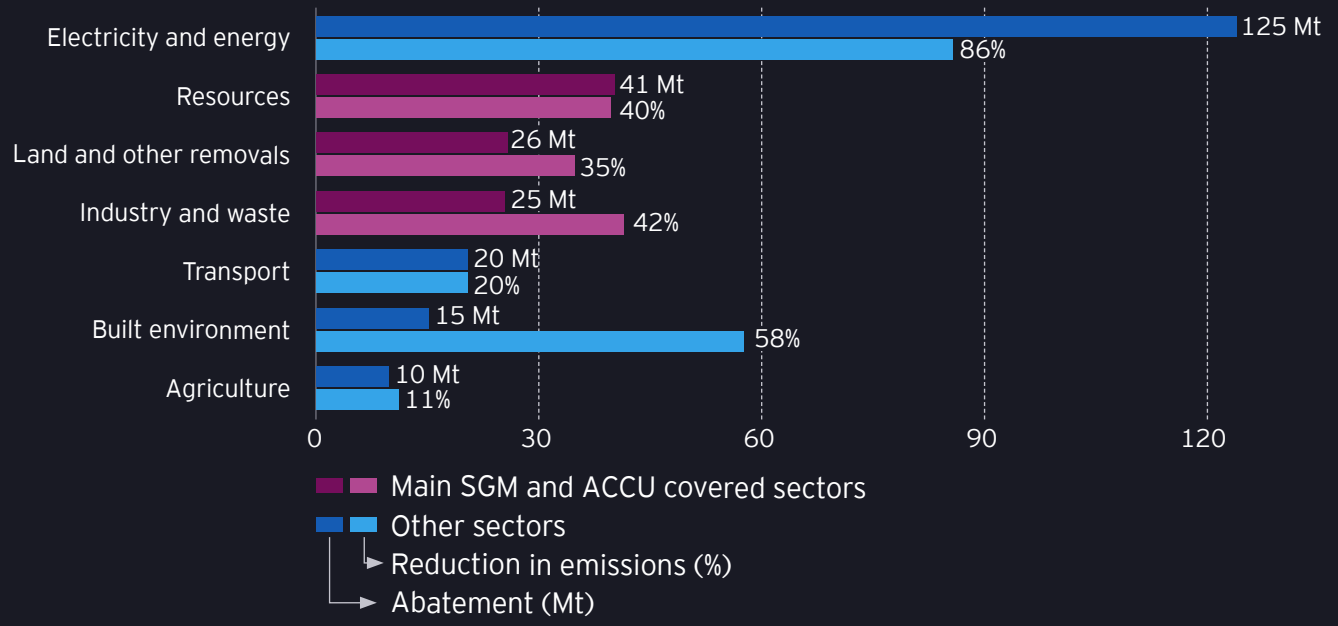
- Facilities outside the SGM should prepare for new abatement incentives and sharper scrutiny.
- Buildings, transport, other energy-intensive activities not currently covered by SGM obligations should prepare for new abatement incentives calibrated to encourage energy efficiency, electrification and fuel switching.
- Fossil fuel exporters should expect to demonstrate how their activities and forward plans are aligned to a 1.5°C or well below 2°C global emissions pathway.

Government leaders will be expected to provide clear direction, consistent policy signals and coordinated reform to maintain momentum that supports business and investors and gives them the confidence to act.

Every leader will need to demonstrate the courage of their convictions. Integrity is the currency of Australia's carbon market. Clarity of policy and confidence of the market will decide its value.

Exhibit ES-05. Major SGM and ACCU sectors are expected to reduce emissions by around 40% by 2035

Indicative abatement contribution by broad sector; 2035 vs 2025



Source: Calculated from Climate Change Authority (2025) 2035 Target Advice data pack. Figure 1 & 10.

Contents

Introduction: Early experience shows the reformed SGM and ACCU policies are sound, but are not yet motivating abatement investment

This report updates the EY Net Zero Centre report Changing Gears: Australia's Carbon Market Outlook 2023.[1] It provides fresh analysis of current market dynamics and an assessment of the policy case and potential consequences of further refinements or reforms to the Safeguard Mechanism (SGM) and Australian Carbon Credit Unit (ACCU) policy settings.

Experience of the reformed SGM and ACCU market confirms that the policy architecture is sound. Early results suggest forthcoming reviews should focus on refinement rather than revolution, by considering how these policies can best contribute to whole-of-economy decarbonisation efforts.

Australia has set an ambitious 2035 target as a key milestone on the journey to net zero emissions. Now comes the hard part: motivating deeper and faster reductions in emissions across activities that currently lack appropriate abatement incentives.

The 2023 reforms to the SGM and existing ACCU arrangements provide a strong foundation, and a 'light on the hill' for efficient and coherent economy-wide decarbonisation.

But success will depend on maintaining policy momentum, building investment confidence and ensuring incentives are aligned, transparent and effective.

This report is structured in four sections that reflect the evolving challenges and opportunities shaping Australia's carbon market outlook:

Context: SGM and ACCU policy settings provide a strong foundation for decarbonising industry.

Complications: Lack of momentum and confidence makes near-term ACCU demand, supply and prices uncertain.

Clarity: Effective policy will require rising abatement incentives and ACCU prices, along with greater confidence in forward prices.

Change: A call to action for business and government as decarbonisation becomes a defining element of industry competitiveness.

The report's four organising themes – context, complications, clarity and change – mirror the strategy cycle: understanding the current context; confronting the challenges and complexity; building the confidence to act; and charting a clear course ahead.

Together, the report's themes also trace the arc of effective policy development: from diagnosis to design, from challenge to change.

As targets tighten and reviews lead to further change, government leaders must maintain a clear policy trajectory that deepens incentives, expands coverage and strengthens carbon market integrity. Businesses, in turn, need to align their strategies with Australia's net zero trajectory by embedding abatement investment and innovation into core decision-making.

The next phase of Australia's net zero journey depends on partnership: clarity and clear signals from government, supporting confidence and credible action from industry.

Context

SGM and ACCU policy settings provide a strong foundation for industry decarbonisation

The Australian Government has set an ambitious 2035 emissions reduction target, and all sectors will be expected to contribute

Australia's new 2035 target sets a clear expectation: every sector must play its part in the transition to net zero. This will require continued efforts under the SGM, together with targeted policy reform to close incentive gaps for some sectors and drive deep, economy-wide decarbonisation.

The 62-70% emissions reduction target is ambitious but achievable

The 2035 target represents a major step up in climate ambition, aligning Australia with global leaders in climate action.

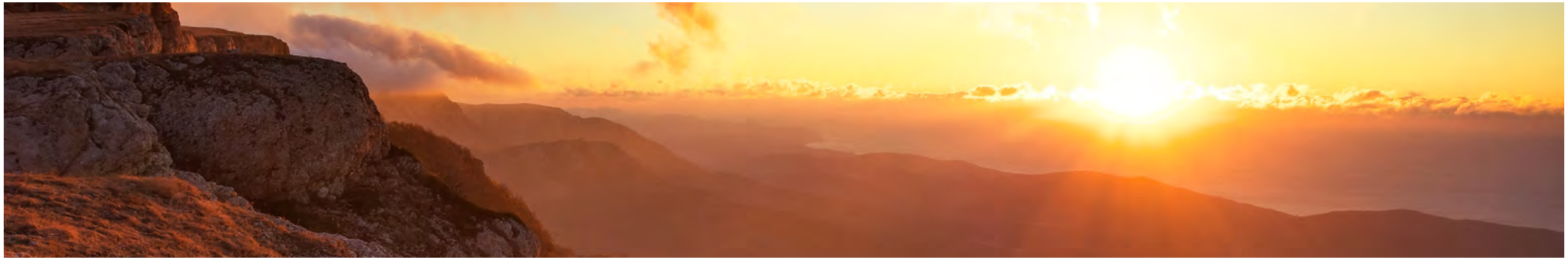
Analysis by the Climate Change Authority[2,3] (CCA) and Treasury[4] shows that maintaining the pace of SGM emissions reductions and continued decarbonisation of Australia's energy sector must be accompanied by accelerated effort in other sectors. The target range is achievable, but only with new policies, investment and sustained commitment.[5]

Policy will need to evolve

Strong, smart climate policies will be crucial to meeting Australia's ambitious 2035 target and ensuring a fair, effective transition across the economy.

The EY Net Zero Centre's report **Charting Australia's path to 2035 and beyond** (2025) finds that renewable electricity and electrification will reduce costs as well as emissions, motivating business and household uptake as existing energy assets are renewed.[5]

Policy support and incentives for transport and non-SGM heavy industry are under-developed and fragmented, and will need to evolve. Priority should be given to options that support new economic opportunities or other social benefits, while also ensuring all sectors make an appropriate long-term contribution to the transition.



All sectors will need to decarbonise as Australia transitions to net zero

Australia's transition to net zero will demand renewed focus and action from every sector.

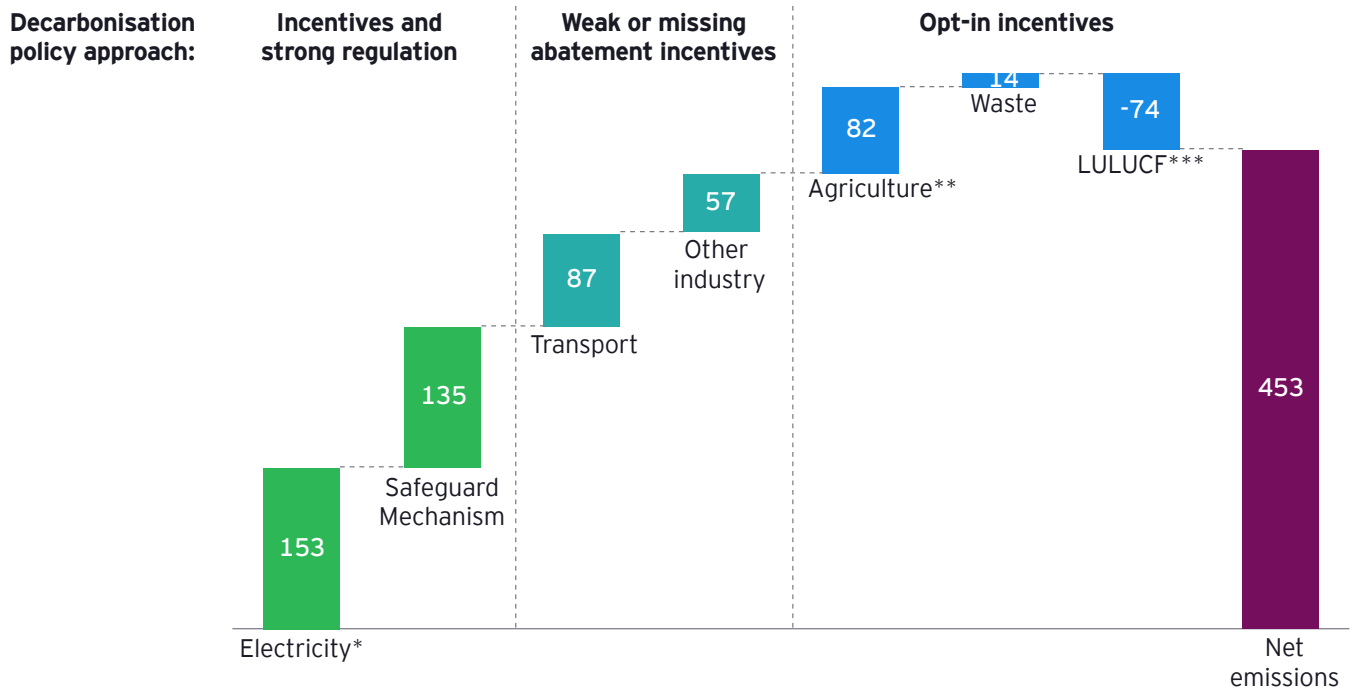
Current policy settings impose strong abatement incentives and arrangements on electricity and SGM facilities, accounting for more than half of Australian emissions. But much weaker incentives and policies are imposed on transport and other industry, which are responsible for around a quarter of total emissions (see Exhibit 01).

Although the fuel excise provides some incentive for abatement, analysis finds that abatement policies for transport in practice "miss large parts of the sector".[6] Initiatives such as the New Vehicle Efficiency Standard and EV subsidies mainly influence new light vehicle purchase decisions, rather than their ongoing use. Meanwhile, SGM policies cover rail and aviation but not heavy vehicles, which are also shielded from the full effects of fuel excise.

Agriculture, land use and waste sectors are incentivised, in principle, to participate in the creation of carbon credits (where relevant methods are available).

Exhibit 01. Transport and other industry account for around the same share of emissions as SGM facilities, and face weaker abatement incentives

Australian greenhouse gas emissions ($MtCO_2e$) by source sector, 2023



	Electricity*	Safeguard Mechanism	Transport	Other industry	Agriculture**	Waste	LULUCF***	Net emissions
Share of gross emissions:	29%	26%	16%	11%	16%	3%	n.a	n.a
Share of net emissions:	34%	30%	19%	13%	18%	3%	(16%)	100%

* Electricity as per reported by DCCEEW sector 1.A.1.a Public electricity and heat production.
** Agriculture as per reported by DCCEEW. Does not include fuel combustion for machinery as this is captured under Sector 1 Energy
*** LULUCF = Land Use, Land-Use change and Forestry.
Source: DCCEEW 2023 Paris Agreement inventory emissions; Clean Energy Regulator Emissions Reporting, 2023-24; EY Net Zero Centre analysis using EY CARBON-VIEW (AUS) model.

The Safeguard Mechanism covers around 220 large facilities, accounting for 30% of national emissions

The SGM is a cornerstone of Australia's decarbonisation strategy, directly regulating the nation's largest industrial facilities, including oil and gas producers, mining and heavy industry. Each facility is assigned a 'baseline' or limit on direct emissions, which declines annually in line with national targets. Facilities that do not meet this reduction must purchase ACCUs or Safeguard Mechanism Credits (SMCs) in each period to cover excess carbon emissions, while those that outperform can trade their surplus.

The SGM covers heavy industry, mining and fossil fuel extraction

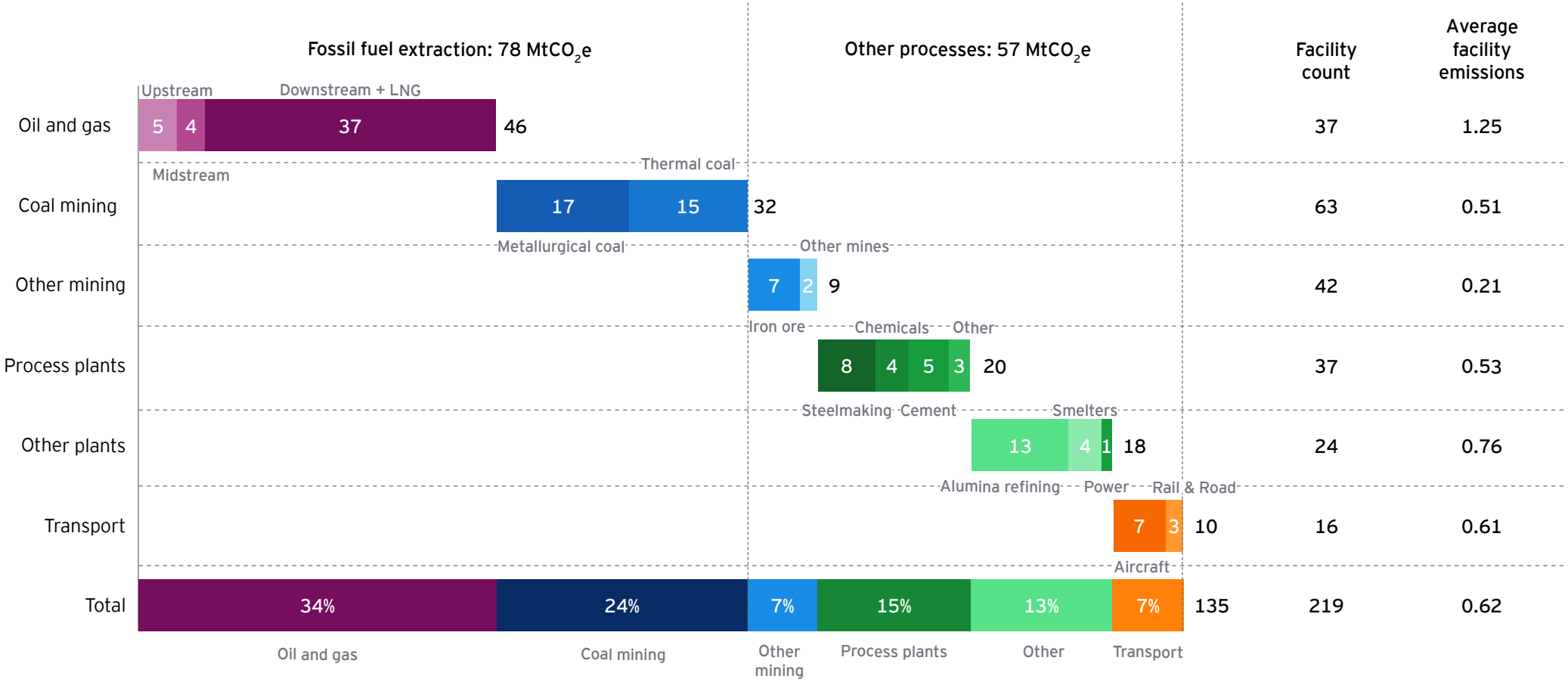
These facilities are responsible for approximately one third of Australia's emissions, making the SGM a critical lever for emissions reduction. The scheme currently targets direct (Scope 1) emissions from facilities emitting more than 100,000 tonnes of carbon dioxide equivalent per year. Electricity generation is notionally included, but regulated separately. Road transport is the other major exclusion, as the vast majority of facilities fall outside the SGM thresholds. Domestic aviation and rail are broadly captured with 71% and 82% of emissions covered, respectively.[7]

In 2023-24, fossil fuel extraction and processing were the largest contributors to emissions:

- 34% from oil and gas facilities, excluding overseas emissions from use (37 sites)
- 28% from heavy industry and processing, including steelmaking, cement and alumina refining (61 sites)
- 24% from coal mining (63 sites)
- 7% from other mining, predominantly iron ore (42 sites)

Exhibit 02. Fossil fuel extraction accounts for 58% of domestic SGM emissions

Covered emissions ($MtCO_2e$) and number of facilities by sector, 2023-2024



Source: Clean Energy Regulator Emissions Reporting, 2023-24; EY Net Zero Centre analysis using EY CARBON-VIEW (AUS) model

The Safeguard Mechanism provides a flexible market-based policy framework to drive orderly reductions in heavy industry emissions, supported by high integrity carbon credits

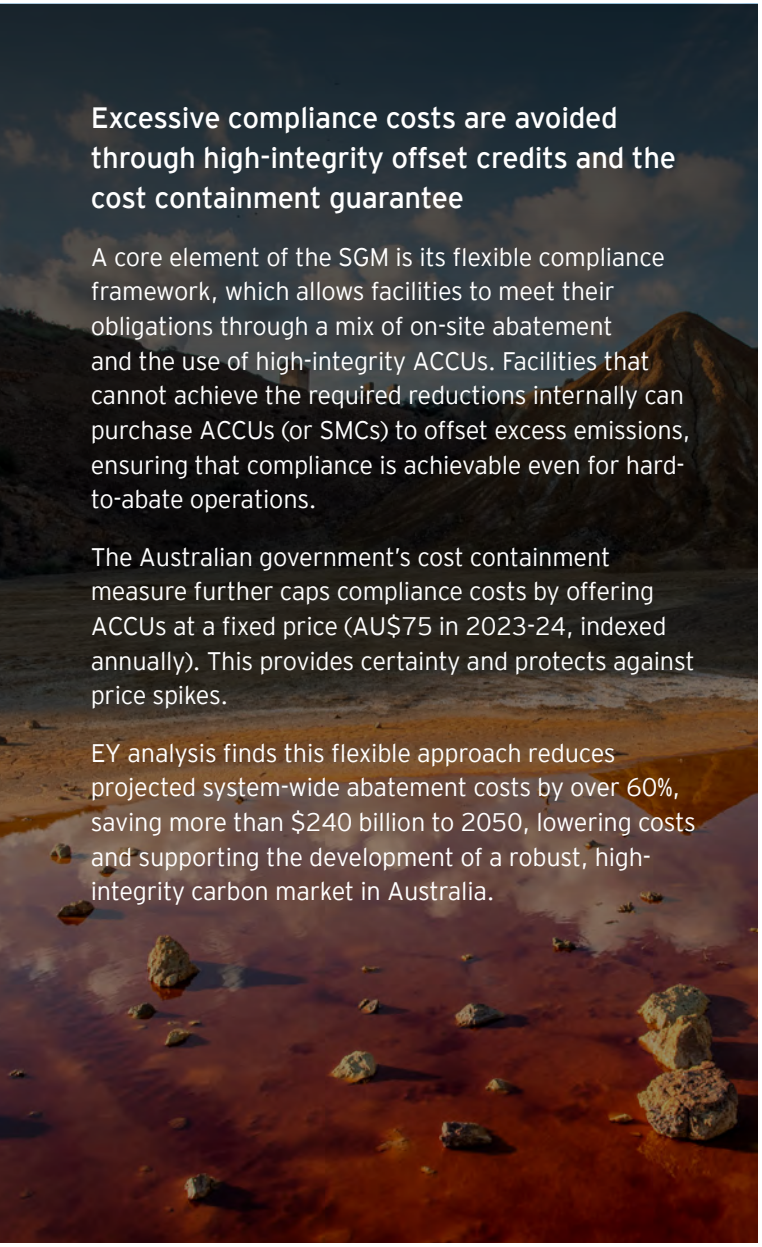
Australia's SGM combines ambitious emissions reduction requirements with practical flexibility. By leveraging high-integrity ACCUs and a cost containment guarantee, the SGM enables deep emissions cuts to be achieved in a cost-effective and orderly way.

Australia's SGM imposes more ambitious abatement obligations on heavy industry than any other country

The SGM requires around 220 of Australia's largest industrial facilities to reduce their emissions by around 4.9% per year. This is one of the steepest mandated decline rates for heavy industry globally. This medium-term emissions reduction trajectory is more ambitious than mandatory schemes in the EU, North Asia or China, where industrial decarbonisation is often more narrowly focused (see Endnote 01).

Australia's SGM framework has several distinctive features:

- Facility-level focus (rather than company-level, which means one facility's emissions cannot be offset with another's lower performance inside the same corporate group)
- Baseline-and-credit design (which creates incentives for facilities to outperform their baseline and trade credits, encouraging least-cost system-wide abatement)
- Broad sector coverage which extends obligations across a wide range of facilities, not just electricity generation
- Provides incentives and resources for offsite abatement through SMCs and ACCUs.



Excessive compliance costs are avoided through high-integrity offset credits and the cost containment guarantee

A core element of the SGM is its flexible compliance framework, which allows facilities to meet their obligations through a mix of on-site abatement and the use of high-integrity ACCUs. Facilities that cannot achieve the required reductions internally can purchase ACCUs (or SMCs) to offset excess emissions, ensuring that compliance is achievable even for hard-to-abate operations.

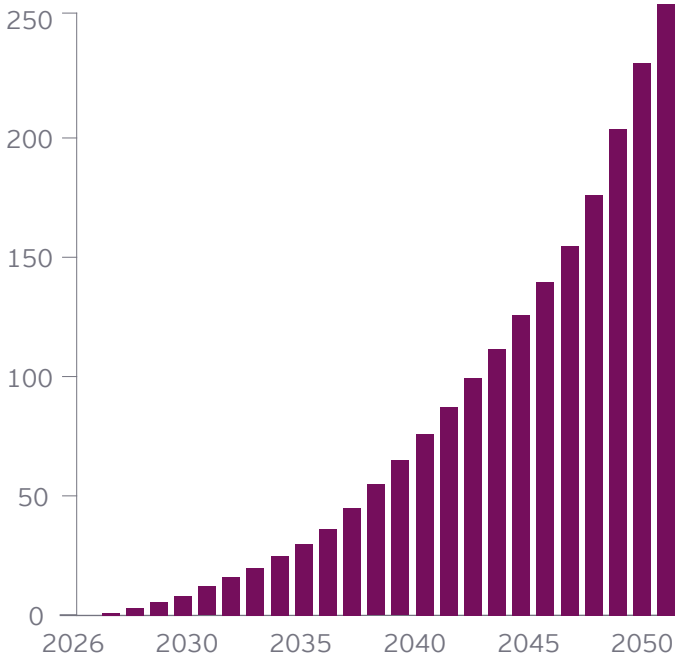
The Australian government's cost containment measure further caps compliance costs by offering ACCUs at a fixed price (AU$75 in 2023-24, indexed annually). This provides certainty and protects against price spikes.

EY analysis finds this flexible approach reduces projected system-wide abatement costs by over 60%, saving more than $240 billion to 2050, lowering costs and supporting the development of a robust, high-integrity carbon market in Australia.

Exhibit 03. The use of ACCUs reduces compliance costs by over 60%, allowing more ambitious baseline reductions without threatening jobs or competitiveness

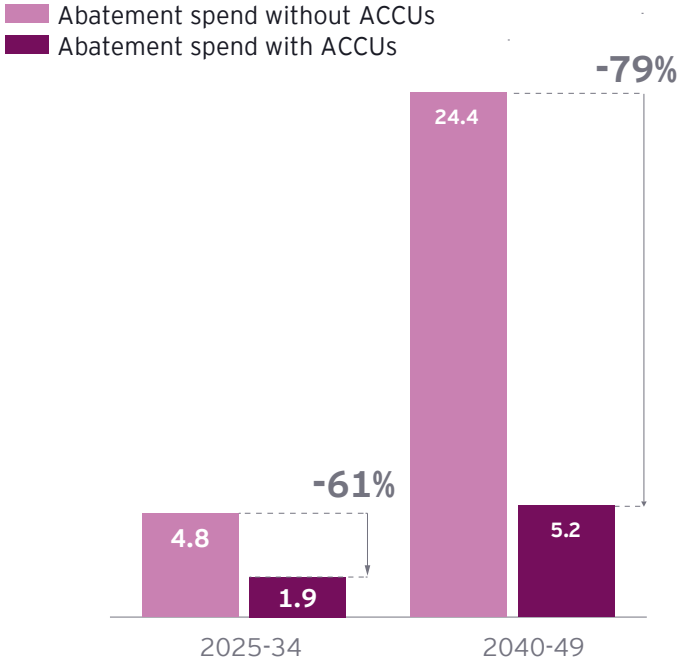
Cumulative net avoided cost due to ACCUs

$ billions, Central Scenario



Average annual abatement spend with and without ACCUs

$ billions, Central Scenario



Source: EY Net Zero Centre analysis using EY CARBON-VIEW (AUS) model

Embedding high-integrity carbon credits into policy enables more ambitious action

Carbon credits are an essential part of the decarbonisation toolkit. But in most jurisdictions they can only be used to meet voluntary commitments.[8]

Australia's decision to embed carbon credits within the SGM enables policy to set more ambitious compliance obligations, while directing capital to nature- and technology-based carbon removals. This approach, including legislated governance and integrity mechanisms, remains globally distinctive.

Carbon credits put the net in net zero

Carbon credits provide resources to support the nature- and technology-based removals necessary to limit dangerous climate change and put the world on track to a credible 1.5°C pathway. Credits also play a crucial role in supporting sustainable development and sharing the cost of emissions reductions more equitably across countries.[8]

Credits play two complementary roles in supporting abatement

Carbon credits allow organisations to take immediate climate action by funding off-site emissions reductions while implementing reductions in on-site emissions over time through asset turnover and business model evolution.

In the longer term, credits can offset hard-to-abate emissions from products where low- or zero-emissions options are not yet available.

In both cases, high-quality credits are essential to deliver genuine abatement, either by avoiding emissions that would otherwise occur, or by removing emissions from the atmosphere.

The best use of carbon credits will depend on business goals and context

The value proposition for supply and use of ACCUs and SMCs will vary across different business contexts.

The different roles and contributions of carbon credits in business strategy are explored in more detail in the call to action at the end of this report. The EY Net Zero Centre report on the global voluntary carbon market (2024)[8] provides an in-depth examination of challenges, opportunities and potential future directions – including to support confidence and integrity in credits and carbon markets, and to mobilise capital and abatement at scale.

Exhibit 04. Carbon credits can ease the transition and balance out hard-to-abate emissions

Two primary uses of carbon credits

	Ease transition timing to net zero	Balance out hard to abate emissions
Primary use	Transition role to "smooth out" emission reduction costs, allowing cost-effective action to reduce future emissions through asset turnover and evolution of business model	Long-term role to balance out emissions from products that currently lack low or zero emissions technologies or substitutes
Examples	**Compliance:** SGM facilities can bring forward investment, and may generate revenue from SMCs where this overachieves baseline requirements	**Compliance:** Low margin trade-exposed SGM facilities such as steel or cement can align major abatement investments to facility asset lifecycles
	Voluntary: Transport company reaching net zero before fossil fuel-based assets reach end of life	**Voluntary:** Balancing out methane emissions from meat producing cattle
Timing	Transition role is likely to diminish over time	Hard-to-abate emissions are likely to account for an increasing share of carbon credits (or offsets) over time

Source: Adapted from EY Net Zero Centre, Changing Gears: Australia's Carbon Market Outlook 2023.

Baseline adjustments for trade-exposed facilities help manage threats to competitiveness, but long-term solutions will require action across multiple countries

The SGM incorporates tailored baseline adjustments for emissions-intensive, trade-exposed facilities, helping shield these facilities from competitiveness risks and reduce potential carbon leakage as Australia's decarbonisation accelerates.

However, as more countries strengthen their own climate policies, interest and momentum are building behind carbon border adjustment mechanisms (CBAMs) in key sectors. These could, over time, reshape the need for SGM baseline adjustments.

Current settings shield trade-exposed processing facilities through less stringent compliance obligations

Emissions-intensive, trade-exposed facilities (such as aluminium smelters, steelworks and cement plants) can qualify for a reduced baseline decline rate in recognition of their exposure to international competition. This approach seeks to prevent carbon leakage, where emissions-intensive domestic production is replaced by overseas production in jurisdictions with weaker climate policies. Carbon leakage would erode Australia's economic base and undermine the effectiveness of Australian and global emissions reductions.

SGM facilities which qualify for trade-exposed baseline-adjusted (TEBA) status may be allocated a baseline emissions reduction as low as 1% per annum. There are currently 17 TEBA facilities, all of which are in low-margin, emissions-intensive manufacturing or processing sectors[9] (see Exhibit 05).

Policy must move away from exemptions or reduced obligations for trade-exposed facilities

The threat of carbon leakage is real and must be recognised in decarbonisation and trade policies, nationally and internationally.

Preventing carbon leakage through a well-designed TEBA test for SGM facilities is a sensible and pragmatic response to Australia's current global context.

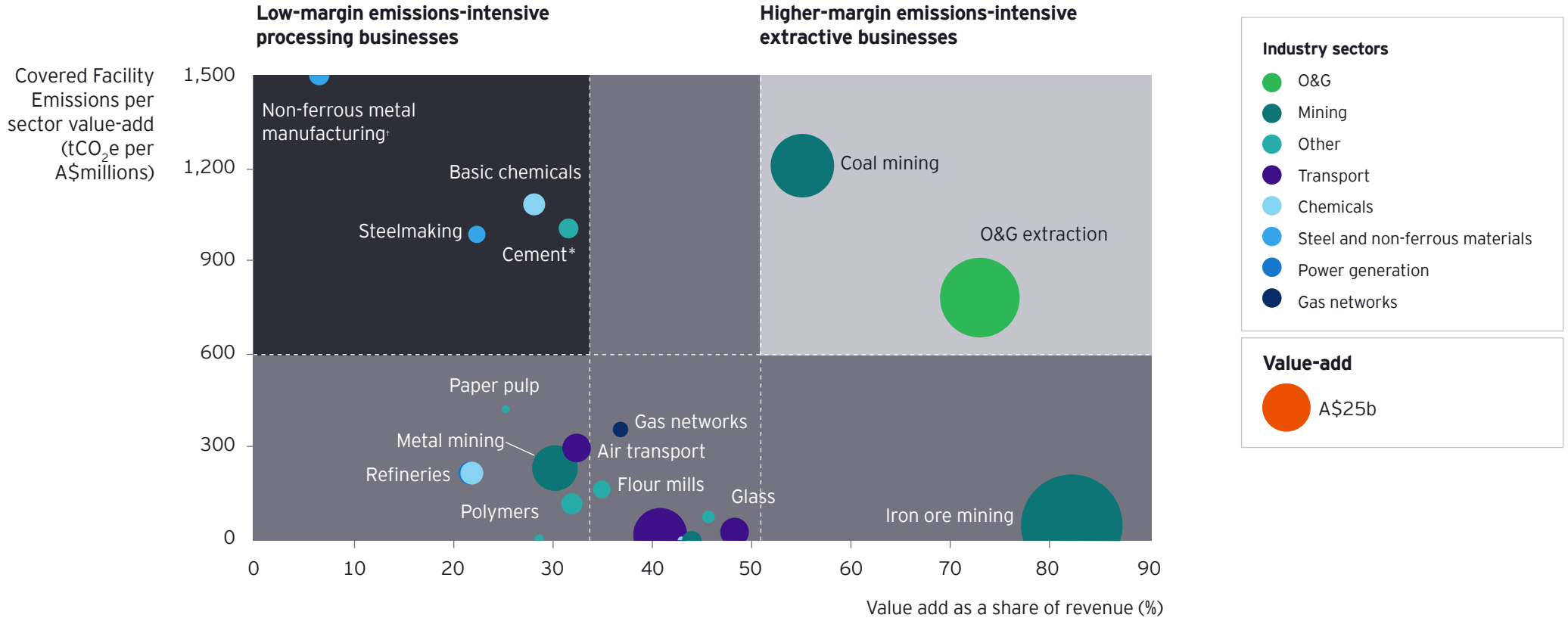
However, exemptions for trade-exposed sectors cannot be the endpoint of policy development.

Emissions-intensive industries such as iron and steel, aluminium, cement and fertiliser account for more than 20% of global carbon emissions. Effective global climate action is simply not possible if all countries effectively exempt these industries from emissions reductions on trade and competitiveness grounds.[10]

In addition, widespread exemptions undermine global-scale incentives for low-carbon innovation and technology deployment.

Exhibit 05. Trade-exposed, low-margin facilities are provided lower baseline decline rates to moderate competitiveness impacts

Margin and emissions intensity



* Note: Clinker import exposure not captured in allocation to Cement segment in import export table. Treated as "non-metallic mineral mining".
† Note: Emissions intensity of basic non-ferrous metal manufacturing is approximately 3,000 tCO_2e per A$Millions value add but cut in table to increase readability.
Source: Australian National Accounts: Input-Output Tables: Table 5; Clean Energy Regulator, Covered Facility Emissions; BSL analysis.

Policy could shift towards carbon border adjustments for some sectors, particularly cement

CBAMs are emerging as a valuable first step to address the challenge of carbon leakage.

CBAMs impose a carbon price on imported emissions-intensive products (such as cement, steel and aluminium) equivalent to the domestic carbon cost. This levels the playing field for domestic producers; but does not support domestic producers when they export their goods to countries without a carbon price. The European Union introduced a CBAM in 2023 to prevent unfair competition for facilities covered by the regional EU Emissions Trading Scheme. Countries including the UK, Japan and Canada are actively considering similar measures.[11]

Preliminary findings from the Australian Carbon Leakage Review, led by Professor Frank Jotzo, indicate that adopting a CBAM could effectively manage competitiveness risks with modest impacts on real GDP and prices for some products.[12] A phased approach could begin with high-risk products that are relatively homogenous, like cement, before extending to more complex products such as steel over time.

Developing a multi-country coalition for low-carbon development and trade could provide significant benefits

The Jotzo review highlights that CBAM and SGM policies must be carefully designed for both imported and import-competing products, while balancing impacts on developing and developed countries. It also calls for development of "multilateral and plurilateral initiatives"[12] that create consistent rules and approaches with our trading partners and create opportunities for Australia to support desired global environmental outcomes.

An expert working group convened by Harvard and MIT (which includes Professor Jotzo) goes a step further, proposing a coalition of major emitting countries, both developed and developing, and setting out an agenda that would combine CBAMs with coordinated country-based carbon pricing of industrial emissions.[10]

The group's analysis finds that a multi-country coalition could:

- Deliver significant additional global emissions reductions from heavy industry decarbonisation, equivalent to 1.5% of global emissions (more than Australia's total net emissions).
- Support economic growth and industrial development, while minimising carbon leakage and reductions in industry output.
- Facilitate green finance and capacity building, particularly in low- and middle-income nations which account for the bulk of future carbon emissions.
- Provide significant government revenues from domestic carbon pricing, including in countries such as Brazil, Indonesia, Egypt and China.

This broader approach would enable the strong abatement incentives required to drive global development and adoption of low-carbon technologies, and provide an incentive framework for competitive low-carbon exports. This would be a shift from the current focus of CBAMs on protecting domestic producers from unfair import competition.

Supply and use of Australian Carbon Credit Units (ACCUs) provides a crucial advantage to industry as it navigates the low-carbon transition

ACCUs provide a visible cross-sector abatement incentive and a vital bridge for heavy industry as it transitions to net zero. This motivates least-cost internal abatement across SGM facilities while avoiding excessive compliance costs that might otherwise threaten jobs and competitiveness.

ACCUs are particularly important for sectors where cost-effective internal abatement options are not yet available, allowing Australia to maintain industry capacity required for future renewable-based energy-intensive exports.

ACCUs offer near-term flexibility and an on-ramp to deeper decarbonisation

In the early years of compliance, SGM facilities are expected to rely significantly on ACCUs to stay within their emissions baselines. This underscores the practical value of ACCUs in managing short-term compliance costs while facilities assess capital investment pathways and emerging technologies.

Over time, rising carbon prices and falling abatement costs will incentivise greater internal abatement.

Cost-effective decarbonisation options are not yet available for processing, air transport and heavy freight

The central purpose of the SGM is to drive the uptake of cost-effective abatement as soon as it becomes available, without imposing excessive compliance costs on facilities that lack viable internal abatement options or by risking the jobs and competitiveness of trade-exposed facilities.

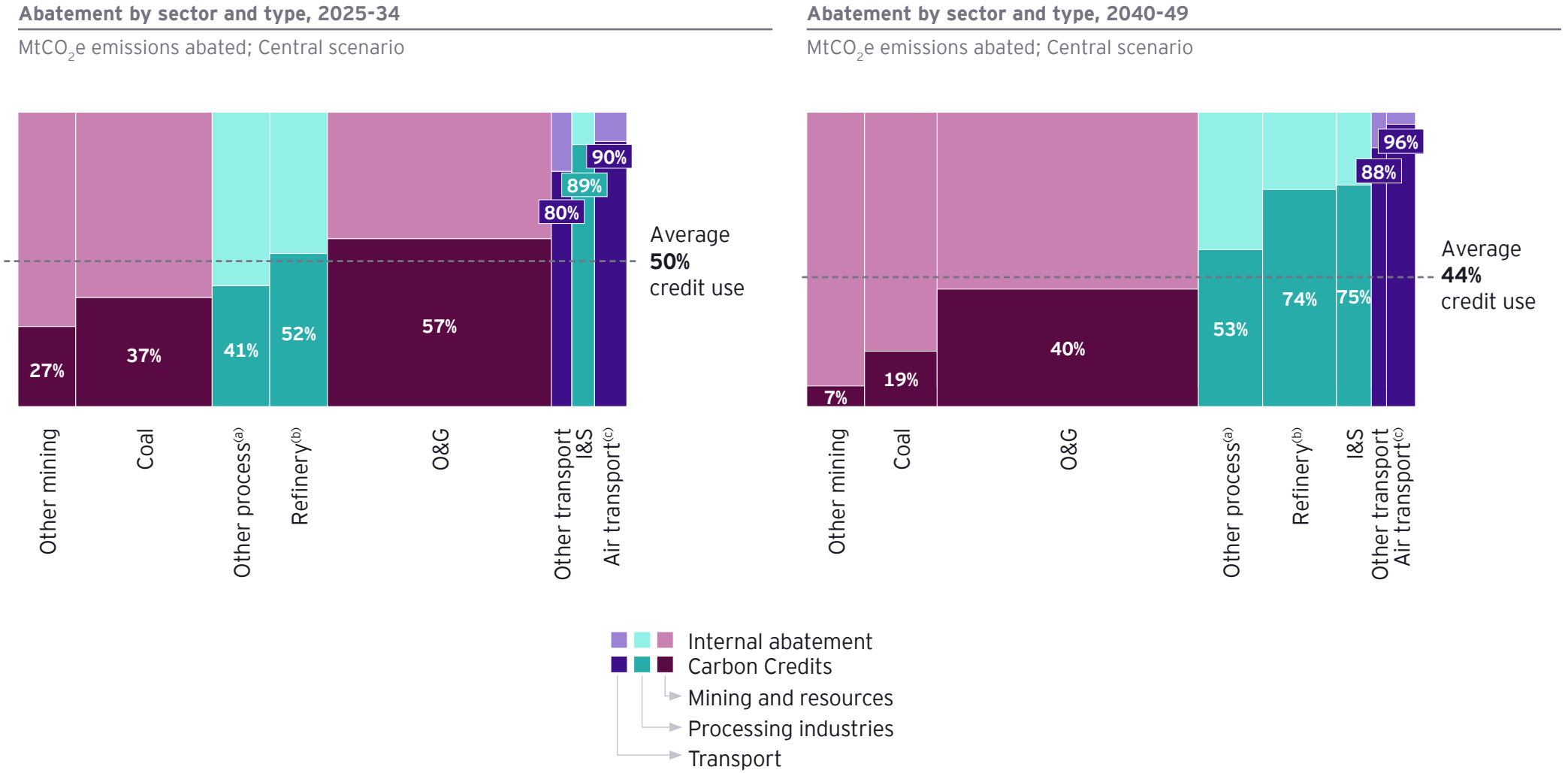
Air transport, heavy freight and processing industries such as steelmaking and other metals currently lack scalable cost-effective decarbonisation options. While technologies like clean hydrogen (including green iron), sustainable aviation fuel and zero-emissions long-haul freight are under development, they are not yet cost competitive for widespread deployment.

Use of carbon credits is crucial to maintaining industry capacity required for future renewable-based exports

ACCUs will play a crucial role in enabling facilities that lack viable technology options to meet their obligations and contribute to high-integrity abatement, while new-to-world technology solutions are developed.

This is important, both nationally and at the facility level, as it allows Australia to preserve essential heavy industry capacity and skills required to underpin future growth of renewables-based, energy-intensive export industries.

Exhibit 06. Processing facilities and transport have fewer cost-effective abatement options and are projected to rely more heavily on ACCUs



(a) Includes power; (b) Includes smelter; (c) Does not account for government support for SAF under the Cleaner Fuels Program announced 17 September 2025.
Source: EY Net Zero Centre analysis using EY CARBON-VIEW (AUS) model

Complications

Lack of momentum and confidence makes near-term ACCU demand, supply and prices highly uncertain

Abatement investment is yet to gather steam, with policy and price uncertainties undermining the bankability of capital deployment

Current SGM and ACCU policy settings are sound, but are not yet motivating investors to commit capital to higher-cost abatement activities required to deliver medium-term reductions in SGM net emissions or to realise the full strategic intent of current policies.

While current policies impose short-term compliance obligations, guidance on long-term intent does not yet provide a bankable investment proposition. Uncertainties about future compliance obligations, potential implications of scheduled policy reviews and the risk of a return to disorderly climate policy all weigh on investor confidence.

Gross emissions from SGM facilities have fallen 2% in the first year, largely through low-cost measures

EY Net Zero Centre modelling finds more than two-thirds of internal SGM abatement can be achieved at costs under AU$25/tCO$_2$e over the first five years of the reformed SGM. This reflects the gradual start built into facility baselines[7,13] and the relatively large volume of low-cost abatement from energy efficiency and improved operational management.

Investors appear hesitant without a bankable forward price curve or greater policy clarity

Available evidence suggests both SGM facilities and potential ACCU suppliers are cautious about committing capital to higher-cost abatement options. This lack of investment could be explained by a variety of factors:

- The intentional gradual start to SGM baseline obligations, a large share of which can be achieved through operational changes and efficiencies
- Likely low short-term ACCU price outlook
- Uncertainties about timing and extent of medium-term price increases, and the risk of sustained low prices over the long-term
- Underlying lack of certainty about future SGM and ACCU policy settings (due to the review process), which undermines confidence in likely ACCU supply and demand and, therefore, the bankability of abatement investments.

Aspects of this dynamic appear to mirror the 'tender gap' identified by the Nelson review of National Electricity Market (NEM) market settings,[14] where asymmetric market participation makes it difficult to manage medium-term price risks. This, in turn, undermines the bankability of investments with a five- to 20-year payback period, and the intended market functionality.

While it is too early to conclude there are structural policy weaknesses that need to be remedied, there would be reasons for concern if settings result in continued low prices over the medium term (to 2030 or beyond).

Abatement economics also predispose the ACCU market to the risk of a prolonged price crash

Investors are also conscious of long-term price risks arising from the underlying boom-bust dynamics of ACCU demand and supply.

A significant majority of direct SGM abatement (which determines ACCU demand) and all ACCU supply projects require upfront capital investments that deliver a stream of low-cost abatement. Most ACCU projects also involve a multi-year lag between establishing plantings and crediting the resulting sequestration.

These characteristics, along with poor market visibility of future supply and demand, present a material risk that oversupply of ACCUs could suppress prices (and investment returns) for an extended period.

Low ACCU prices would present concerns about national value-for-money, not abatement integrity

High or low ACCU prices have no impact on the quality of total SGM abatement or the extent of net emissions reductions. This is because the volume of SGM abatement obligations is set through baseline decline rates, and ACCU governance arrangements are aimed at ensuring high integrity abatement.

Instead, the underlying issue with long-term low ACCU prices is that nature-based sequestration is a scarce one-shot (non-renewable) resource, generally involving permanent land use change, with high expected future economic value as the world transitions to net zero emissions. These characteristics imply Australia should not squander nature-based ACCU potential on low-value use.

Some SGM facilities are exploring self-origination

Many resource-sector facilities have in-house access to land and project management capabilities, coupled with growing SGM compliance obligations. This combination of factors reduces investment and implementation risks of ACCU supply developed for own use, particularly where this can be delivered at or below current market prices.

New ACCU supply is constrained by slow progress in approving new methods

Australia's new proponent-led approach to developing ACCU methods was intended to accelerate innovation and diversify abatement options. Yet, a slow approvals process, with just one new method approved in three years, is holding back new supply and investor confidence.

The shift to proponent-led ACCU methods is yet to deliver benefits, due to resource constraints

The Independent Review of Australian Carbon Credit Methods* in 2022 recommended a shift to a "transparent proponent-led process for developing and modifying methods as soon as practicable" to promote innovation and provide incentives for the widest possible range of emissions reduction options that meet necessary integrity standards.[15]

While the process has become more open, progress has been slowed by departmental constraints, with only one new method approved in the last three years.

Most new ACCU supply is expected to come from land sector projects

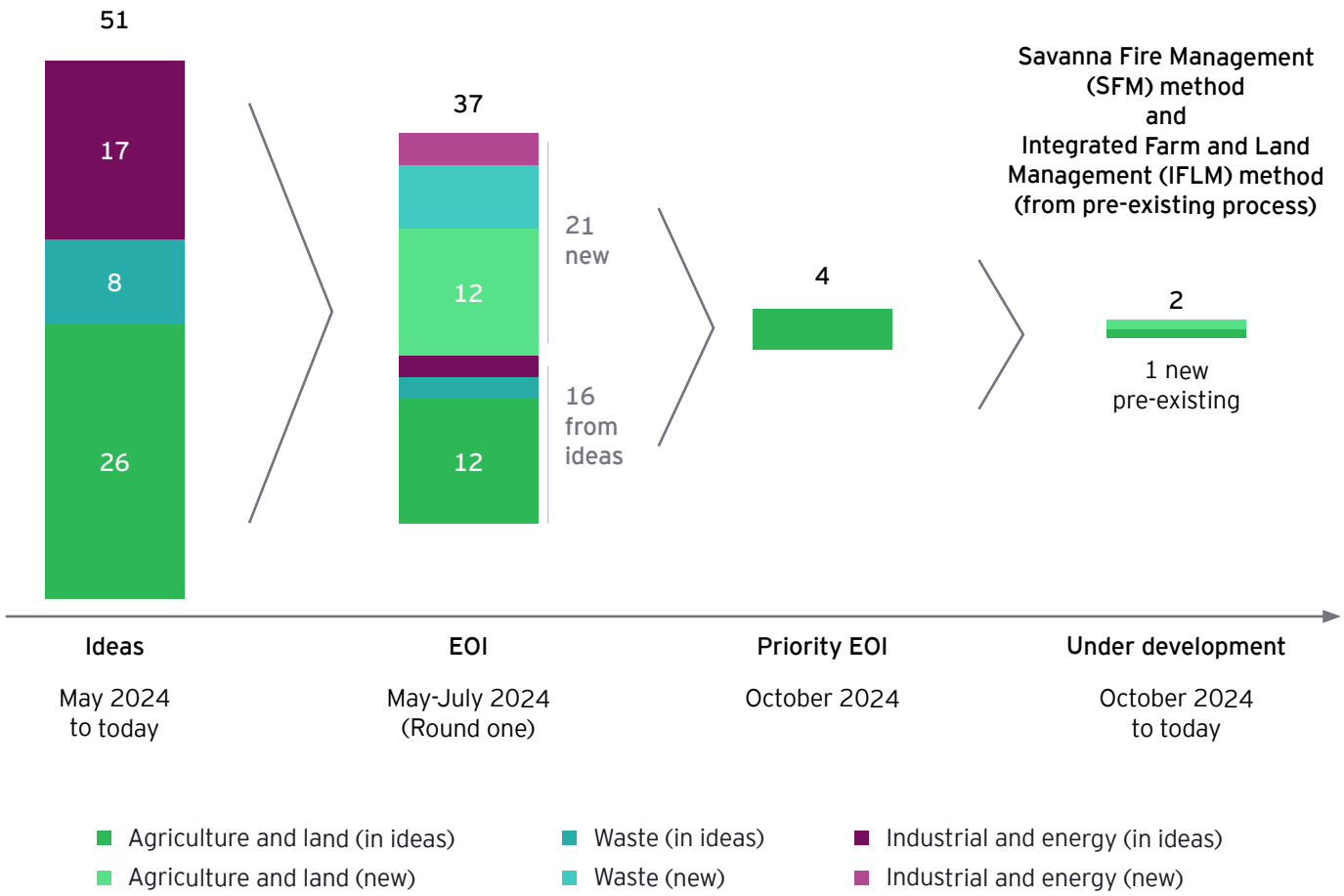
Analysis by the EY New Zero Centre and others finds the vast majority of ACCU supply is expected to come from reforestation, afforestation and savanna fire management.[1,2,4]

While incremental costs are expected to rise over the medium- to long-term, the extent of cost uplift will be influenced by how the Human Induced Regeneration (HIR) method is extended or modified. HIR currently accounts for the majority of low-cost supply.

* The lead author of this outlook report, Dr Steve Hatfield-Dodds, was a member of this review in a personal capacity, along with Professor Ian Chub (Chair), the Hon Dr Annabelle Bennett and Ariadne Gorring.

Exhibit 07. Methods under development could unlock significant land-based sequestration, but the development process is slow

Ideas and proposed methods by sector categories



Source: Emissions Reduction Assurance Committee (ERAC), Method Development Tracker, DCCEEW. Last updated 24 February 2025.ERAC, Proponent-led Method Development 2024: Expressions of Interest Assessment summaries, DCCEEW. 29 October 2024.

Many proponents are waiting for the new Integrated Farm and Land Management (ILFM) methods

The proposed ILFM method would cover soil- and vegetation-based sequestration under a single method,[16] but the development process has taken longer than many anticipated. Likely outcomes will not be clear until public consultations are complete.

EY Net Zero Centre modelling continues to assume[1] that ACCUs will phase out recognition of soil carbon sequestration as financial benefits become more widely understood, making economic additionality more difficult to demonstrate.

Slower growth in projected SGM activity reduces ACCU demand and prices, relative to earlier forecasts

Muted SGM activity and higher cost of capital have softened near-term ACCU demand, flattening prices to around AU$30 per tonne. As new SGM projects proceed and abatement costs rise, prices are expected to increase steadily through the 2030s.

Slower growth of SGM activity sees flat or falling near-term ACCU prices

Downgrades to new SGM activity projections and higher-than-expected cost of capital sees lower projected ACCU demand growth and prices, relative to EY Net Zero Centre's 2023 central scenario (see Exhibit 08).

The updated outlook projects a flat or falling market-clearing ACCU price of around AU$30-35/$tCO_2e$ for the next two-to-three years, followed by gradual growth to around AU$70 by 2035. Beyond this point, the price converges with our previous longer-term projection.

This near-term outlook is materially lower than our 2023 central projection, shaving off around AU$25/$tCO_2e$ and avoiding a projected multi-year price spike.

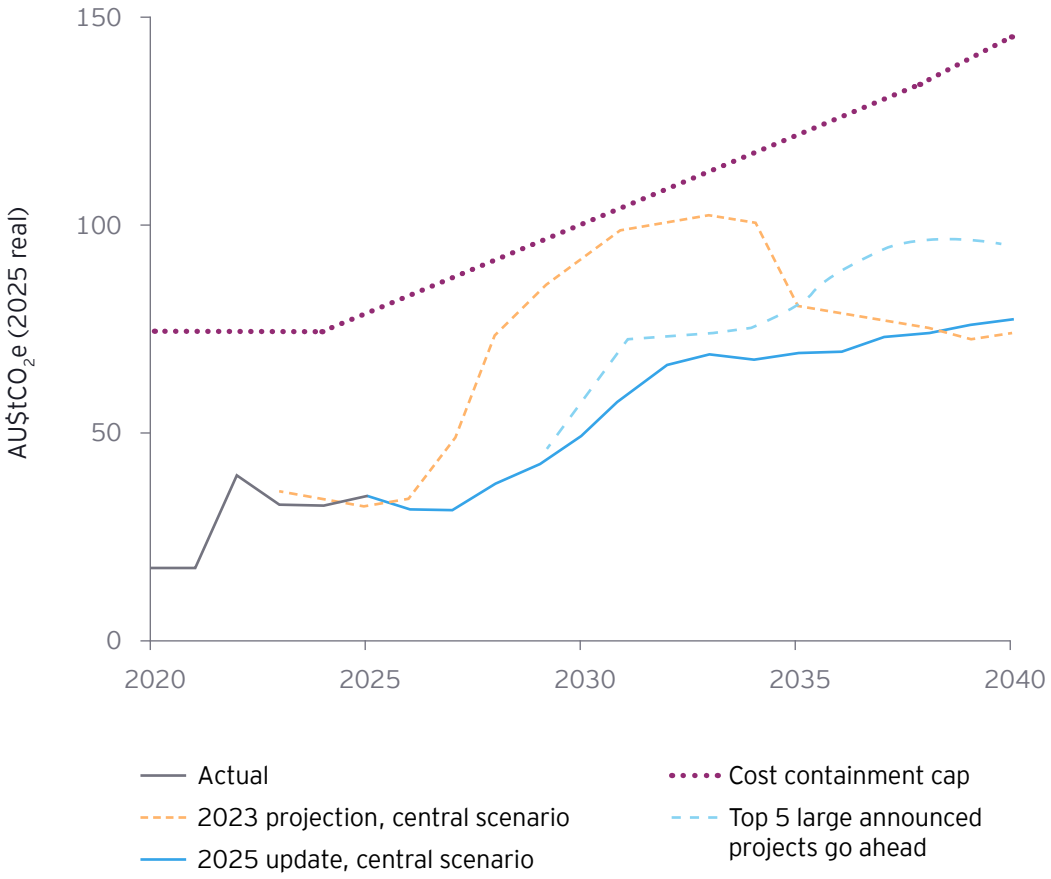
This anticipated spike reflected a very tight projected supply-demand balance (now avoided), compounded by highly-elastic short-term price responses and unavoidable implementation lags in reducing SGM demand or augmenting ACCU supply.

Additional new SGM activity could lift ACCU prices by around 15% above our central projection after 2030

Analysis of a variant outlook, which assumes the five largest potential sources of new SGM demand under consideration all go ahead, sees prices rise to around AU$80 (2025 real terms) by 2035. This is an increase from 2030 of AU$9 on average, or 15%, relative to our central projection from 2030.

Exhibit 08. Our updated central scenario sees ACCU prices flat at around AU$30 for several years, followed by a steady increase to around AU$70 (2025 real terms) before 2035

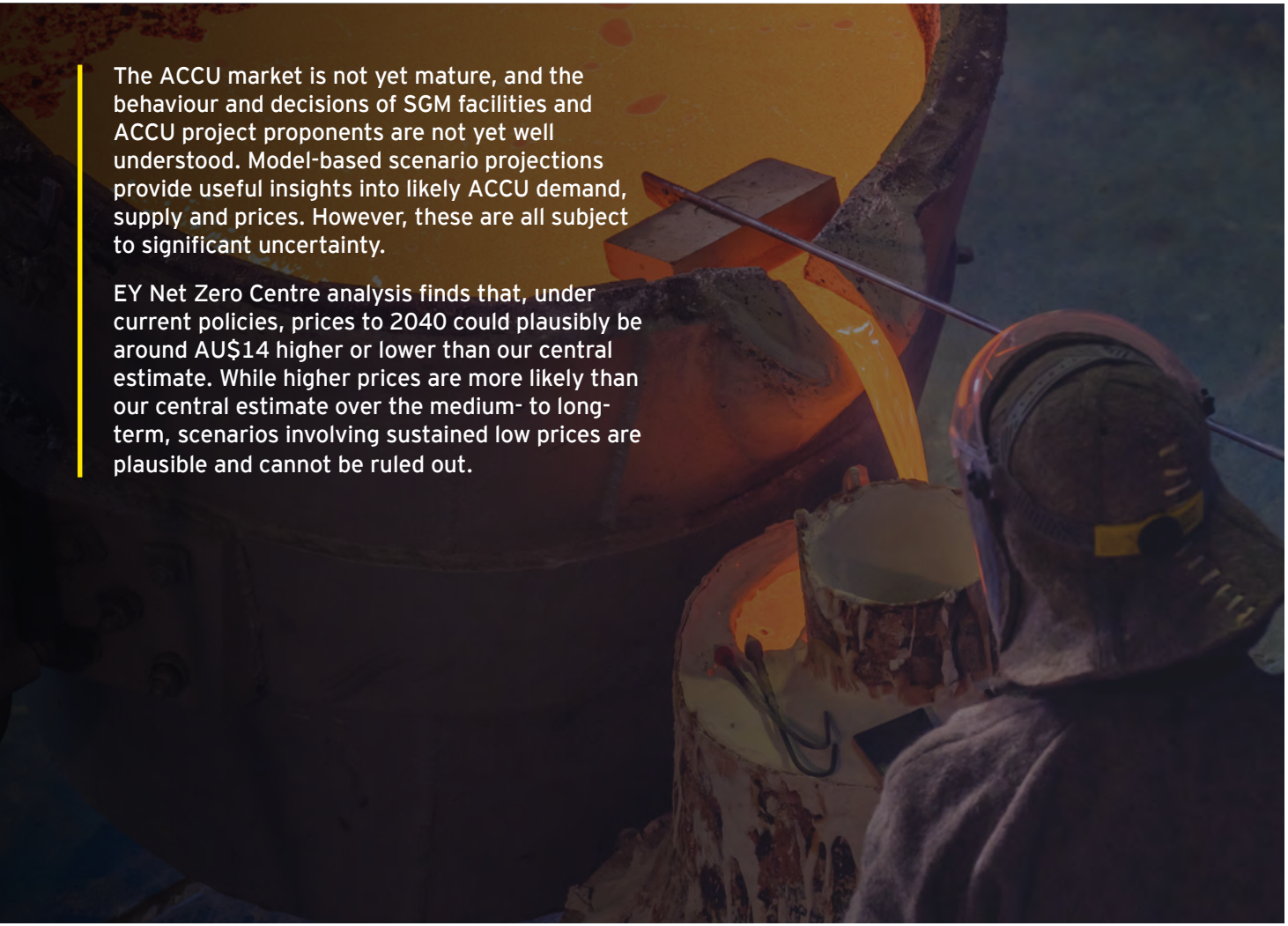
ACCU market price (central scenario)



Variable	Update
Upcoming projects	Revised to align to FY24 project list, reducing estimated share of projects rated definitive or feasible, and reducing estimated future emissions from 41 to 24 $MtCO_2e$ relative to 2023 project list
SGM facility	Yearly emissions updated through to latest FY24
Feed gas prices	Updated to better reflect expected economic value of incremental feed gas supply
WACC	Updated to latest cost of capital information for Australian renewables and storage projects
Coal mine closure date	Updated to align to current estimates
Supply information	No changes required (based on current CER data)

Source: EY Net Zero Centre analysis using EY CARBON-VIEW (AUS) model

While ACCU prices are projected to rise to 2035, sustained low-price scenarios remain possible



The ACCU market is not yet mature, and the behaviour and decisions of SGM facilities and ACCU project proponents are not yet well understood. Model-based scenario projections provide useful insights into likely ACCU demand, supply and prices. However, these are all subject to significant uncertainty.

EY Net Zero Centre analysis finds that, under current policies, prices to 2040 could plausibly be around AU$14 higher or lower than our central estimate. While higher prices are more likely than our central estimate over the medium- to long-term, scenarios involving sustained low prices are plausible and cannot be ruled out.

Abatement investment decisions should account for upside and downside price risks

Analysis by the Climate Change Authority for the 2035 target supports continuing the current abatement trajectory for existing SGM facilities (as discussed below), while expanding ACCU use beyond current SGM facilities and sectors over the longer term.

To illustrate the potential range of market outcomes, the EY Net Zero Centre has developed high- and low-price outlooks to 2040. These projections are scenario-based, indicative only and do not constitute financial advice.

Medium-term prices could be at least AU$14 higher or lower than our central projection

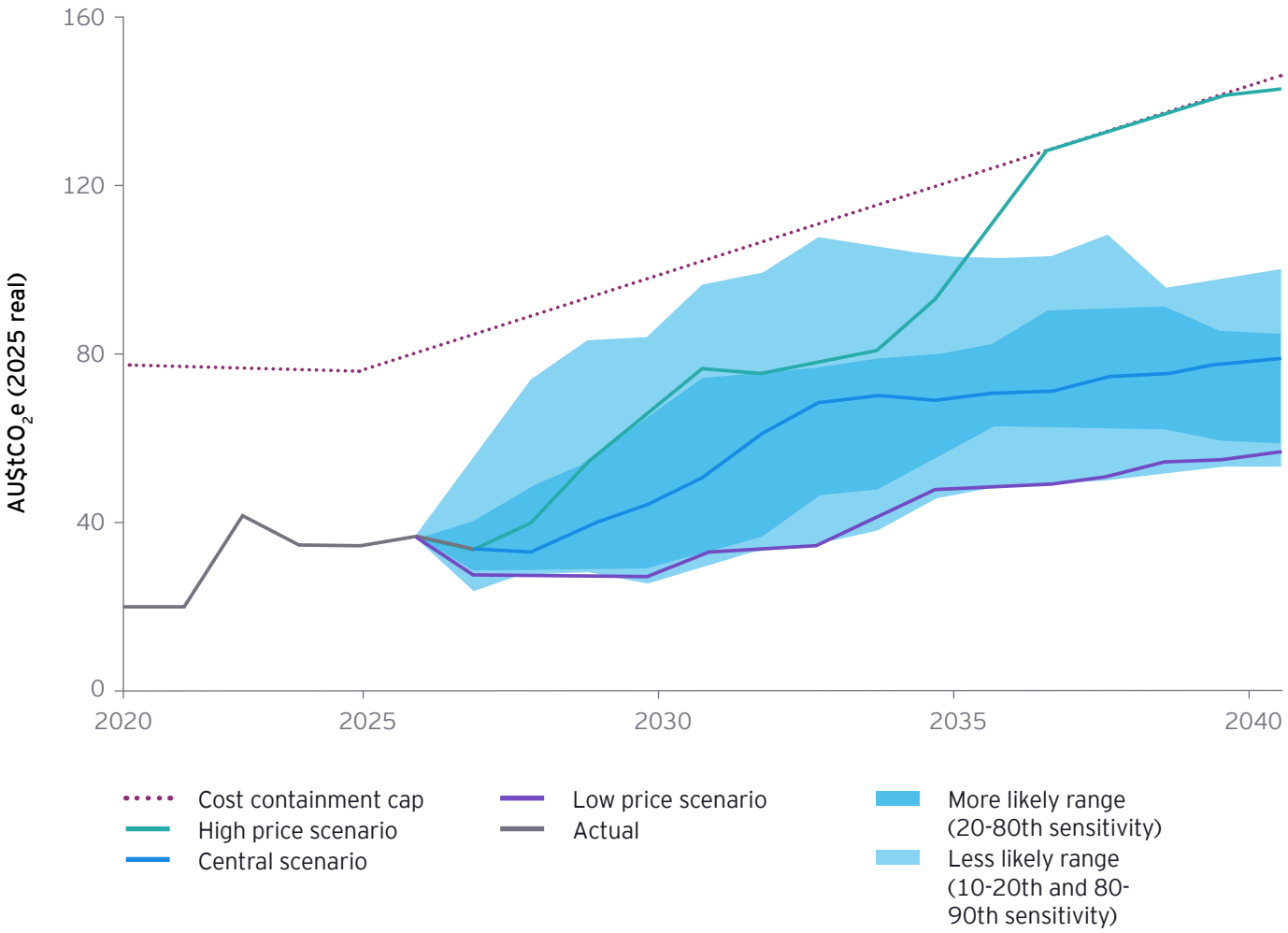
All the scenarios in this report assume reasonably good market foresight by participants and that sunsetting methods are renewed or replaced with equivalent methods. Sensitivity analysis (see Exhibit 09) suggests a wide band of plausible prices above and below the central estimate under current policies. This range reflects multiple uncertainties, including variation in potential abatement volumes and implementation timeframes.

We find the outlook is skewed towards higher rather than lower prices from 2028 onwards, as policy adjustments are more likely to increase ACCU demand and market prices. These potential policy effects are not captured in the current policy outlook or in the analysis presented in Exhibit 09.

Nevertheless, prolonged low-price scenarios are plausible, given potential variability in policy, project delivery, market and investor sentiment, and method development.

Exhibit 09. The medium-term ACCU price outlook under current settings remains uncertain

Scenarios and central estimate sensitivities



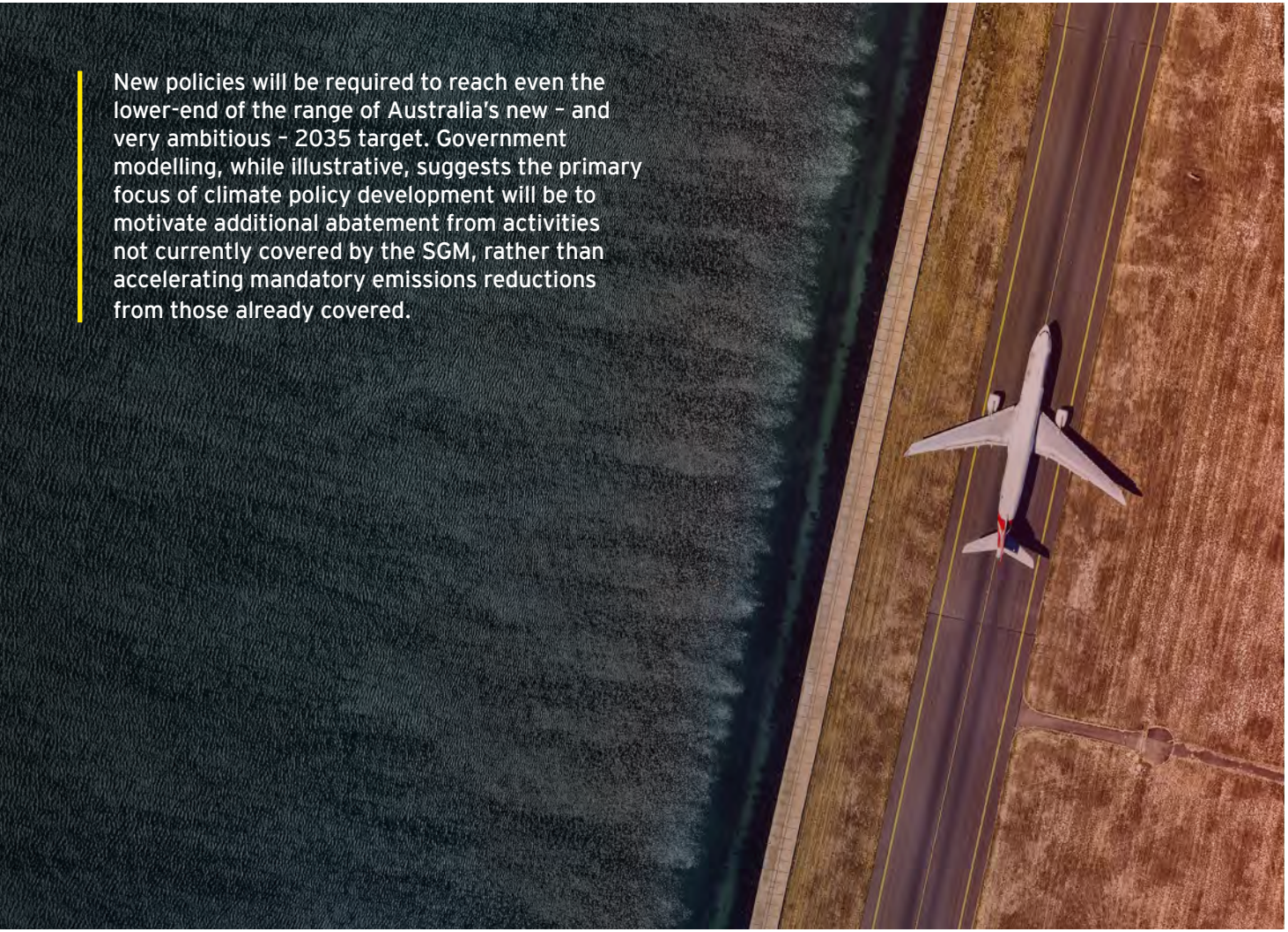
Notes: All scenarios assume that market participants have reasonably good foresight of future supply and demand. While the scenarios are modelled on the basis of current policies, with no changes to SGM and ACCU settings, the high price scenario may be interpreted as reflecting new ACCU demand after 2030 from activities or facilities not currently covered by the SGM. See Supporting Information for more details.
Source: EY Net Zero Centre analysis using EY CARBON-VIEW (AUS) model.

Clarity

Effective policy will require sharper abatement incentives across the economy and greater confidence in forward ACCU prices

Policy refinements are expected in light of the new 2035 target, and reviews of SGM and ACCU settings

New policies will be required to reach even the lower-end of the range of Australia's new – and very ambitious – 2035 target. Government modelling, while illustrative, suggests the primary focus of climate policy development will be to motivate additional abatement from activities not currently covered by the SGM, rather than accelerating mandatory emissions reductions from those already covered.



We are at a pivotal moment for heavy industry and carbon market policies

The Australian Government has set an ambitious target: 62-70% reduction in net national emissions by 2035 from 2005 levels. This requires a substantial step up from the projected 51% reduction under current policies.[17]

This new target will drive climate policy development and provide the context for two upcoming legislated reviews:

- The Climate Change Authority's review of ACCU arrangements, due by December 2026
- The federal government's Department of Climate Change, Energy, the Environment and Water (DCCEEW) review of the SGM, scheduled for the 2026-27 financial year.

Together, these reviews will assess whether current settings, including baseline decline rates, offset integrity and market dynamics, are effectively supporting Australia's net zero trajectory. They provide an important and timely opportunity to calibrate policy ambition and implementation to the 2035 target and evolving global circumstances.

Aligning the SGM and ACCU reviews could improve policy coordination and enable timely action

Given weak investor confidence and low near-term abatement incentives, there is a case for bringing forward the DCCEEW review of SGM arrangements by six months to align with the CCA review of ACCUs, so both report by December 2026.

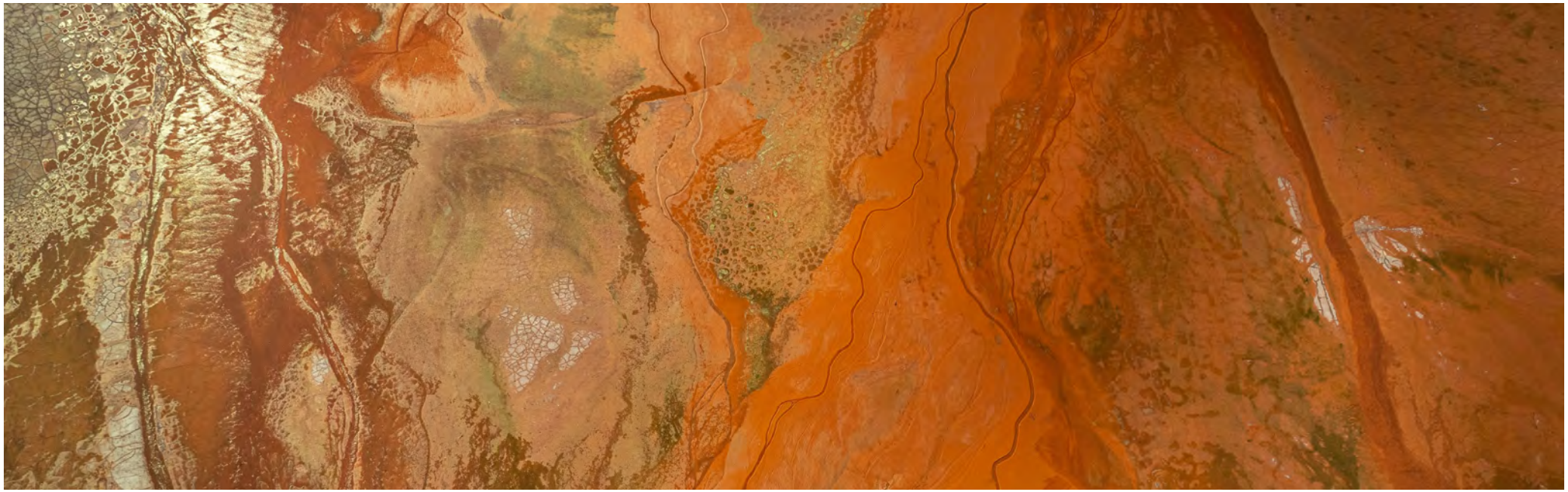
This would improve coordination and allow any resulting policy changes to take effect from July 2027, without limiting the Australian government's discretion on timing.

Priority themes include investment confidence, SGM coverage and co-benefits of nature-based solutions

Three major themes are emerging from public discussion about the next wave of climate policy reforms and refinements, in the context of the SGM and ACCU reviews:

- **Mobilising investment:** As noted earlier, investors appear hesitant to direct capital to ACCUs without a bankable forward price curve or greater policy clarity. The Carbon Market Institute[18] has called for reforms to "sharpen market signals towards investment" and prioritise direct abatement.
- **Narrow scope of SGM coverage:** The Productivity Commission[6] and others[19] have suggested extending SGM coverage to smaller facilities and applying SGM-like incentives to more activities, including transport and heavy freight.
- **Co-benefits of carbon removals:** The EY Net Zero Centre[20] and others[21,22] have highlighted the potential for policy changes to leverage ACCUs to support nature repair, building on existing efforts to align ACCUs with the emerging Nature Repair Market.[23]

The remainder of this section explores the potential merits and consequences of policy refinements and reforms along these lines.



The visible carbon signal from ACCUs offers a crucial contribution to efficient and effective climate policy

Carbon pricing makes a crucial contribution to efficient and effective climate policy. It enables cost-effective action that reflects the unique contexts and opportunities of businesses, rather than prescribing or restricting the use of specific technologies.

The ACCU market provides a visible carbon price that could serve as a benchmark 'carbon incentive value' to guide policy development and wider public and private investment in abatement.

Efficient policy will require more coherent carbon abatement incentives across sectors, that rise over time

In the context of the Treasurer's Economic Roundtable in August 2025, the Productivity Commission called for the development and publication of "target-consistent carbon incentive values" to benchmark policy performance and to guide the extension of emission-reduction policies into new sectors.[7] The Commission recommended these values should be developed by a qualified agency and updated periodically.

Such carbon abatement incentives should reflect economy-wide abatement costs and opportunities, rising over time in line with incremental costs of achieving emissions reductions (as lower-cost abatement options are exhausted before moving to more expensive ones).

This approach is likely to resonate with policymakers and economists and to guide policy efforts that unlock least-cost emissions reductions across the economy.

The Commission also encouraged deeper integration of ACCUs into national climate policies.

The ACCU market provides a ready-made visible carbon incentive benchmark

The visible carbon price established by the ACCU market offers an immediate anchor for a coherent, economy-wide carbon incentive benchmark, while recognising that the abatement options available to SGM facilities may not be representative of those available to the whole economy.

This suggests the ACCU market is well-placed to play a central role in directly or indirectly linking abatement efforts across sectors, especially as policy incentives sharpen and spread.

Current SGM and ACCU settings produce weaker abatement incentives than required for Australia's transition, risking over-reliance on offsets

ACCU prices shaped by current settings remain well below economy-wide abatement costs. Without stronger price signals, Australia risks under-investing in real emissions reduction and over-relying on offsets.

Market-clearing ACCU prices reflect SGM and ACCU policy settings, not the economy-wide marginal cost of abatement

Near-term ACCU prices are the result of specific characteristics of Australia's carbon market, including:

- Total demand is effectively restricted to covered SGM facilities, which account for around 30% of national emissions.
- Demand growth reflects incremental, year-on-year reductions in SGM baselines, rather than total SGM emissions.
- Australia has large areas of low-cost agricultural land suitable for carbon plantings and ACCU supply.

The balance of ACCU supply and demand results in relatively low carbon prices and abatement incentives

Analysis of Australia's net zero transition typically finds that it will be practical and cost-effective to reduce gross emissions by 75-90% by 2050 (relative to 2005 levels), with the residual offset through domestic land sector removals.[4,20,24]

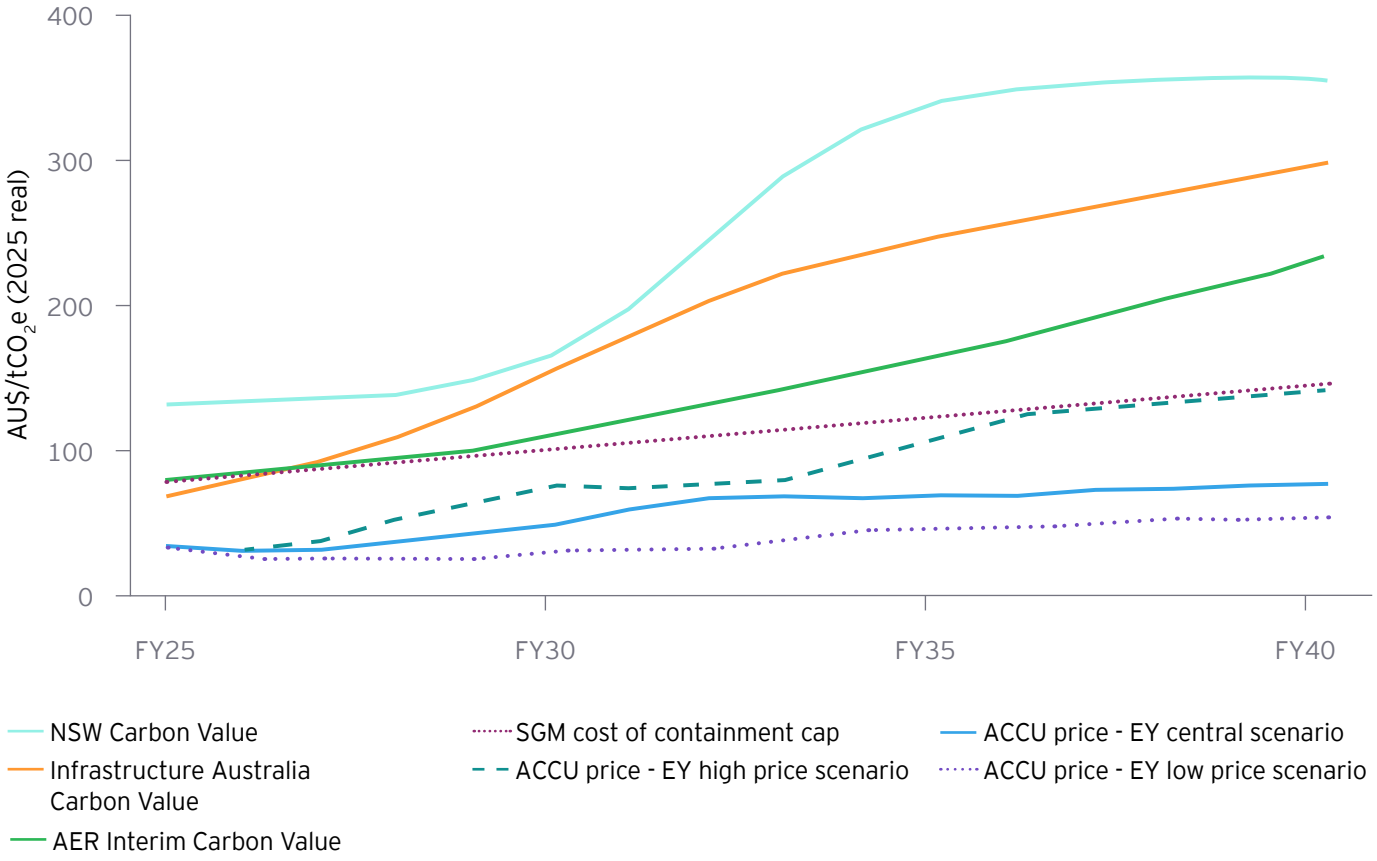
However, current and projected ACCU prices are substantially lower than the level of abatement incentives that this analysis finds will typically be required to drive Australia's net zero transition.[22,25,26]

Indeed, ACCU prices in our central scenario are 67% below the Australian Energy Regulator's interim carbon incentive benchmark,[27] the lowest dollar benchmark of any published Australian policy abatement guideline (see Exhibit 10 and Endnote 04).

This suggests that using current ACCU prices as a benchmark for economy-wide carbon incentives[28,29] would risk inadequate domestic abatement and potential over-reliance on offsets and carbon credits to meet national targets.

Exhibit 10. Current and projected ACCU prices under current settings are lower than indicative abatement incentives from economy-wide models

ACCU price projections and carbon incentives for planning and cost benefit analysis, 2025 to 2040



Note: Figures adjusted to real AUD$2025 terms
Source: NSW (2024) NSW Carbon Values. Pg 9. Infrastructure Australia (2024) Valuing emissions for economic analysis. Pg 4. AER (2024) Valuing emissions reduction: Guidance. Pg 4. EY Net Zero Centre analysis using Y CARBON-VIEW (AUS) model

Extending SGM coverage and SGM-like incentives would boost ACCU demand and prices faced by existing and new SGM facilities

Broadening SGM coverage would create stronger, more consistent carbon incentives across sectors and chart a more efficient course to Australia's 2035 target.

Government commentary suggests a preference for broadening SGM coverage rather than increasing obligations of current facilities

CCA analysis[2] of indicative contributions to the 2035 target suggests the resources and industry sectors could reduce their total emissions by around 40% over the coming decade. This compares to a weighted average reduction of 59% across the whole economy, driven largely by electricity decarbonisation and fuel switching.

This is broadly consistent with maintaining current SGM baseline decline rates, complemented by targeted new policies, rather than seeking additional abatement from existing SGM facilities.

Compared to government projections under current policies,[17] the indicative CCA contributions involve at least a third more abatement from these sectors – including activities both inside and outside the SGM.

Policy options to achieve this could include support through the Made In Australia decarbonisation stream,[30] or new 'carrots and sticks' for sectors and facilities not currently covered under the SGM, including transport and heavy freight.[6,23,31]

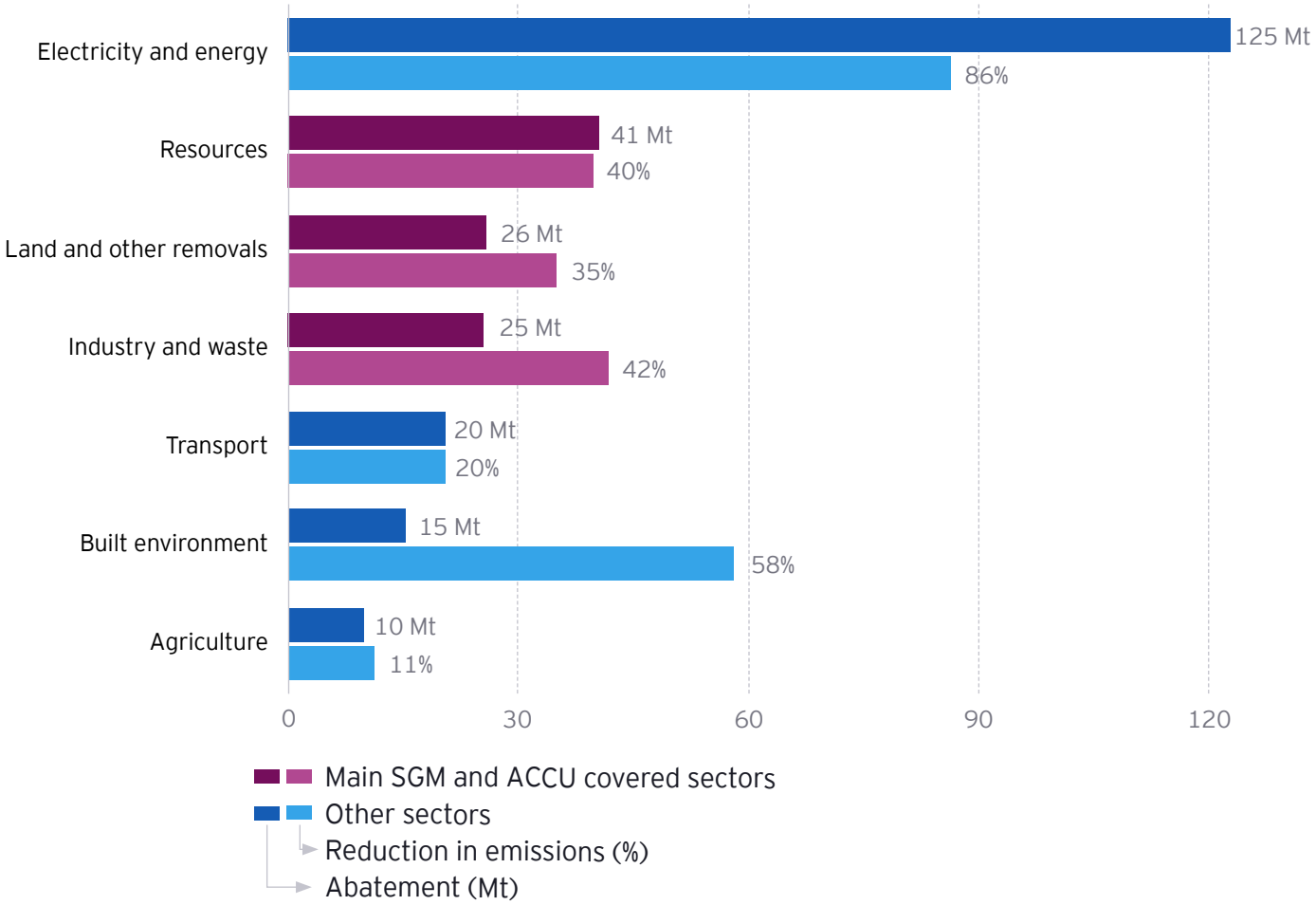
The ACCU market provides a ready-made visible carbon incentive benchmark

The visible carbon price established by the ACCU market offers an immediate anchor for a coherent, economy-wide carbon incentive benchmark, while recognising that the abatement options available to SGM facilities may not be representative of those available to the whole economy.

This suggests the ACCU market is well-placed to play a central role in directly or indirectly linking abatement efforts across sectors, especially as policy incentives sharpen and spread.

Exhibit 11. Major SGM and ACCU sectors are expected to reduce emissions by around 40% in the context of the 2035 target

Indicative abatement contribution by broad sector; 2035 vs 2025

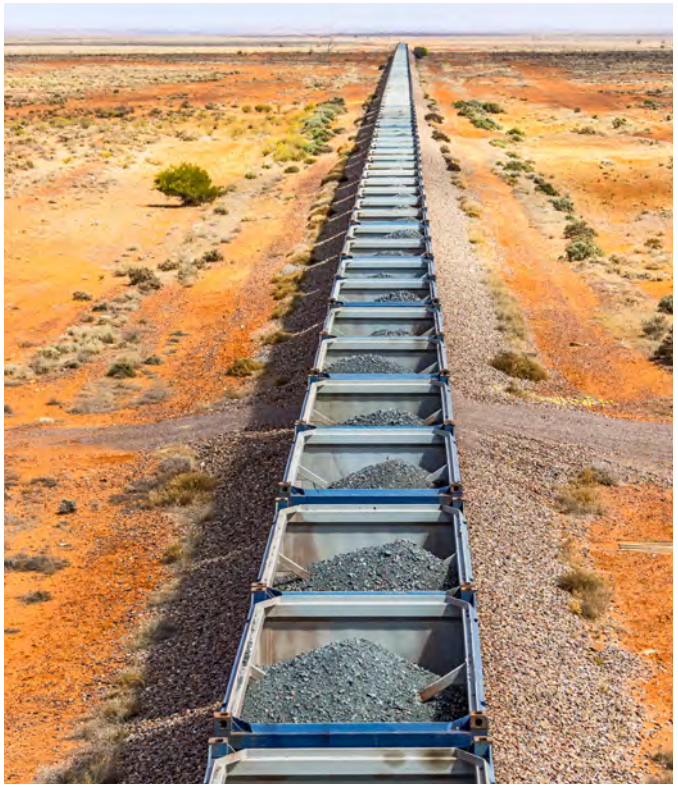


Source: Calculated from Climate Change Authority (2025) 2035 Target Advice data pack. Figure 1 & 10.

Wider SGM coverage would boost ACCU demand and long-term prices

Extending SGM-linked coverage and abatement incentives to a wider range of activities, such as transport fuel use, would stimulate additional emissions reductions and support more efficient climate policy by harmonising incentives across sectors.

While broadening SGM and ACCU coverage would not impact the compliance obligations of existing facilities, increased ACCU demand would likely lift long-term ACCU prices and raise overall abatement costs.



Policy refinements should preserve SGM facilities' full access to using ACCUs

Access to high-integrity carbon credits is central to the policy logic and effectiveness of SGM settings. This allows unprecedented compliance obligations to be imposed on Australia's largest emitters, while avoiding potential adverse impacts on jobs and competitiveness.

Although some stakeholders favour introducing restrictions on credit use, EY Net Zero Centre analysis suggests this could undermine the SGM policy framework. If concerns exist about the pace or level of abatement, other approaches should be explored.

ACCU use enables ambitious, orderly decarbonisation of trade-exposed sectors

A defining feature of the SGM policy design is its flexibility. It is intentionally agnostic about the balance between internal abatement and use of high-integrity ACCUs. Facilities can, therefore, choose the most cost-effective pathway to meet their baselines.

This reflects the central purpose of the SGM: to drive the uptake of cost-effective abatement without imposing excessive compliance costs.

ACCU use is material for the vast majority of facilities and crucial to achieving cost-effective abatement

EY Net Zero Centre modelling finds that a large share of facilities are expected to use ACCUs or SMCs to achieve more than 30% of their mandatory abatement obligations – accounting for more than 80% total system abatement and 40-60% of SGM facilities over the period to 2040 (see Exhibit 12).

This outcome is a feature, not a flaw, of the current SGM policy framework.

The balance between internal and off-site abatement reflects commercial decisions based on the relative cost and availability of abatement options, and the market value of high-integrity credits (see Exhibit 06).

Restricting facility-level credit use would undermine a central pillar of SGM policy design

Given the central role of ACCUs in enabling cost-effective emissions reductions, introducing facility-level restrictions on credit use could fundamentally weaken the merits and economic impacts of the entire SGM policy framework.[6]

Any concerns about the pace of internal abatement, or potential over-reliance on ACCUs, should be dealt with, at least in the first instance, through transparency measures (such as the existing requirement for facilities to disclose their level of ACCU use).

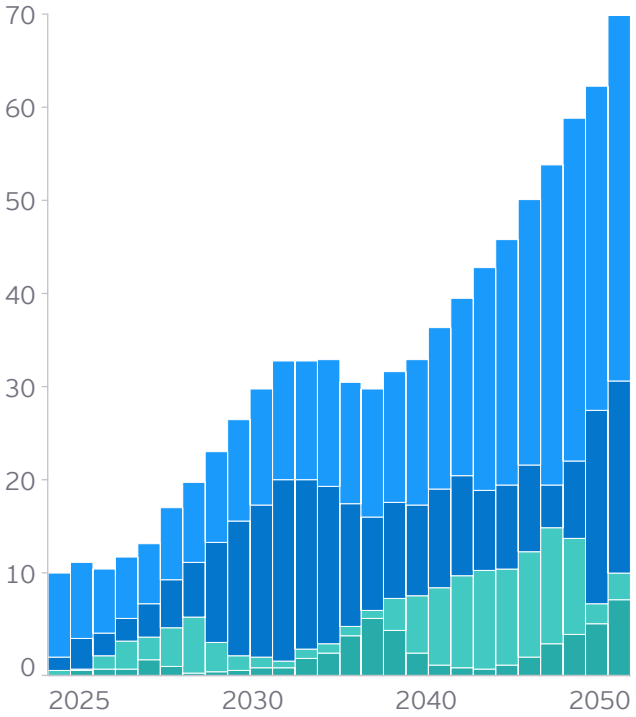
Future policy refinement should focus on unlocking 'appropriate-cost abatement' rather than narrowly pursuing 'least-cost abatement'. It should consider reform options that might put upward pressure on ACCU prices (such as by increasing ACCU demand).

Policy development might also consider differentiated ACCU cost containment price pathways, with higher caps on high-margin, extractive industries that are better able to absorb higher-cost abatement (see Exhibit 05).

Exhibit 12. Restrictions on credit use could impact a majority of SGM facilities, and would risk reduced flexibility and increased compliance costs

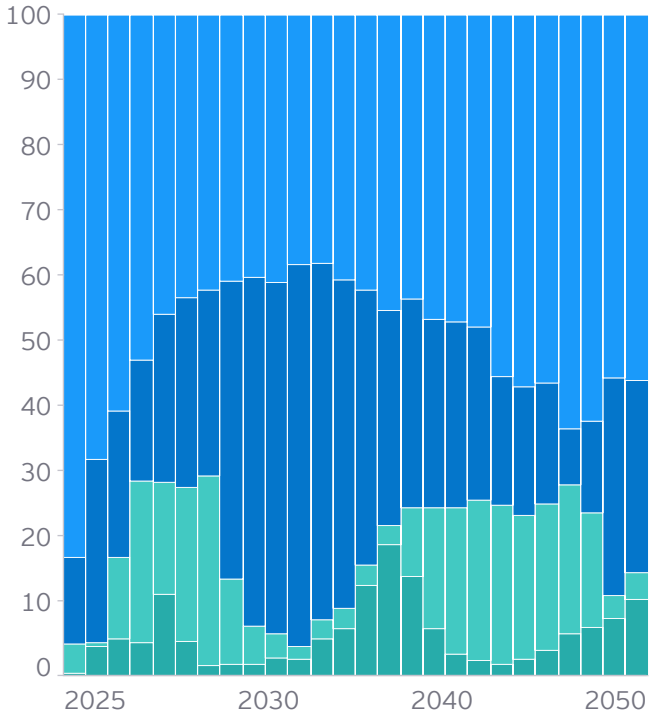
Credits usage by credit share of abatement

$MtCO_2$; Central scenario



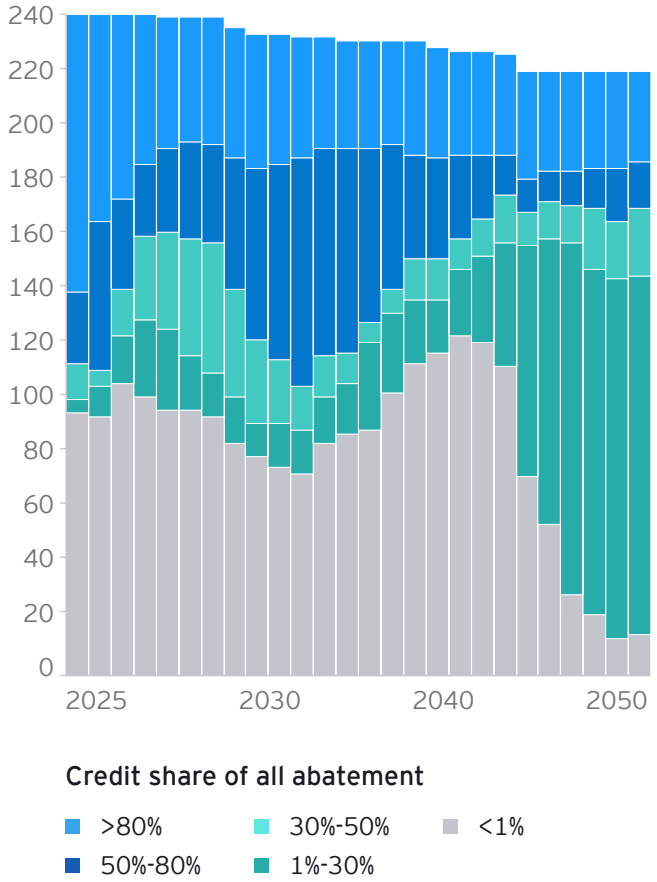
Credits usage by credit share of abatement

Percentage; Central scenario



Facilities by credit share of abatement

Count; Central scenario



Note: Analysis for cohort of facilities in operation in 2025.
Source: EY Net Zero Centre analysis using EY CARBON-VIEW (AUS) model

Extending SGM coverage to new facilities and activities would strengthen abatement incentives and drive increased ACCU demand

Lowering the threshold could more than double the number of covered facilities, adding up to 13Mt of emissions to the SGM. This would expand emissions coverage by around 10% and increase ACCU demand by 9%.

Lowering the SGM emissions threshold would enhance incentives and the efficiency of climate policy

Extending SGM coverage would provide stronger abatement incentives for up to 13Mt of heavy-industry emissions from facilities that currently fall below the SGM threshold, accounting for around 8% of heavy industry emissions and 2.5% of national emissions.[6]

Wider coverage would improve the efficiency of climate policy, increasing SGM emissions coverage by up to 10% while more than doubling the number of covered facilities.[7] The Productivity Commission finds that spreading abatement effort over more facilities would reduce economy-wide costs, providing benefits of over $900 million by 2035 for abatement aligned to the national emission target.[6]

While extending coverage would impose some compliance costs on new facilities, they are already required to measure and report their emissions and so the additional administrative costs are likely to be small.[6] Available data suggests most of the additional facilities would be in industry (38%), mining (25%) and land transport (18%).[13]

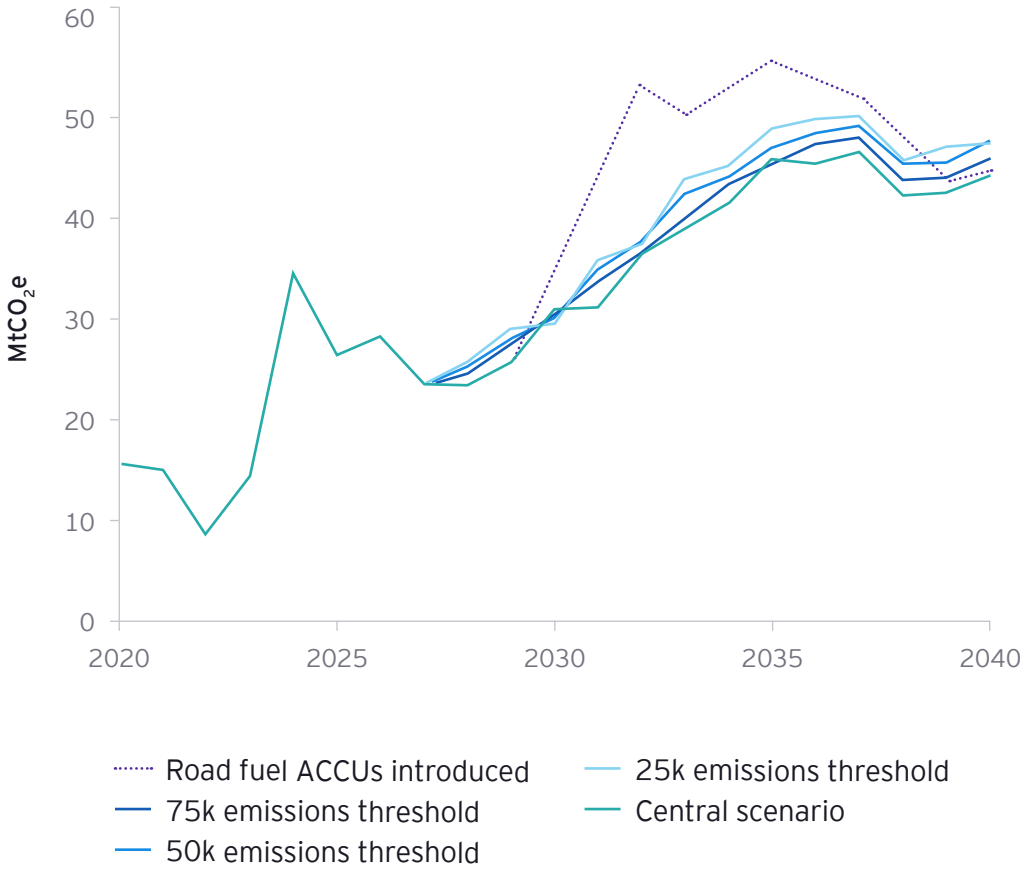
Expanded SGM coverage would lift ACCU demand and market prices

The EY Net Zero Centre finds that adding these emissions would be likely to increase ACCU demand by around 3.1Mt per annum over the decade to 2040, equivalent to a 9% increase in ACCU demand (see Endnote 05).

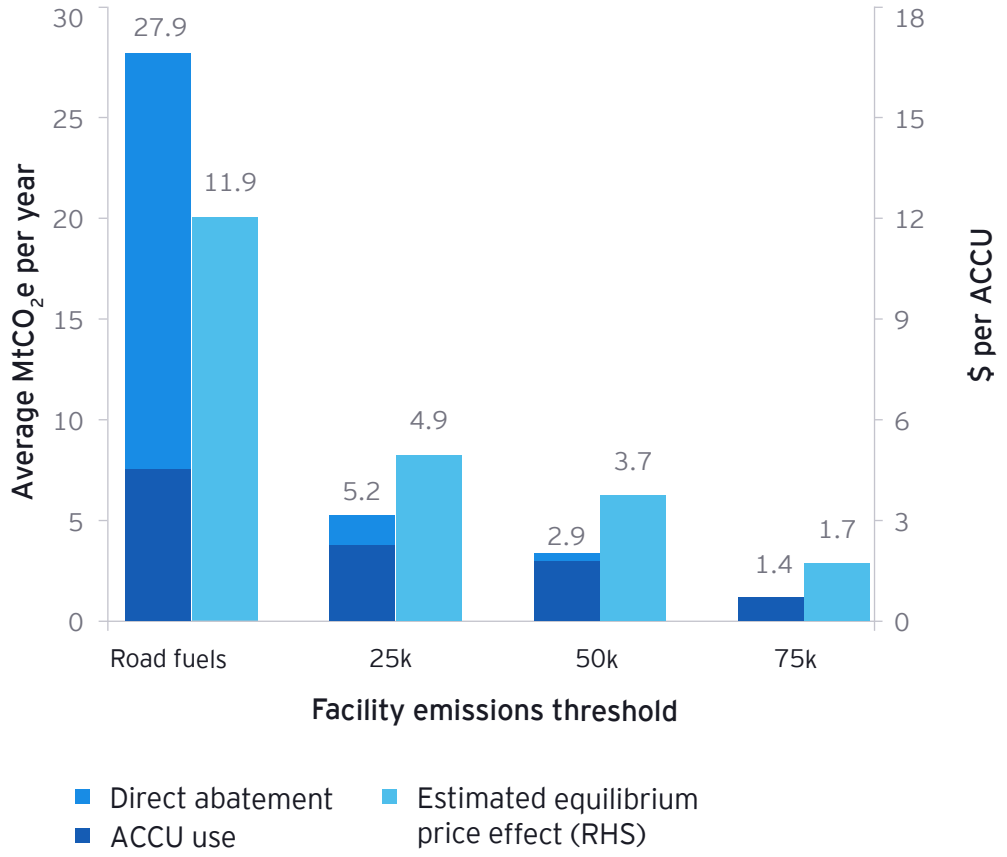
This would result in a structural increase in ACCU demand, relative to supply. We estimate this could raise the long-term market-clearing ACCU price by around $5, assuming a well-managed policy transition and clear market signals.

Exhibit 13. Wider SGM coverage would increase ACCU demand, and could lift the market price of ACCUs by up to AU$12/tCO$_2$e on average to 2040

ACCUs demand under illustrative increased SGM coverage options



Incremental abatement annual volume 2030-40 and equilibrium price impact of illustrative increased SGM coverage options



Notes: Price effects of additional incremental demand volumes are based on estimated long-run price elasticity. See Endnote 05 for more details.
Notes: The calculation of abatement and ACCU use assumes the mix of abatement options for all newly covered facilities is similar to those estimated for new facilities included in publicly available data. Price effects of average incremental volumes are based on estimated long run price elasticity for orderly moderate increases in ACCU demand. Estimates for transport fuels assume downstream emissions from fuel are covered 2030 with a baseline declining to net zero by 2050, and that fuel demand falls in response to the resulting incremental price increase. Details of methods and overlaps in coverage imply effects for wider coverage of SGM facilities should not be added to effects of transport fuels.
Source: EY Net Zero Centre analysis using EY CARBON-VIEW (AUS) model

Stronger abatement incentives for transport are needed, but extending SGM coverage would require careful management

Capturing transport fuels under the SGM could raise ACCU demand by 7.6Mt per year to 2040 and prices by roughly $11. This would tighten the ACCU market and create a stronger carbon signal, though design and implementation would require careful consideration.

Incentivising transport abatement while managing cost-of-living and budget impacts is challenging

Current climate and energy policies do not provide coherent incentives for transport sector decarbonisation. The fuel excise provides some incentives for energy efficiency and emissions abatement, but its primary purpose is to finance public roads and contribute to budget revenue. Heavy vehicles are largely excluded from the SGM, and fuel tax credits reduce the effective rate of the fuel excise.

The fuel excise could be replaced with road-user charging and an ACCU-linked carbon charge

The Productivity Commission's recent reports on the net zero transition find abatement incentives for heavy vehicles are inadequate and should be increased.[6]

One of several options would be to bring liquid-fuel wholesalers within the SGM, including downstream (Scope 3) emissions in addition to direct (Scope 1 and 2) emissions from facilities.

Including fuel from 2030 with a baseline declining to net zero by 2050 could increase average ACCU demand by around 7.6Mt per year to 2040, according to EY Net Zero Centre modelling. This would see an equilibrium price increase of around $11 per ACCU, with orderly implementation (see Exhibit 13).

However, we find the transitional impacts of this projected increase in ACCU demand could be very difficult to manage, with scenarios in which ACCU supply prices spike well above the cost containment guarantee.

A more manageable alternative may be to consider an ACCU-linked charge on the carbon content of transport fuels (excluding renewable energy inputs), a portion of which could be met by surrendering ACCUs. This could be introduced alongside road-user charging that applies neutrally to battery-electric and liquid-fuel vehicles, with cost-of-living impacts offset for several years by reductions in – or even abolition of – fuel excise.

An indicative starting point might be a carbon charge just below $70/t$CO_2$e, equivalent to around 16 cents per litre or one-third of the current fuel excise (assuming the other two-thirds is allocated to the road-user charge). The carbon charge could rise to the cost containment level over 10 or more years, allowing households and businesses time to adjust and replace vehicles.

Policy design should give careful consideration to distribution and cost of living, business input costs (particularly for export sectors), transition timeframes, and implications for budget revenues over coming decades.

Recognising the complexity of these reforms, the Productivity Commission recommends priority to implementing a gradual increase in the rate of fuel excise paid by heavy vehicles, such as by restricting access to fuel tax credits or by increasing excise rates.[6]

Government investment and de-risking could unlock additional industry abatement, where this supports Australia's economic transition

Targeted public investment could unlock more than 20Mt of additional abatement from trade-exposed industries by 2040, strengthening Australia's industrial base while supporting its transition.

The Australian Government is investing to crowd in capital and low-carbon technologies

Australia's Net Zero Plan outlines key priorities for attracting investment to accelerate the transition:[23]

- Establishing a credible pathway to net zero to support investment confidence and guide decision-making.
- Crowding in private investment through de-risking arrangements and public debt and equity finance.
- Strengthening domestic capabilities, supply chains, trade relationships and international linkages.

This includes financial support through the Australian Renewable Energy Agency (ARENA) Industrial Transformation Stream[32] and a new $5 billion Net Zero Fund designed to support decarbonisation of large industrial firms and invest in renewable-energy and low-emissions technologies.[23]

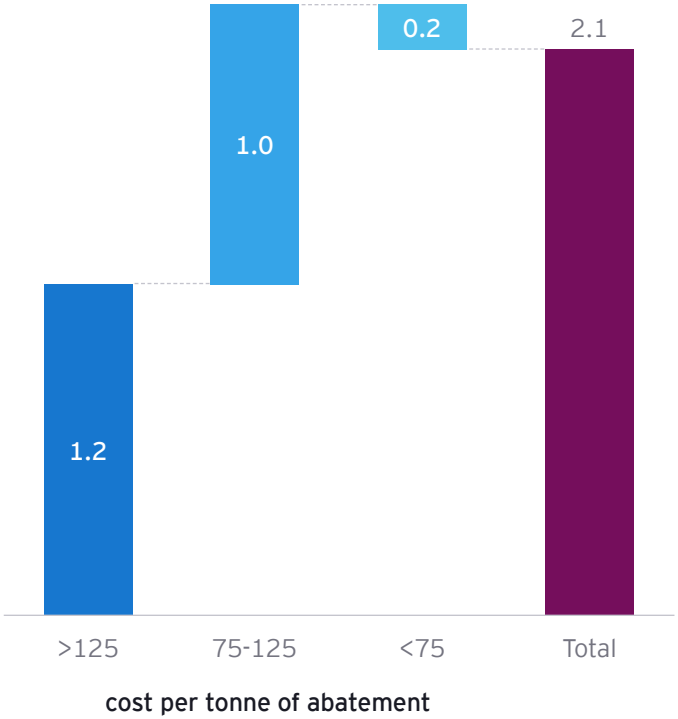
Public investment could enable deeper emissions reductions by trade-exposed facilities

EY Net Zero Centre analysis finds public support could unlock more than 20Mt of additional abatement from the most trade-exposed SGM facilities over the decade to 2040 without harming competitiveness (see Exhibit 14). These are companies which face limits on their ability to pass costs to customers (see Exhibit 05). The value proposition for this kind of policy support is strongest where it helps maintain crucial national capabilities or supports future growth opportunities.

Exhibit 14. Government support could unlock more than 20Mt of abatement from trade-exposed facilities over the decade to 2040, without harming competitiveness

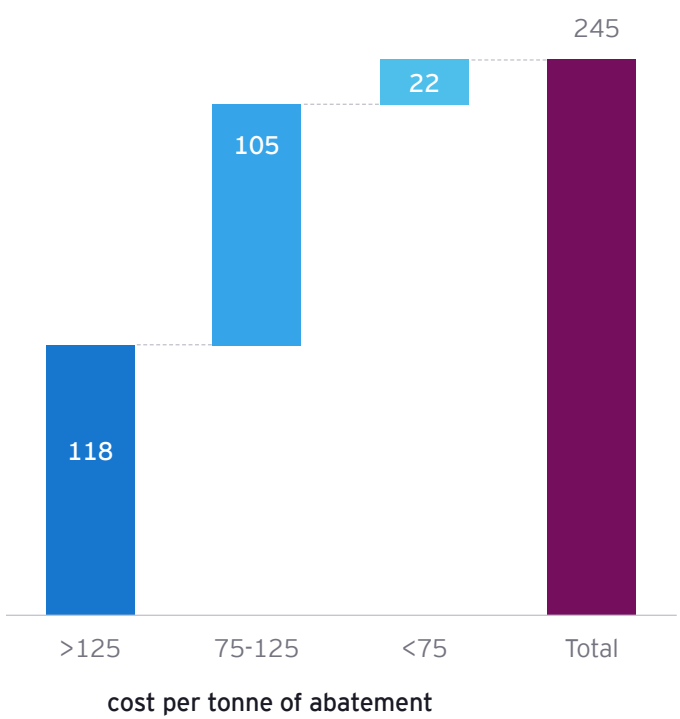
Potential additional direct abatement achieved in TEBA facilities by abatement cost tier*

$MtCO_2e$ emissions, annual average 2030-2040



Expenditure required for additional direct abatement in TEBA facilities by abatement cost tier*

$ millions (real 2025), average annual 2030-2040



Laying the foundation for future advantage remains the main game for public investment and policy support

Successfully navigating the transition to low-carbon growth requires both:

- A clear bankable market-based framework that drives and rewards clean industries and private investment, underpinned by SGM and ACCU policies.
- Government support for new-to-world innovation and deployment of emerging technologies at scale.

Our previous report, **Delivering green growth together** (2024) sets out how government and business can work together to support the innovation required for tomorrow's successful clean-energy industries.[30]

Note: The analysis assumes budget support for additional abatement for TEBA eligible facilities to achieve the 4.9% annual reduction in emissions required of other facilities without effecting their competitiveness. This drives additional higher cost abatement, which displaces some lower cost abatement in the last few years and results in less lower cost abatement over the period than projected under current settings.
Source: EY Net Zero Centre analysis using EY Carbonview (Aus) and CER (2025).

Innovation, effort and discipline will be required to capture opportunities as global climate and clean-energy transitions reshape national advantage

Clean industry policy must focus on products and technologies where Australia could establish a durable competitive advantage

There is a reason why industry policy has often had 'mixed reviews' in the past. Too frequently, governments have tried to support the development of industries without a sustainable competitive advantage – and continued to underwrite unviable industries at an increasing cost.

The EY Net Zero Centre report on **Delivering green growth together** notes that such missteps would be doubly costly today: jeopardising both Australia's economic performance and the effectiveness of emissions-reduction efforts.

To avoid these pitfalls and position clean industrial policy to achieve its dual climate and economic objectives, policy must provide well-targeted practical support for the development and deployment of technologies and industries where Australia has the potential to establish and defend sustainable competitive advantage.

Governments have a crucial role to play

Governments should seek to:

1. **Set clear objectives and priorities.** Identify the types of activities, capabilities or technologies that are most prospective, or parts of supply chains that should be targeted.
2. **Base support on evidence.** Use robust analysis and clear evidence to justify support for specific industries, technologies or capabilities.
3. **Choose appropriate policy levers.** Select policy that is right for the context, addressing key barriers to private sector innovation and action.

Governments must manage a significant tension: maintaining strong connections with industry to ground decisions in a solid fact base, while preserving the expertise and independence needed to avoid being 'captured' by industry interests.

Governments should also create incentives that make collaboration and engagement attractive and worthwhile.

Industry is also essential

Business should seek to:

1. **Demonstrate commitment.** Provide investment and expertise, and show a willingness to co-invest where advantage can be developed and sustained.
2. **Align long-term strategies.** Position value chains, products and business models to contribute to the transition and Australia's net zero industrial goals.
3. **Inform policy with clear evidence.** Share data and insights on operational needs, market conditions and supply chain realities to improve policy design, decisions and outcomes.

Success does not require that governments 'pick winners' in advance. But it does require continuous learning and an evidence-based approach that can 'let losers go'.

Business leaders can support the national interest by resisting reactive or self-seeking lobbying to maintain the status quo, and instead champion reforms that build long-term competitiveness.

Source: EY Net Zero Centre, Delivering green growth together: How business and government can drive and thrive in the net zero transition, 2024

Harnessing ACCUs to deliver nature repair could improve social acceptance of carbon credits, but may put upward pressure on ACCU prices

A cost-effective transition to net zero emissions will require a significant expansion of land-sector sequestration. This presents a once-in-a-lifetime opportunity to align carbon incentives with nature repair – an outcome which otherwise might require government expenditure of $7.3 billion per year for 30 years.

Leveraging carbon credits to deliver multiple goals could strengthen public confidence in ACCUs. One option would be to establish a royalty-based nature fund to channel part of the value of ACCUs into large-scale nature restoration. This could lift and diversify farm-sector incomes without on-budget government spending, while delivering the land-sector removals required for Australia's net zero transition.

Australia's net zero transition will require up to a 10-fold increase in land sector removals

Direct emissions will need to fall by 75-90% across all major sectors, with residual emissions offset by high-integrity carbon credits, best sourced from Australia. This will require a five- to 10-fold increase in nature- or technology-based removals.[4,20]

Achieving social acceptance of increased supply and use of land sector credits would be most likely with:

- **Community confidence** that Australia is receiving the best possible social, economic and environmental value from supply and use of carbon credits.
- **Stakeholder confidence** that the transition is manageable and provides economic opportunities for all sectors and regions.
- **Efficient policy mechanisms**, including well-functioning carbon markets.

'Nature-positive ACCUs' could deliver carbon and biodiversity benefits

Analysis by the EY Net Zero Centre and others finds that current carbon-focused ACCU settings provide little or no biodiversity benefits.[20,22,33]

However, practical changes to ACCU arrangements could deliver measurable gains for both nature and climate, aligning with Australia's Global Biodiversity Framework commitment to halt and reverse nature loss by 2030 and achieve demonstrable recovery of nature by 2050.

One option would be to introduce a royalty on ACCUs and direct proceeds to support restoration and management of priority native habitat,[20,22] using recently-established biodiversity certificate arrangements for assurance. EY-Parthenon Strategy analysis finds this approach could:

- Deliver nationally-significant restoration of high-priority habitat, materially reducing extinction risks and supporting valuable ecosystem services.
- Supply sufficient carbon credits for Australia's net zero transition at domestic prices at or below the SGM cost containment level, with surplus credits available for export after 2030.
- Lift and diversify farm revenues and incomes by around 10% over the 20 years to 2050, while managing the pace of change for regional communities.
- Avoid any new on-budget government spending.

Collecting a royalty on ACCUs would also allow Australians to receive a fair return on the scarce policy-created commodity of abatement credits.

Alternative approaches would cost more and deliver less

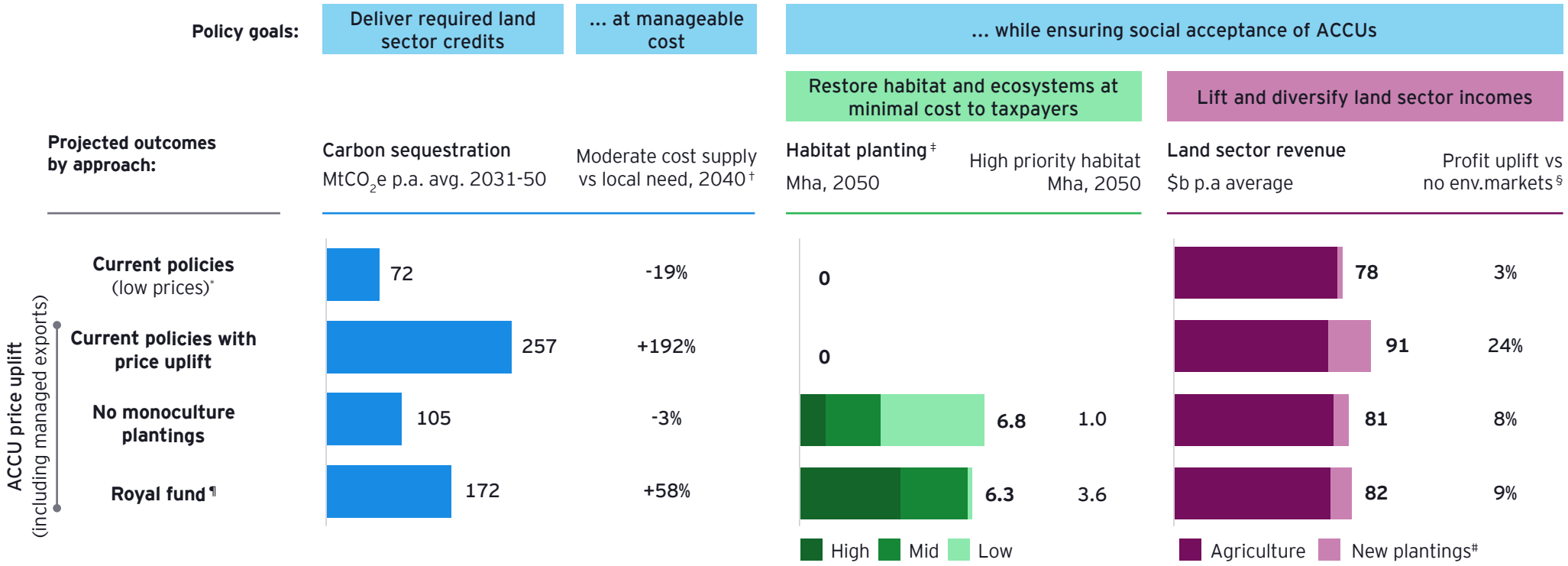
The primary alternative approach to an ACCU royalty scheme would be to use government grants to support restoration of priority habitat, at an estimated cost of up to $7.3 billion per year for 30 years.[34]

Another option would be to require biodiverse mixed-species plantings for all land-sector ACCUs.

However, analysis finds this would achieve at least 40% less carbon sequestration and priority habitat restoration than a royalty-based model.[20,35]

Exhibit 15. New obligations on ACCUs could drive substantial nature restoration, while meeting domestic demand for competitively priced ACCUs

Projected outcomes under varying ACCU prices and policy approaches



* All policy approaches assume ACCU price aligned to cost containment pathway except for current policy settings, which assumes low ACCU prices rising to around AU$60 (real) by 2050. † Volume above or below 100Mt at a supply cost of up to $80/t using LUTO sensitivity analysis on supply in 2040. ‡ High = priority class A, B, C; Mid = D, Low = E. § Avg. profit p.a. from 2031-50 relative to no carbon plantings. ¶ Royalty rate of 30%. # Includes habitat and monoculture plantings.
Source: Unpublished analysis by EY-Parthenon Strategy for the Australian Climate and Biodiversity Foundation drawing on the CSIRO LUTO-C Australian land use model. This analysis builds on the approach outlined in the EY Net Zero Centre report Creating a nature-positive advantage (2023).

Market participants may welcome clearer near-term policy-based price signals or guardrails

Stronger near-term policy signals, including potential price guardrails and fast-tracking the resolution of post-review SGM and ACCU policy settings, could increase confidence in ACCU prices and the bankability of abatement investments, supporting orderly and efficient emissions reduction outcomes ahead of 2035.

In the absence of clear policy guidance, weak near-term ACCU prices are unlikely to motivate strong abatement

EY Net Zero Centre analysis suggests SGM abatement incentives are likely to be flat until around 2028 (see Exhibit 09 above), and that investors will be cautious about committing capital to abatement projects.

While Australia's 2035 target signals broad policy intent, it is not yet sufficient to establish a bankable business case for abatement investments in preparation for potential changes to SGM or ACCU policies.

Government could consider moving to an ACCU price corridor to support multiple policy objectives

Independent reviews[23] and EY Net Zero Centre analysis consistently find that Australia's ACCU market is well designed and administered.

Nevertheless, our analysis suggests that downside price risk and policy uncertainty are likely to weigh against new investments in SGM abatement and ACCU supply in coming years.

This suggests a three-fold stance on ACCU prices, in which policy should seek to:

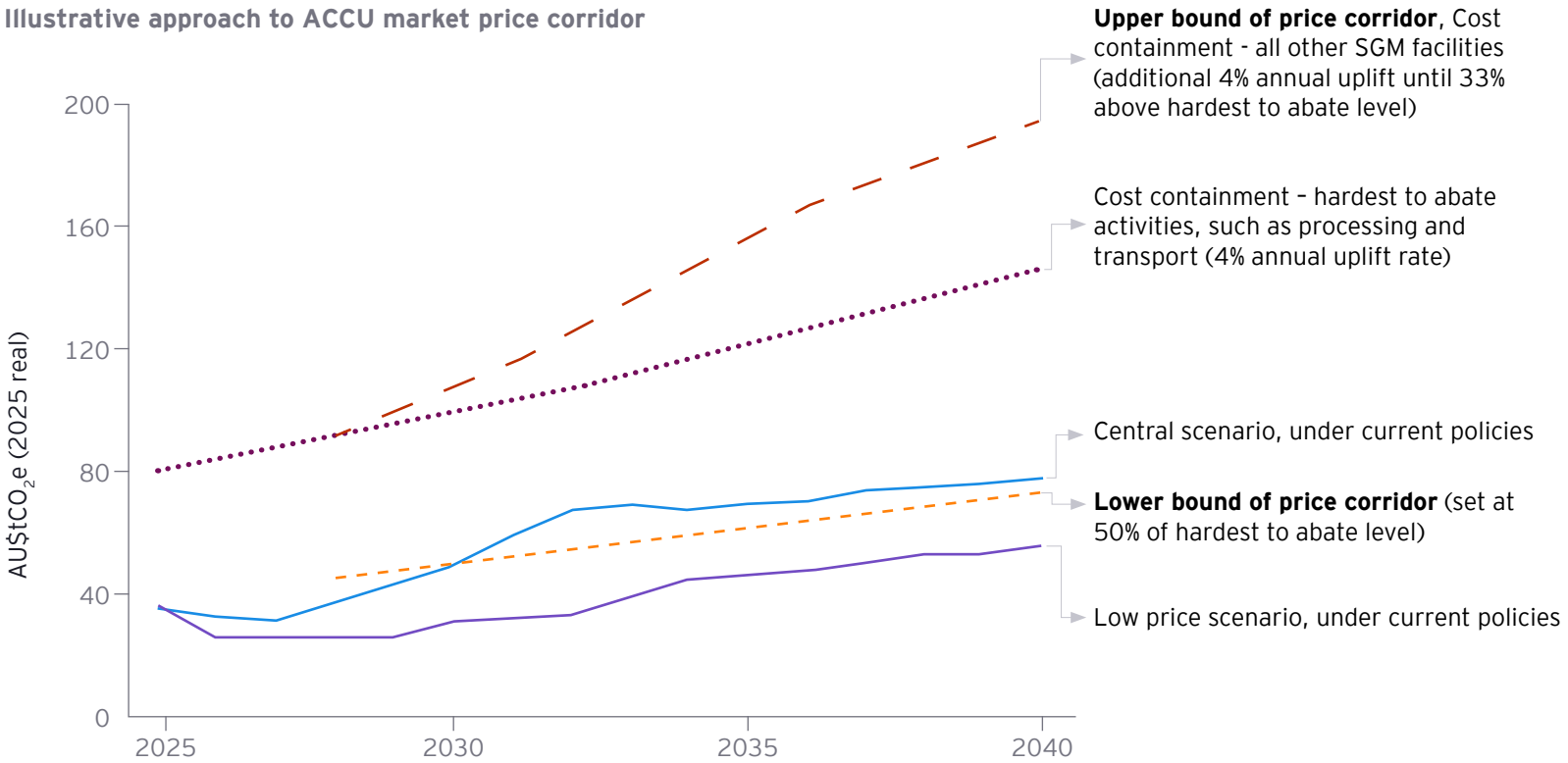
- Maintain incentives for efficient and effective climate action to reduce emissions and promote resilience.
- Avoid excessively low ACCU prices, which provide weak internal abatement incentives and risk low-value use of scarce long-term land sequestration potential.
- Improve the efficiency and coherence of economy-wide climate policy, such as by extending SGM coverage and abatement incentives to new activities, without being excessively concerned about upward pressure on ACCU prices.

If a case is established by the SGM or ACCU reviews, existing arrangements could evolve into a more structured policy-supported price corridor, which would seek to maintain ACCUs within a defined broad range, as illustrated by Exhibit 16.

Policy should also consider the case for near-term targeted support for additional ACCU supply, particularly if reforms are expected to expand ACCU use beyond current SGM facilities and sectors. Contract-based price or revenue underwriting[30] for a set volume of additional supply could help support orderly market adjustment to new demand.

Exhibit 16: Implementing a price corridor could improve abatement incentives and clarity for investors

Illustrative approach to ACCU market price corridor



Source: EY Net Zero Centre analysis. Central scenario using EY CARBON-VIEW (AUS) model.

Policy success will require stronger abatement incentives and investment confidence, along with support for innovation and near-commercial technology deployment

EY Net Zero Centre analysis shows that aligning ACCU prices more closely with the cost containment pathway would encourage SGM facilities to invest more in their own emissions reductions. This could reduce reliance on credits and drive around 80Mt of additional internal abatement to 2050.

Achieving the 2035 target will require sharper policy incentives across a wider range of activities and sectors

The 2023 SGM reforms established a clear and coherent policy framework to drive deep abatement across Australia's largest emitting facilities, while managing carbon leakage and risks to jobs and competitiveness.

The 2025 announcement of the 2035 emissions target will guide and drive the evolution of this policy framework, supporting and motivating abatement beyond current SGM facilities, particularly in industry, transport and freight (see Exhibit 01).

While EY Net Zero Centre analysis finds much of the required abatement will deliver cost savings,[5] achieving the best long-term policy outcomes will require confidence, clarity and deft political management.

Lifting ACCU prices closer to the cost containment pathway would support an efficient and orderly net zero transition

The analysis presented above identifies multiple opportunities to improve abatement incentives by extending SGM coverage to new activities or capturing better value for Australian citizens.

Most of these opportunities would lift ACCU prices over the medium- to long-term. Key implications include:

- Motivating additional abatement from newly-covered activities.
- Improving policy efficiency through better alignment of abatement incentives across activities, facilities and sectors.
- Lifting the share of internal abatement used to meet externally-set facility baselines, while decreasing the reliance on credits.

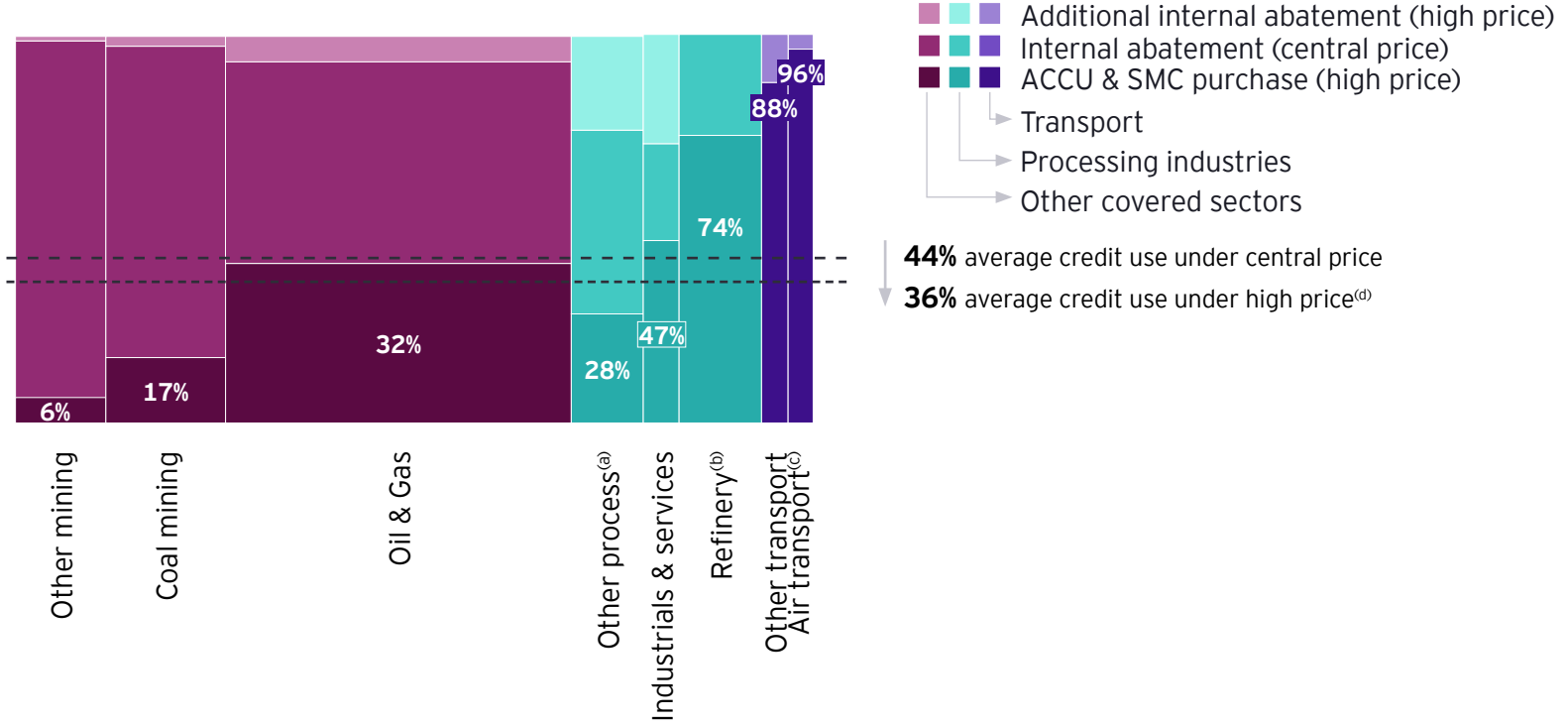
Credits could account for up to 36% rather than 44% of SGM abatement over the decade to 2050

EY Net Zero Centre analysis finds higher ACCU prices could drive around 80Mt of additional internal abatement over the decade to 2050, with the same total abatement achieved. This analysis compares outcomes in the high-price scenario, in which prices are closely aligned to the cost containment pathway from 2035, to the central scenario.

Exhibit 17: Higher ACCU prices would drive more internal abatement and reduced credit use by SGM facilities

Abatement by sector and type, 2040-49

$MtCO_2e$ emissions abated



Notes: (a) Includes power, (b) Includes smelter, (c) Does not account for government support for SAF under the Cleaner Fuels Program announced 17 September 2025
(d) High price scenario involves prices close to the cost containment pathway from 2035
Source: EY Net Zero Centre analysis using EY CARBON-VIEW (AUS) model.

Change

A call to action for business and government as decarbonisation becomes a defining element of industry competitiveness

Stronger abatement incentives for transport are needed, but extending SGM coverage would require careful management

Australia's new 2035 emissions target will reshape policy expectations and business strategy across every sector. In recent years, the Australian Government has taken a consistent, considered and consultative approach to setting SGM parameters and wider climate policy.

Companies should prepare for stronger abatement incentives, sharper scrutiny and new market opportunities as decarbonisation becomes a central pillar of industry competitiveness.

Australia's ambitious new 2035 emissions reduction target will raise expectations and drive policy change

The Australian government's new 2035 target, productivity reform agenda and forthcoming SGM and ACCU reviews have already sparked a new national conversation about how best to drive and guide decarbonisation of heavy industry.

This will present distinct opportunities and challenges across industry segments:

- Existing and potential new SGM facilities (down to the 25,000 t/CO_2e threshold) should prepare for sharper abatement incentives and scrutiny, and be ready to demonstrate and defend their decarbonisation strategy and investments.
- Buildings, transport and other energy-intensive activities that are not currently covered by SGM obligations should prepare for new abatement incentives calibrated to encourage energy efficiency, electrification and fuel switching. While early policy announcements emphasise support, such as for low-carbon liquid fuels, the transition will also require incentives aligned to the 'polluter pays' principle.
- Fossil fuel exporters should expect closer attention to being able to demonstrate how their activities and forward plans are aligned to the global clean energy transition and a 1.5°C or well below 2°C global emissions pathway.

The 2035 target and forthcoming policy reviews will increase attention on emissions reductions across SGM facilities and heavy industry. In some cases, support for decarbonisation may create opportunities for transformational change, either within existing businesses or in emerging markets.

Australia is swimming with the global current

Australia's new target for 2035 is ambitious, achievable (with the right policies), and a constructive contribution to global climate momentum.

EY Net Zero Centre analysis finds climate action around the world is making a difference, and is accelerating as renewable energy costs continue to fall. The resulting renewable energy opportunity for Australia is real and significant.[5,24]

Our analysis also consistently finds that carbon credits are an essential part of the business toolkit, and will become increasingly scarce and increasingly expensive. Carbon market arrangements will continue to evolve, and will increasingly allow voluntarily created credits to meet compliance requirements.[1,8]

Australia's SGM policy approach and its integration of ACCUs are a specific national example of global trends, and provide a practical model for other countries as they support an orderly, efficient transition to net zero.

Government leadership can deliver the clarity and confidence required to position Australia for growth, resilience and a clean energy future

The coming decade will test the strength of Australia's institutions and the steadiness of our political resolve. Government leaders must provide clear direction, consistent policy signals and coordinated reform to maintain momentum that gives businesses and investors the confidence to act.

Policy should remain considered, balanced and proportionate to the scale of climate challenges and opportunities

Australia's climate policy journey reflects the best and worst of democratic debate and decision-making. Voters care about a wide range of issues, including energy prices today and the future we are collectively creating for our children and grandchildren. Voters also rely on fair and accurate information and press coverage, and political leaders who are willing and able to engage in hard conversations about inconvenient truths and trade-offs.

The low points of Australia's climate journey reveal the frailties of human institutions and the power of vested interests.

But Australia's democratic strengths are also on display:

- Institutions that support evidence-based analysis and public discourse, including the CCA, Treasury and the CSIRO.
- Use of the full policy toolkit, including market-based instruments, regulation, planning, public investment, and information and disclosure.
- Well-considered and consultative policy design with embedded transparent review and refinement mechanisms.

These strengths provide a solid foundation for the continuing evolution of Australian climate policy settings and outcomes.

Good policy lays the foundation for good politics

The EY Net Zero Centre analysis in this report identifies an opportunity for a coordinated package of refinements and reforms that would improve the efficiency and effectiveness of climate policy, help attract investment in clean energy and technologies, and position Australia for growth.

The core features of this package could include:

- Maintaining SGM obligations and baseline decline rates for existing facilities (rather than accelerating them).
- Exploring the use of CBAM arrangements for cement and other sectors identified by the Jotzo review in place of current TEBA shielding.
- Extending SGM coverage and SGM-linked incentives to additional facilities and activities, including transport fuels.
- Providing more explicit guidance on acceptable upper and lower bounds of ACCU prices, and consider short- to medium-term price de-risking for new ACCU supply.
- Consider measures to enhance the public value and social acceptance of carbon credits, including leveraging ACCUs to support nature repair.

While substantial, this would involve policy evolution rather than revolution. Charting Australia's path through 2035 to long-term low-carbon prosperity will be challenging but rewarding: confronting short-term pressures, while creating opportunities for future generations, and serving the national interest.

Business leaders should set strategy that responds to business risks, stakeholder pressures and abatement options

Every business leader is responsible for ensuring a credible strategy is in place to manage emerging risks and capture potential opportunities. The best strategy will respond to the unique context of each business, and will seek to shape and re-shape that context. Consistent with previous EY Net Zero Centre insight, the best strategy will give close attention to relative emissions intensity, stakeholder pressures, abatement costs and options.

Strategic posture is shaped by the interplay of emissions intensity and stakeholder pressures

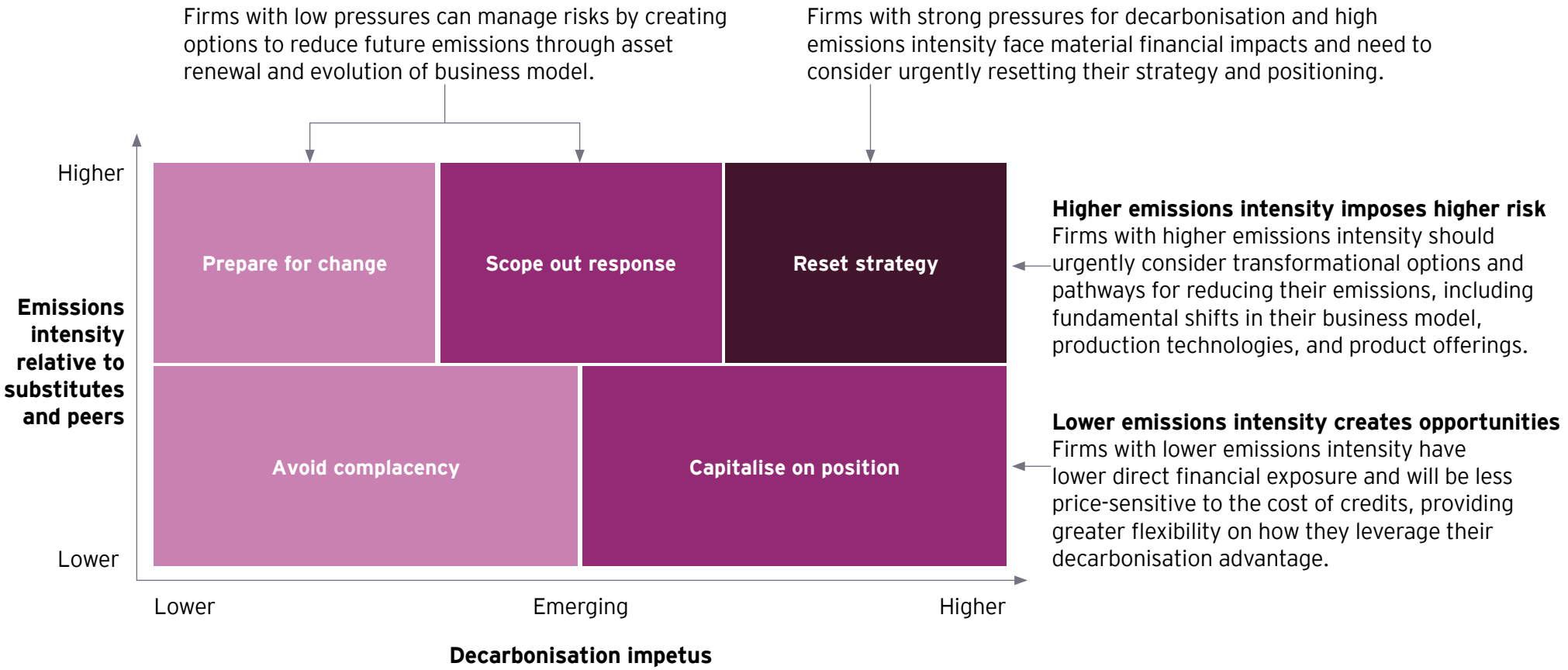
The EY Net Zero Centre diagnostic framework helps organisations identify an appropriate default emissions-reduction posture, and the key implications for carbon credit use. It is based on two core attributes:

- Emissions intensity, or emissions per dollar of revenue, relative to direct competitors in the same sector and relative to potential substitutes (including from other sectors).
- Decarbonisation impetus, or stakeholder pressures, that influence the ability to attract and access customers, talent, finance and investment capital.

The interaction between these attributes gives rise to five stylised carbon postures (see Exhibit 18).

Exhibit 18. The strategic context of emissions reductions is shaped by emissions intensity and stakeholder pressure

Framework to identify the default strategic approach to decarbonisation for your organisation



Source: Adapted from EY Net Zero Centre, Changing Gears: Australia's Carbon Market Outlook 2023.

Implementation strategy will be shaped by abatement costs and options

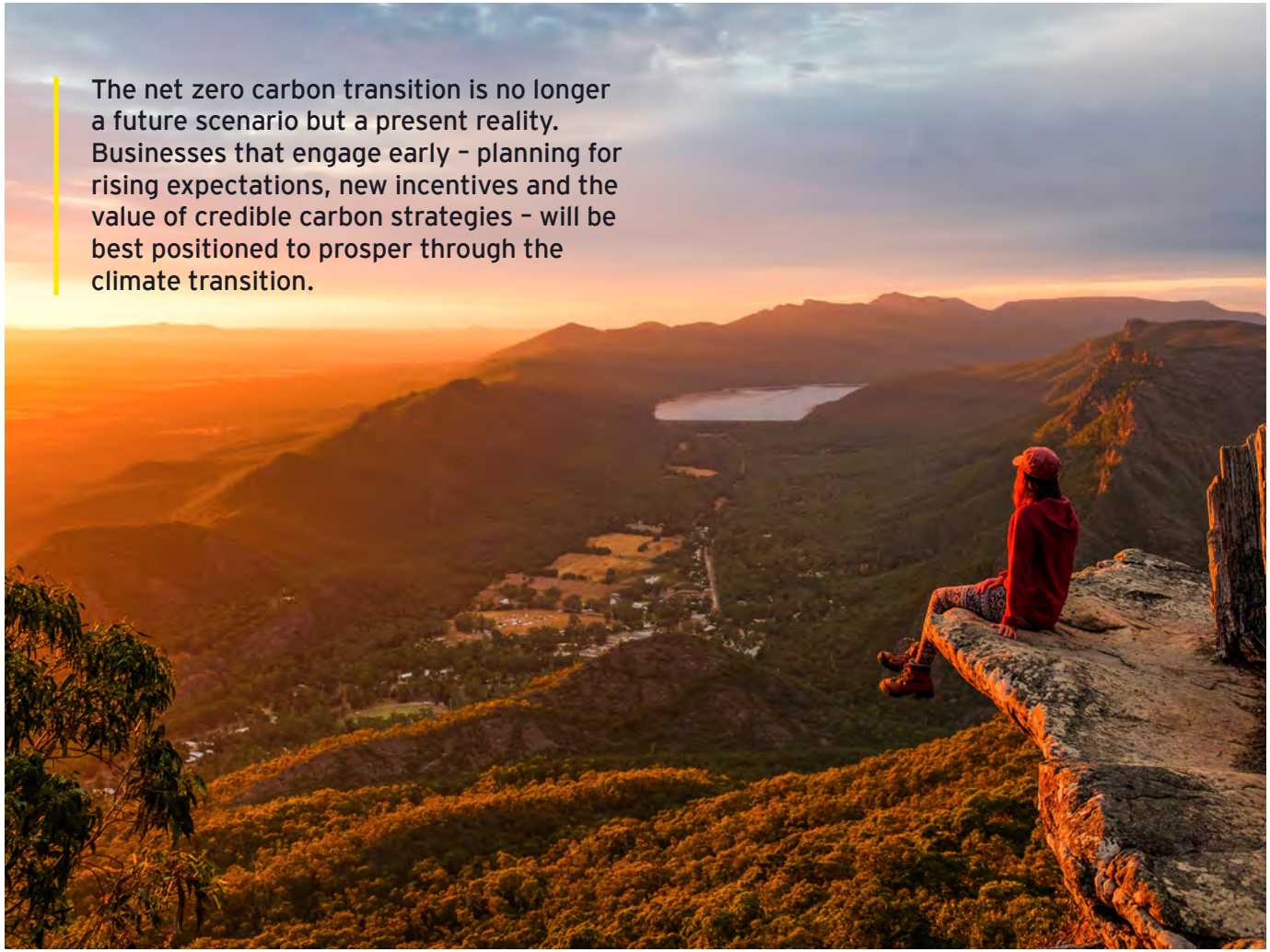
Leaders will need to weigh the likely cost of abatement options against the cost of carbon credits, while also considering wider risk management, optionality and brand value implications of different approaches.

Key questions to consider include:

- What types of emissions are most relevant to stakeholders (including Scope 3 emissions) and over what timeframes?
- How well do our company's asset lifecycles align with desired decarbonisation timeframes?
- What are the relative costs, availability and merits of potential technology solutions?
- How is our organisation positioned relative to competitors and peers?
- What shifts in policy or market conditions could create new climate-related risks or opportunities for your business, or for the sector as a whole?

Australian businesses with voluntary commitments should also consider whether stakeholders may expect greater use of ACCUs in place of voluntary international credits.[8] This would result in material increases in costs and strengthen incentives for internal abatement.

Engage early to prosper through the climate transition



The net zero carbon transition is no longer a future scenario but a present reality. Businesses that engage early – planning for rising expectations, new incentives and the value of credible carbon strategies – will be best positioned to prosper through the climate transition.

A renewed national decarbonisation conversation will sharpen the imperative for leaders to act – and to act now

Climate change, stakeholder demands, disclosure mandates and policy decarbonisation drivers will continue to re-shape market dynamics, the national and global operational context, and decision-making at all levels.

For businesses, whether your operations are directly captured by SGM thresholds or operating in one of the sectors flagged for additional policy attention, the trend is clear: stakeholder expectations will increase with climate impacts.

For governments, effective policies to drive the net zero transition will increasingly be seen as an investment, rather than a cost, and essential to Australia's future economic security and success.

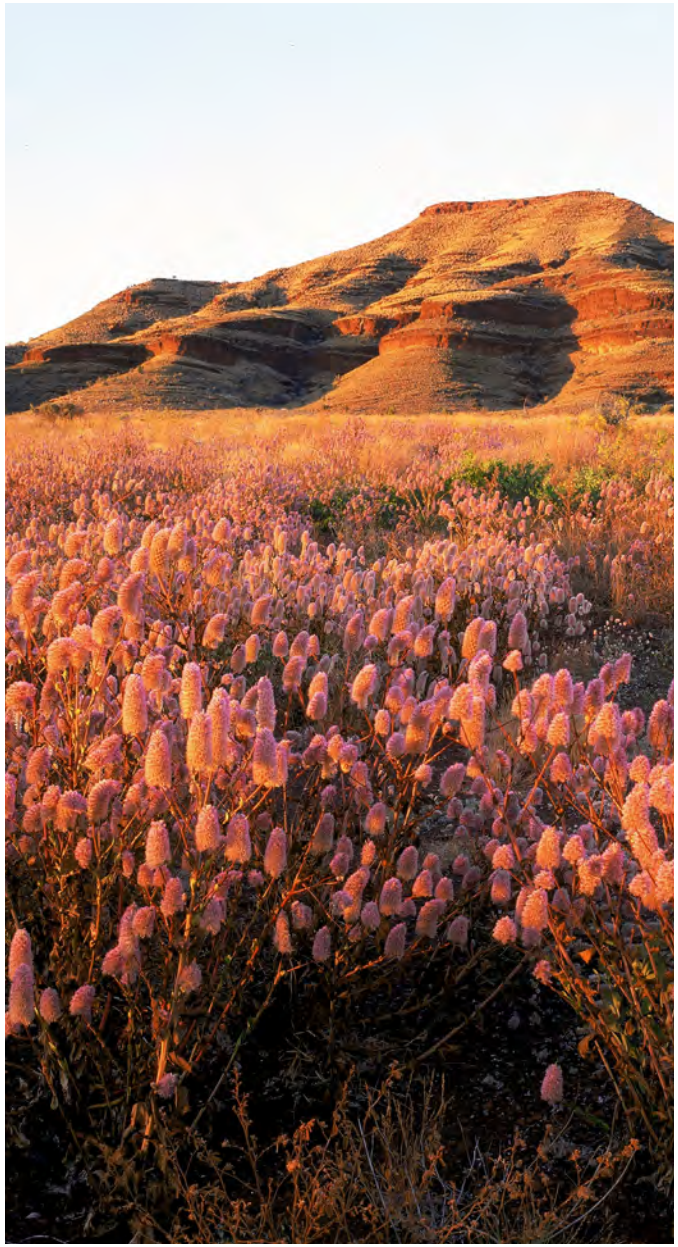
Every business will be expected to make a positive contribution to the defining challenge of our generation

Every leader will need a clear decarbonisation strategy that positions their business to thrive in a rapidly changing world.

Particularly in emissions-intensive sectors, this strategy should consider the potential for carbon credits to create value – whether through meeting compliance obligations, voluntarily offsetting emissions, or supplying SMCs or ACCUs to others.

Companies captured by mandatory climate reporting will need to demonstrate to the market that they understand the risks and are positioned to realise the opportunities through their strategy and response.

Business leaders and organisations that plan now for the clean energy and net zero transitions ahead will be better positioned to manage the risks, seize the opportunities and prosper through these changes.



Every leader across business, government, and for-purpose sectors will need to engage

And every leader will need to engage with, and plan for, the low-carbon transition and its implications for their organisation.

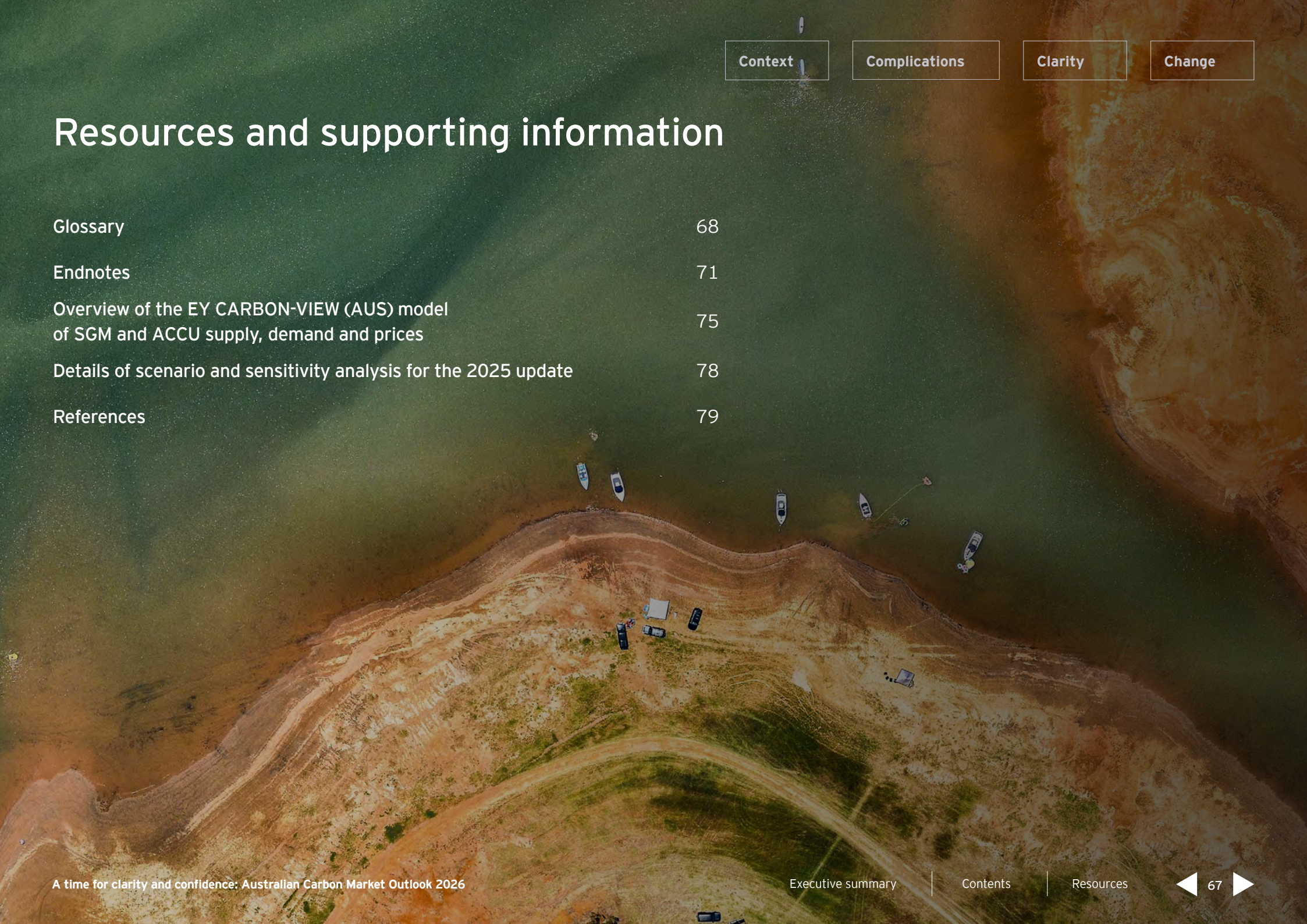
The best responses will be informed, proportionate and adaptable over time.

Strategy will need to be balanced and calibrated: neither too hot nor too cold. Simplistic or over-optimistic targets and measures will be exposed, as will delay or denial. Each of these extremes risks damaging your brand and reputation and eroding long-term value.

Once targets and strategies are adopted, they will need to be delivered.

Every leader will need to demonstrate the courage of their convictions. Integrity is the currency of Australia's carbon market. Clarity of policy and confidence of the market will decide its value.

Resources and supporting information



Glossary

Additionality: The principle that the emission reductions from a carbon offset project must be above and beyond what would have occurred in a business-as-usual scenario.

Article 6 of the Paris Agreement: A provision in the Paris Agreement that outlines the framework for international cooperation on carbon markets and which allows countries to trade carbon units.

Australian Carbon Credit Unit (ACCU): Carbon credits established under legislation, which are generated by activities such as reforestation, avoiding deforestation, and reducing emissions from livestock. ACCUs are issued by the CER to projects, and represent one tonne of carbon dioxide equivalent stored or avoided through an eligible emissions-reduction project. Companies and organisations can purchase ACCUs to offset their emissions, including to meet their SGM compliance obligations.

Afforestation: The process of establishing forests on land with no previous tree cover.

Avoidance credits: Carbon credits based on a reduction in emissions relative to a base case, that occurred due to a carbon offset project.

Baseline: The estimated emissions that would have occurred without the carbon offset project, used to measure additional reductions.

Carbon Border Adjustment Mechanism (CBAM): A policy approach that aims to put a fair price on the carbon emitted during the production of carbon-intensive goods that enter a country or jurisdiction to ensure that the carbon costs faced by domestic producers are not undermined by cheaper imports from countries with less stringent climate policies. The European Union (EU) is in the process of introducing a CBAM, which will apply in full from 2026 and could drive increased demand for carbon credits and offsets as businesses seek to mitigate their carbon footprint and comply with EU regulations.

Carbon credit: A certified and transferable instrument representing the avoidance or removal of one metric tonne of carbon dioxide (CO_2) emissions or an equivalent amount of other greenhouse gases.

Carbon footprint: The total amount of CO_2 and other greenhouse gases emitted by an individual, organisation, event or product over a specified period.

Carbon leakage: The consequence of businesses that shift their production to regions with less stringent climate policies to avoid higher carbon costs, undermining global emission reduction efforts.

Carbon market registry: A system that tracks the issuance, transfer and retirement of carbon credits to ensure transparency and prevent double counting.

Carbon neutrality: Achieving a net-zero carbon footprint by balancing emitted CO_2 with an equivalent amount of carbon offsets.

Carbon offset: A reduction in emissions of CO_2 or other greenhouse gases made in order to compensate for emissions produced elsewhere.

Carbon pricing: Policy approaches that seek to assign a cost to carbon emissions, either through carbon taxes or cap-and-trade systems (such as emissions trading schemes), to incentivise emission reductions. Carbon pricing can also be used to incentivise the supply of carbon credits, or to raise government revenue.

Carbon sequestration: The process of capturing and storing atmospheric CO_2, usually in forests, soils or geological formations.

Certified emission reduction (CER): A carbon credit issued under the Clean Development Mechanism (CDM) of the Kyoto Protocol.

Clean Development Mechanism (CDM): Designed to help countries meet their emission reduction targets under the Kyoto Protocol. Approved projects in developing countries were issued with credits which could be traded or used by developed countries to meet their emission reduction targets. Focus of international climate policy shifted away from the CDM following criticism of the mechanism, and with the adoption of the Paris Agreement in 2015.

Clean Energy Regulator (CER): The Australian Government body responsible for administering schemes including the Safeguard Mechanism and the Australian Carbon Credit Unit Scheme.

Climate Change Authority (CCA): An Australian Government independent statutory agency that provides expert advice on climate policy, including emissions targets and the design of the SGM and ACCUs.

Climate finance: Financial investments directed to climate change mitigation and adaptation efforts, often including funds for carbon offset projects and clean technology.

Climate risk disclosure: The practice of reporting potential financial risks associated with climate change, often in accordance with standards like those developed by the International Sustainability Standards Board (ISSB).

CO_2-e: Several gases heat the planet, including carbon dioxide, nitrous oxide and methane. All these greenhouse gases can be combined into a single measure based on their 'radiative forcing' or greenhouse warming effect over a defined period, carbon dioxide equivalent or CO_2-e, which allows for meaningful comparisons.

Compliance carbon markets: Regulated by government, these markets are designed to meet legally binding emissions reduction or intensity targets.

Core Carbon Principles (CCPs): These are 10 fundamental, science-based principles for identifying high-quality carbon credits that create real, verifiable climate impact. The CCPs, developed by the Integrity Council for the Voluntary Carbon Market (ICVCM), aim to set a global benchmark for high integrity in the voluntary carbon market to raise it to a consistent level of quality and ensure it accelerates progress towards the 1.5°C target.

Cost containment measure (CCM): A policy element of the Safeguard Mechanism establishing an upper price bound at which the government will supply ACCUs for SGM facilities to meet their obligations, to manage the costs and financial risks of compliance.

Department of Climate Change, Energy, the Environment and Water (DCCEEW): The Australian Government federal department responsible for national climate, energy and environmental policy, including the SGM and ACCU arrangements.

Emission reduction project: A project designed to reduce greenhouse gas emissions, often used to generate carbon credits.

Greenhouse Gas Protocol: An international accounting tool used for quantifying and managing greenhouse gas emissions, commonly used for carbon footprint assessments.

Human induced regeneration (HIR): A specific ACCU method for creating land-based removal credits.

Internal abatement (or on-site abatement): Emissions reductions achieved through investment or operational changes at a facility.

Internationally Transferred Mitigation Outcomes (ITMOs): Under Article 6 of the Paris Agreement, ITMOs refer to the transfer of carbon credits between countries to meet their Nationally Determined Contributions (NDCs). They represent units of greenhouse gas reductions that can be traded internationally.

Market-clearing price: The equilibrium price at which the supply of and demand for ACCUs or SMCs are balanced in the market.

Nationally Determined Contributions (NDCs): Commitments made by each country under the Paris Agreement to reduce greenhouse gas emissions. NDCs outline the targets, policies and measures that nations must submit to the United Nations Framework Convention on Climate Change (UNFCCC) and which must be updated and enhanced over time to reflect increasing ambition.

Nature-based solutions: Projects that sequester carbon through nature, such as: reforestation or afforestation projects that also improve soil and water quality, and habitat for wildlife; wetland restoration that also improves water filtration and flood control; mangrove restoration that protects coastal areas from erosion and storm surges; grassland management that improves land management practices and reduces soil degradation from livestock.

On-site abatement: See internal abatement.

Off-site abatement: Reductions in net emissions achieved through the use of carbon credits, especially ACCUs or SMCs.

Paris Agreement: An international treaty adopted in 2015 under the UNFCCC with the goal to limit global temperature increase well below to 2°C and pursue efforts to limit the increase to 1.5°C above pre-industrial levels. It includes mechanisms for reducing greenhouse gas emissions and enhancing global cooperation on climate action.

Price corridor: A policy approach that sets both upper and lower price thresholds for carbon credits to support long-term investment certainty.

Processing industries: Facilities involved in steelmaking, non-ferrous metal manufacturing (including aluminium), cement, refineries and basic-chemical production.

Project developer: An individual or organisation responsible for designing, implementing and managing carbon offset projects.

Reforestation: The restoration or replanting of trees in a forested area that has experienced deforestation or significant tree loss.

Removals credits: Carbon credits based on removing CO_2 (or other greenhouse gasses) from the atmosphere and storing it securely.

Renewable energy certificates (RECs): Certificates that represent the environmental benefits of generating energy from renewable sources, often traded alongside carbon credits in voluntary markets.

Retirement of carbon credits: The process of removing carbon credits from circulation to ensure they are not resold or reused, confirming that the associated emissions reductions are final.

Safeguard Mechanism (SGM): Australia's primary industrial-emissions policy, introduced in 2016 by the former Coalition government and extended in 2023 by the Albanese Labor government. This imposes limits on Australia's largest greenhouse gas-emitting industrial facilities – those that release at least 100,000 tCO_2-e of Scope 1, or direct, emissions each year. Each facility is assigned a baseline that declines annually. The SGM covers around 220 facilities, and around 30% of Australia's total net greenhouse gas emissions.

Safeguard Mechanism Credit (SMC): A tradeable unit issued to Safeguard Mechanism facilities that emit below their baselines. SMCs may be retained (or banked) for future use or sold to other SGM entities to help meet compliance obligations.

Science Based Targets initiative (SBTi): Established in 2014 to help businesses set targets to eliminate emissions in line with the Paris Agreement, SBTi was initially a collaboration between CDP (formerly the Carbon Disclosure Project), the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). It has since expanded its paid-for validation services and raises funds from private philanthropic interests.

Scope 1 emissions: Direct greenhouse-gas emissions from sources owned or controlled by an organisation, such as fuel combustion or industrial processes.

Scope 2 emissions: Indirect greenhouse-gas emissions from the generation of purchased electricity, steam, heating or cooling consumed by an organisation.

Scope 3 emissions: All other indirect greenhouse-gas emissions that occur in an organisation's value chain, including those from purchased goods and services, transport, waste, business travel, and the use of sold products.

Trade-Exposed Baseline-Adjusted (TEBA): A facility classification under the SGM that adjusts baseline decline rates to help preserve international competitiveness for emissions-intensive, trade-exposed industries.

United Nations Framework Convention on Climate Change (UNFCCC): This international treaty provides a framework for global climate negotiations and is the parent convention of the Paris Agreement. It plays a key role in supporting the development of mechanisms for voluntary carbon markets.

Voluntary carbon markets: Markets that allow organisations and individuals to use carbon credits to offset their emissions, to meet voluntary goals, typically driven by corporate social responsibility or sustainability objectives.

Endnotes

Endnote 01. Overview of international policy approaches to decarbonising heavy industry

Australia's SGM framework is internationally distinctive. Most significantly, it requires near-term emissions reductions that are proportional to the national target. In contrast, most other jurisdictions mandate more gradual near-term emissions reductions, reflecting that abatement options available to heavy industry are more limited and more expensive than for the economy as whole.

The SGM also defines coverage on the basis of point-source, facility level emissions across a wide range of sectors, including mining and resources, heavy industry (processing and refining) and domestic air and marine transport. Other jurisdictions typically begin by defining policy coverage on the basis of sectors, although they often focus on the highest-emitting companies or facilities within each sector.

Exhibit 19 summarises typical emission targets for heavy industry, including policy commitments for cement and steel in selected countries. This comparison excludes policies for electricity generation, which is typically highly regulated (including in relation to emissions limits, security of supply, safety, air quality and consumer protections), with renewable electricity targets being widespread across many countries.

Exhibit 19: Emissions targets for heavy industry in other jurisdictions are typically narrower and less ambitious, but do not allow for carbon credits

Targets or commitments for industrial emissions or heavy industry by selected jurisdictions

Region	National or regional target	Cement	Steel	Key policies	Source
EU	**National target:** ▪ Net zero by 2050 ▪ 55% reduction by 2030 from 1990 levels ▪ 90% reduction by 2040 from 1990 levels	▪ No targets beyond 2030 given technology uncertainty ▪ Roadmap provided by the EU Joint Research Council ▪ Voluntary industry commitment to 30% reduction by 2030 (Scope 1, vs. 1990)	▪ 80-95% reduction by 2050 compared to 1990 levels	▪ EU Green Deal ▪ Fit for 55 ▪ EU ETS ▪ EU CBAM	36 37 38 39
France	**Industry target (excludes agriculture):** ▪ 43% reduction by 2030 from 2019 levels	▪ Under central scenario, 90% reduction target by 2050 (not legally binding)	▪ Voluntary industry roadmap calls for 31% reduction by 2030 (vs. 2015)	▪ France 2030 plan (EU4.5 billion for the decarbonisation of industry)	40 41 42
Germany	**Industry target (excludes agriculture):** ▪ 49% - 51% reduction by 2030 from 1990 levels	▪ No specific target ▪ Roadmap co-developed with industry	▪ Green steel projects underway ▪ No targets outside of aligning to the EU	▪ Germany's Heavy Industry Decarbonisation Program (15-year government backed contracts, companies must meet emission reduction milestones)	43 44
Canada	**Heavy industry target:** ▪ 39% reduction by 2030 from 2005 levels	▪ 15Mt reduction by 2030 ▪ Industry roadmap	▪ Voluntary industry commitment to net zero by 2050 ▪ 35% reduction by 2030 (vs. 2005)	▪ Cement and Concrete Breakthrough Initiative with the UAE ▪ Climate Call to Action ▪ $8 billion Strategic Innovation Fund – Net Zero Accelerator	45 46 47 48
Japan	**National target:** ▪ Carbon neutrality by 2050	▪ Voluntary industry commitment to 15% reduction by 2030 (vs. 2013)	▪ 30% reduction by 2030 (vs. 2013)	▪ Green Transformation (GX) Strategy ▪ Green Innovation Fund	49 50 51
China	**National target:** ▪ Peak emissions by 2030 ▪ Carbon neutrality by 2060	▪ Ultra low emissions for 80% clinker capacity by 2028	▪ 2% reduction in steel energy intensity by 2030	▪ Special Action Plan for Energy Conservation and Carbon Reduction ▪ Expansion of the ETS to Heavy Industry	52 53 54

Source: Details of sources used are provided in the reference list, reference numbers 36 through 54.

Endnote 02. Shares of internal and offsite abatement by sector (Exhibits 06 and 17)

Exhibit 20 reports the shares of on-site internal and off-site credits contributions to total abatement by broad sectors that are shown visually in exhibits 06 and 17 in the body of the report.

Exhibit 20: Abatement shares from internal abatement and ACCU and SMC use

Abatement by sector and type, 2025-34, central scenario

Sector	Total abatement ($MtCO_2$)	Internal abatement	ACCU & SMC purchase
Other mining	46	73%	27%
Coal	142	63%	37%
Other process[abc]	35	59%	41%
Refinery[b]	40	48%	52%
O&G	252	43%	57%
Other transport	9	20%	80%
I&S	8	11%	89%
Air transport[c]	19	10%	90%

Abatement by sector and type, 2040-49, central scenario

Sector	Total abatement ($MtCO_2$)	Internal abatement	ACCU & SMC purchase
Other mining	93	93%	7%
Coal	167	81%	19%
O&G	496	60%	40%
Other process[a]	100	47%	53%
Refinery[b]	118	26%	74%
I&S	47	25%	75%
Other transport	22	12%	88%
Air transport[c]	54	4%	96%

Abatement by sector and type, 2040-49, high price scenario

Sector	Total abatement ($MtCO_2$)	Internal abatement	ACCU & SMC purchase
Other mining	46	94%	6%
Coal mining	166	83%	17%
Other process[ab]	103	72%	28%
O&G	497	68%	32%
I&S	54	53%	47%
Refinery[b]	118	26%	74%
Other transport	22	12%	88%
Air transport[c]	53	4%	96%

Notes: (a) Includes power; (b) Includes smelter; (c) Does not account for government support for SAF under the Cleaner Fuels Program announced 17 September 2025.
Source: EY Net Zero Centre analysis using EY CARBON-VIEW (AUS) model

Endnote 03. Scenario definitions and sensitivity analysis of ACCU prices (Exhibits 08 and 09)

Details of scenario assumptions and sensitivity analysis are provided in the final section of the supporting information, after the overview of the EY CARBON-VIEW (AU) model.

Endnote 04. Regulatory guidance on carbon abatement incentives (Exhibit 10)

Recent years have seen a number of government agencies publish 'carbon values' for use in cost benefit analysis, as shown in Exhibit 10, to support consistent analysis and assumptions across different projects and proposals requiring government regulatory approval or financial support. This complements existing guidance on other key assumptions such as discount rates or the statistical value of human life.

The carbon values in these guidance documents are broadly aligned to incremental 'carbon incentive price' results from top-down economy-wide modelling, representing the marginal cost of achieving emissions reductions in each year relative to a 'no action' or 'business-as-usual' scenario and emissions pathway. Marginal abatement costs increase as emissions budgets shrink, particularly in order to drive the last 10-15% of gross emissions reductions required to hit net zero, which would require eliminating emissions from hard-to-abate sources such as biogenic methane from livestock production and combustion emissions from long haul air travel.

Endnote 05. Method for estimating volume and price implications of potential increases in SGM coverage (Exhibit 13)

The calculation of overall SGM abatement and ACCU use assumes that the mix of abatement options for all newly covered facilities is similar to that of facilities already included in publicly available data. Estimates for transport fuels assume downstream emissions from fuel are covered from 2030, with a baseline declining to net zero by 2050, and that fuel demand is highly responsive to the resulting incremental increase in fuel prices.

Price effects are based on average annual additional ACCU demand volume. Modelled price effects are very sensitive to implementation decisions and price expectations. Accordingly, price effects reported in Exhibit 13 are based on estimated long-run price elasticity in response to average incremental volumes, assuming an orderly and well-communicated transition that delivers moderate increases in ACCU demand. Estimated price effects are presented for each option implemented individually. Details of methods and overlaps in coverage imply combined effects could be either higher or lower than the sum of individual components.

Overview of the EY CARBON-VIEW (AUS) model of SGM and ACCU supply, demand and market clearing prices

The CARBON-VIEW model has been developed by EY teams to explore and assess a wide variety of future carbon market scenarios. The Australian version of CARBON-VIEW represents SGM abatement, and the supply and use of SMCs and ACCUs. It draws on facility-level marginal abatement cost curve estimates and ACCU method incentive prices to develop ACCU supply and demand curves. Finding the market equilibrium between credit supply and demand determines ACCU price movements over the short, medium and long term.

Our 'demand curve' is derived through bottom-up cost analysis of covered facilities and voluntary demand

Demand for ACCUs is modelled from the bottom up, grounded in the individual abatement needs and investment decisions of facilities. Each facility's decisions ultimately depend on a comparison of their emissions and their baseline requirements, and the comparative cost of internal abatement versus purchasing carbon credits on the ACCU market.

To generate a facility-level marginal abatement cost curve, we consider all factors including primary energy costs, product process intensity, capital recovery and energy emissions intensity. These factors allow us to account for changes in cost of energy, efficiency of energy use, capital expenditure from abatement, and product revenue effects, among other key factors.

Net demand for ACCUs from SGM facilities is adjusted for aggregate creation of SMCs, where facilities find it cost-effective to outperform their baseline. SMCs can be held for own use or supplied to the market.

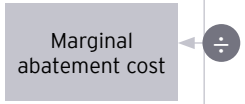
We also consider demand from voluntary corporate buyers to meet their stated abatement targets, as well as ongoing government demand through the Emission Reduction Fund.

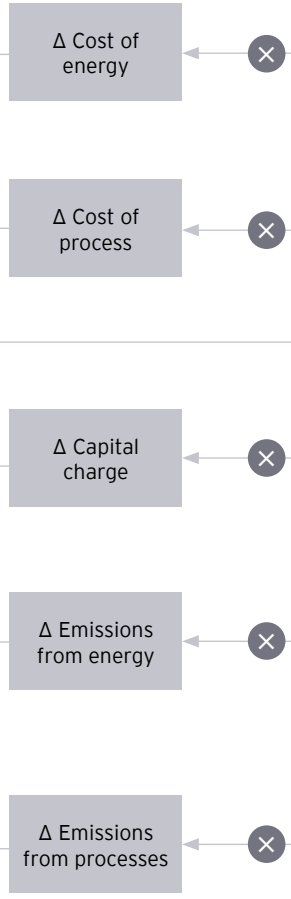
Our 'supply curve' considers projects for each ACCU method and their cost of delivery

Our ACCU supply model is a compilation of projections from existing issuing and registered projects, as well as new potential supply for each current and likely future ACCU method.

To compile a supply curve, incentive prices are estimated for each method based on long-run marginal cost of new supply and available capacity. Methods considered include landfill gas, HIR, soil carbon, afforestation and reforestation, and other minor methods. The modelling assumes that retiring methods are replaced by equivalent new methods.

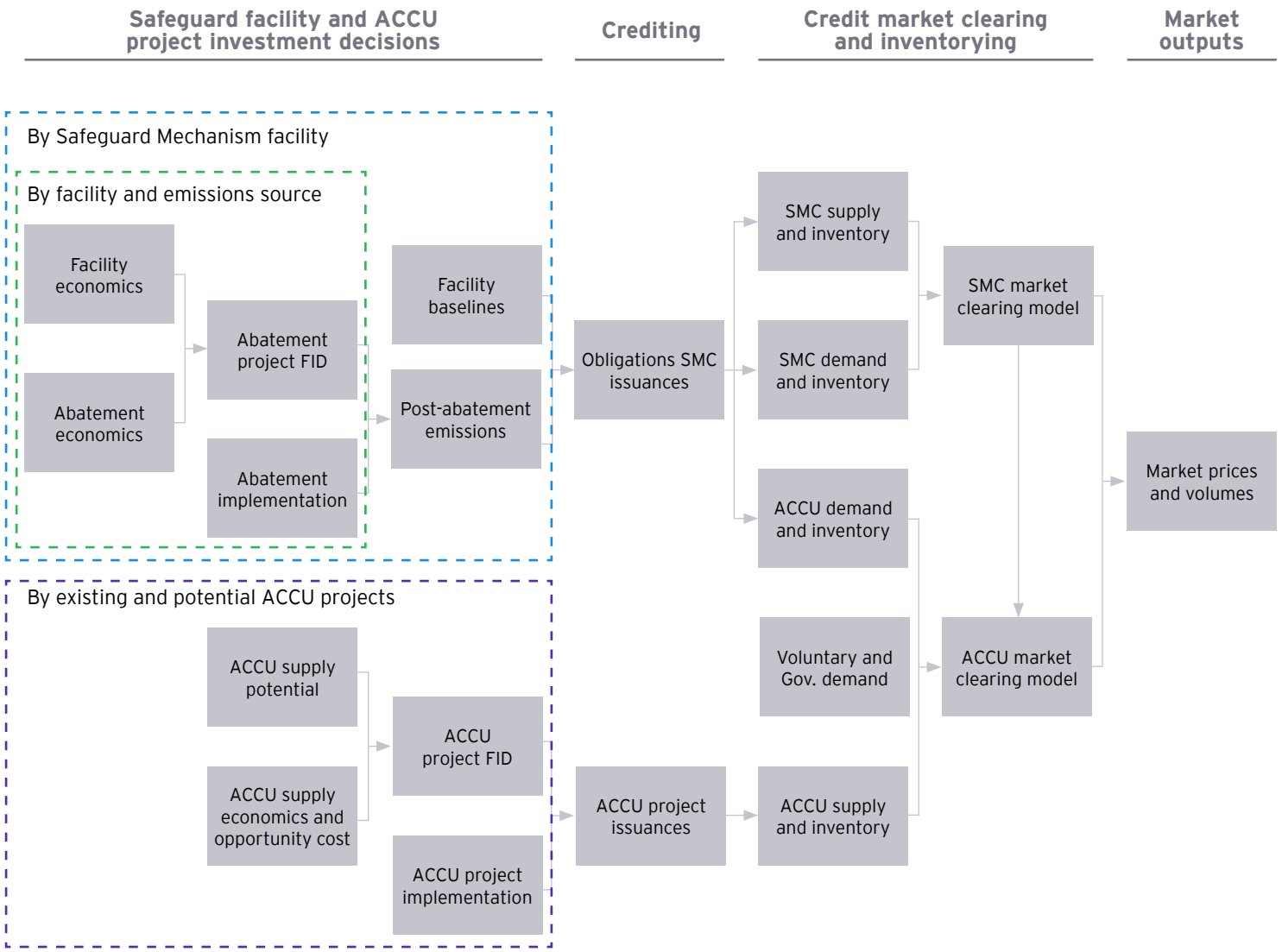
Exhibit 21: Supply-side abatement evaluation is based on a bottom-up cost assessment for each source of emissions within SGM facilities





	Unit	Definition
Δ Primary energy cost	$ per MWh primary	Change in cost of primary energy
Δ Energy efficiency	MWh useful per MWh primary	Change in efficiency of energy use
Theoretical energy intensity	MWh useful per output	Minimum theoretical energy use of output
Δ Process material cost	$ per process material	Change in cost of using a process material (methane, clinker, lime, steel, cement, pulp, etc)
Product process intensity	Process material per output	Change in use of process material per output
Δ Gross unit income	$ per product	Change in unit income
Δ Capital intensity equipment	$ per (output per year)	Change in capital expenditure from abatement (either mid-life or at end-of-life)
Capital recovery factor	Percent per year	Annualised cost of incremental capital expenditure
Theoretical energy intensity	MWh useful per output	Minimum theoretical energy use of process
Δ Energy efficiency	MWh useful per MWh primary	Change in efficiency of energy use
Δ Energy emissions intensity	t CO_2e per MWh primary	Change in emissions intensity of energy
Δ Product process intensity	Process material per output	Process material per output
Δ Process emissions intensity	t CO_2e per process material	Change in emissions intensity of a process material

Exhibit 22: EY CARBON-VIEW model is comprised of multiple bespoke models that are linked to arrive at a projected market price equilibrium



Details of scenario and sensitivity analysis for the 2026 update

Central scenario projection and sensitivity analysis

All scenarios assume that market participants make decisions informed by reasonably good foresight of medium-term supply and demand.

The analysis for this report uses updated feed gas prices for SGM facilities, consistent with market expectations in Q4 2025 (see Exhibit 08, page 32). The analysis was undertaken before the announcement of the national domestic gas reservation scheme on 22 December 2025.

The sensitivity analysis of ACCU market prices is based on our central projection under current policies. It is developed by varying more than 30 individual assumptions to reflect a range of plausible alternative outcomes for SGM abatement and ACCU project variables, such as implementation timelines, technical abatement potential, technology and financing costs, SGM activity, discount rates, and forward price expectations.

High- and low-price scenarios

The analysis constructs high- and low-price scenarios to explore how different price trajectories affect the balance between internal and off-site abatement. These scenarios maintain consistent assumptions about SGM baselines and voluntary (non-SGM) abatement demand.

The low-price outlook assumes low SGM abatement costs and higher ACCU supply volumes (see Exhibit 23).

The high-price scenario assumes higher SGM abatement costs and additional constraints on available ACCU methods. It may also be interpreted as reflecting new ACCU demand after 2030 from facilities not currently covered by the SGM.

Projected prices continue to trend upwards after 2040, with price growth accelerating from 2045.

Exhibit 23: Summary of scenario assumptions

Scenario	Demand	Supply
High price*	**High** cost of abatement	**Low** ACCUs projects complete. HIR alternative not approved for new projects
Central scenario	**Moderate** cost of abatement	**Moderate** completion of ACCU projects
Low price	**Low** cost of abatement	**High** number of ACCU producing projects
All	No change to SGM and ACCU policy settings.* Market participants have reasonably good foresight of future supply and demand.	

Note: *While modelling of the high price scenario assumes no changes to policy settings, it could be interpreted as reflecting new ACCU demand after 2030 from activities or facilities not currently covered by the SGM.

References

References in the order they are first cited

1. EY Net Zero Centre, Changing Gears: Australia's Carbon Market Outlook, 2023b.
2. Climate Change Authority, 2035 Targets Advice, Climate Change Authority, Australian Government, 2025a.
3. Climate Change Authority, 2035 Targets Advice – data pack, Climate Change Authority, Australian Government, 2025a.
4. Treasury, Australia's Net Zero Transformation: Treasury modelling and analysis (September 2025), Treasury, Australian Government, 2025.
5. EY Net Zero Centre, Charting the path to 2035 and beyond: Eight keys to unlock lower costs, improve security and deliver net zero emissions, EY, 2025.
6. Productivity Commission, Investing in cheaper, cleaner energy and the net zero transformation: Inquiry report, Productivity Commission, Australian Government, December 2025.
7. Clean Energy Regulator (CER), 2023-24 safeguard data insights, CER, Australian Government, 2025.
8. EY Net Zero Centre, Essential and still evolving: The global voluntary carbon market outlook 2024, EY, 2024.
9. Clean Energy Regulator (CER), Trade-exposed baseline-adjusted facility data, Australian Government, 2025, available at: https://cer.gov.au/markets/reports-and-data/safeguard-data/trade-exposed-baseline-adjusted-facility-data accessed 14 October 2025.
10. Global Climate Policy Project Working Group on Climate Coalitions, Building a Climate Coalition: Aligning Carbon Pricing, Trade and Development, Global Climate Policy Project at Harvard and MIT, Cambridge, 2025.
11. International Trade Council (ITC), The 2024 Rise of Carbon Border Adjustment Mechanisms and Their Impact on Global Trade, 2024.
12. Department of Climate Change, Energy, the Environment and Water (DCCEEW), Carbon Leakage Review: Consultation Paper 2, Australian Government, 2024.
13. Clean Energy Regulator (CER), Corporate emissions and energy data 2023-24, Australian Government, 2025, available at: https://cer.gov.au/markets/reports-and-data/nger-reporting-data-and-registers/corporate-emissions-and-energy-data-2023-24#greenhouse-and-energy-information-by-controlling-corporation-2023%E2%80%9324 accessed 14 October 2025.
14. Nelson, T. et al., National Electricity Market wholesale market settings review: Draft Report, Department of Climate Change, Energy, the Environment and Water (DCCEEW), Australian Government, August 2025.
15. Chubb, I., Bennett, A., Gorring, A. and Hatfield-Dodds, S., Independent Review of ACCUs, Department of Climate Change, Energy, the Environment and Water (DCCEW), Australian Government, 2022.
16. Department of Climate Change, Energy, the Environment and Water (DCCEEW), Australian Carbon Credit Unit Scheme: Integrated Farm and Land Management method development. June 2025 update, DCCEEW, Australian Government, 2025.
17. Department of Climate Change, Energy, the Environment and Water (DCCEEW), Australia's emissions projections 2024 (November 2024), DCCEEW, Australian Government, 2024.
18. Carbon Market Institute, Future opportunities for Australia's Safeguard Mechanism, Carbon Markets Institute, July 2025, available at: https://carbonmarketinstitute.org/2025/07/21/future-opportunities-for-australias-safeguard-mechanism/ accessed 14 October 2025.
19. Investor Group on Climate Change, Submission to the Productivity Commission – Pillar 5: Investing in cheaper, cleaner energy and the net zero transformation, Investor Group on Climate Change, 2025.
20. EY Net Zero Centre, Creating a nature-positive advantage: Assessing the outlook for Australia in a net zero world, EY, 2023c.

21. Henry, K., "Most important economic policy opportunity available", extract from Dr Ken Henry's 2025 Anne Moyal Lecture at the National Library of Australia, Australian Climate and Biodiversity Foundation, 2025.

22. Hatfield-Dodds, S., Adams, P., et al., Australian National Outlook 2015: Economic activity, resource use, environmental performance and living standards, 1970-2050, CSIRO, Canberra, 2025.

23. Department of Climate Change, Energy, the Environment and Water (DCCEEW), Australia's Net Zero Plan, DCCEEW, Australian Government, 2025.

24. EY Net Zero Centre, Seizing Australia's energy superpower opportunities: Assessing the outlook for Australia in a net zero world, EY, 2023a.

25. Department of Industry, Science, Energy and Resources (DISER), Australia's long-term emissions reduction plan: Modelling and analysis, DISER, Australian Government, 2021.

26. Hatfield-Dodds, S., Schandl, H., et al, "Australia is 'free to choose' economic growth and falling environmental pressures", Nature, 527, pp. 49-53, 2015, available at:. https://doi.org/10.1038/nature16065 accessed 14 October 2025.

27. Australian Energy Regulator (AER), Valuing emissions reduction: Guidance, 2024, p. 4.

28. NSW Government, NSW Carbon Values, 2024, p. 9.

29. Infrastructure Australia, Valuing emissions for economic analysis, 2024, p. 4.

30. EY Net Zero Centre, Delivering green growth together: How business and government can drive and thrive in the net zero transition, EY, 2024.

31. EY Australia, Response to the Productivity Commission's Interim Report: Investing in cheaper, cleaner energy and the net zero transformation, EY, 2025.

32. Australian Renewable Energy Agency (ARENA), Powering the Regions Industrial Transformation Stream, ARENA, 2025, available at: https://arena.gov.au/funding/powering-the-regions-industrial-transformation-stream/ accessed 14 October 2025.

33. Engert, J.E. and van Oosterzee, P., "Limits to the ability of carbon farming projects to deliver benefits for threatened species," Nature Ecology & Evolution, 9, pp. 134-141, 2025.

34. Wentworth Group, Blueprint to Repair Australia's Landscapes: National case for a 30-year investment in a healthy, productive and resilient Australia, Wentworth Group, July 2024.

35. EY-Parthenon Strategy, Unpublished analysis for the Australian Climate and Biodiversity Foundation, 2025.

36. European Commission, European Climate Law, 2025, available at: https://climate.ec.europa.eu/eu-action/european-climate-law_en accessed 14 October 2025.

37. European Union Joint Research Centre, Decarbonisation options for the cement industry, 2023, available at: https://publications.jrc.ec.europa.eu/repository/handle/JRC131246 accessed 14 October 2025.

38. CEMBUREAU (the European Cement Association), From Ambition to Deployment: The road travelled, pathways and levers to scale up our net zero ambition, 2024, available at: https://cembureau.eu/library/reports/cembureau-s-net-zero-roadmap/ accessed 14 October 2025.

39. Joint Research Centre, EU climate targets: how to decarbonise the steel industry, June 2022, available at: https://joint-research-centre.ec.europa.eu/jrc-news-and-updates/eu-climate-targets-how-decarbonise-steel-industry-2022-06-15_en#_ftn2 accessed 14 October 2025.

40. European Commission, France – Final updated NECP 2021-2030, July 2024, available at: https://commission.europa.eu/publications/france-final-updated-necp-2021-2030-submitted-2024_en accessed 14 October 2025.

41. Government of France, Decarbonisation Roadmap for the Cement Sector, 2023.

42. Waagsaether, K. and Waliszewska, A., France: 2023 Steel Policy Scorecard, E3G, 2024.

43. Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection, Federal Climate Protection Act (Klimaschutzgesetz), Annex 2: Annual Emissions Budgets for 2020–2030, Federal Law Gazette 2024, No. 225, July 2024.

44. VDZ, Decarbonising Cement and Concrete: A CO2 Roadmap for the German cement industry, 2020, available at: www.vdz-online.de/en/knowledge-base/publications/decarbonising-cement-and-concrete-a-co2-roadmap-for-the-german-cement-industry accessed 14 October 2025.

45. Government of Canada, Canadian Net-Zero Emissions Accountability Act, March 20221, available at: www.canada.ca/en/services/environment/weather/climatechange/climate-plan/net-zero-emissions-2050/canadian-net-zero-emissions-accountability-act.html accessed 14 October 2025.

46. Innovation, Science and Economic Development Canada, Roadmap to Net-Zero Carbon Concrete by 2050, 2022, available at: https://ised-isde.canada.ca/site/clean-growth-hub/en/cement-and-concrete-canada/roadmap-net-zero-carbon-concrete-2050 accessed 14 October 2025.

47. Canadian Steel Producers Association, Canada's Steel Industry: A Sustainable Choice, n.d., available at: www.canadiansteel.ca/files/resources/CSPA_Climate_Final.pdf accessed 14 October 2025.

48. Environment and Climate Change Canada, 2030 Emissions reduction plan, Government of Canada, 2022.

49. United Nations Framework Convention on Climate Change, Japan's Nationally Determined Contribution, 2025, available at: https://leap.unep.org/en/countries/jp/national-legislation/japans-nationally-determined-contribution-ndc accessed 14 October 2025.

50. Japan Cement Association, Long-term Vision for the Cement Industry toward Carbon Neutrality, 2022, available at: www.jcassoc.or.jp/cement/2eng/e_01c.html accessed 15 October 2025.

51. Government of Japan, The Road to Net Zero with Green Steel, March 2024, available at: www.japan.go.jp/kizuna/2024/03/net_zero_with_green_steel.html accessed 14 October 2025.

52. United Nations Climate Change, China: 2024 Biennial Transparency Report, unofficial translation, December 2024, available at: https://unfccc.int/documents/645296 accessed 14 October 2025.

53. People's Republic of China, China sets carbon reduction goals for cement production, 10 June 2024, available at: https://english.www.gov.cn/news/202406/10/content_WS6666f80bc6d0868f4e8e7f7c.html accessed 14 October 2025.

54. People's Republic of China, Ministry of Industry and Information Technology, Guiding Opinions on Promoting the High-quality Development of the Iron and Steel Industry, 2022, available at: www.gov.cn/zhengce/zhengceku/2022-02/08/content_5672513.htm accessed 14 October 2025.

EY and EY Net Zero Centre reports in date order

EY Net Zero Centre, Changing Gears: Australia's Carbon Market Outlook, 2023b

EY Net Zero Centre, Seizing Australia's energy superpower opportunities: Assessing the outlook for Australia in a net zero world, 2023a.

EY Net Zero Centre, Creating a nature-positive advantage: Assessing the outlook for Australia in a net zero world, 2023c.

EY Net Zero Centre, Delivering green growth together: How business and government ca drive and thrive in the net zero transition, 2024a.

EY Net Zero Centre, Essential and still evolving: The global voluntary carbon market outlook 2024, 2024b.

EY-Parthenon Strategy, Unpublished analysis for the Australian Climate and Biodiversity Foundation, 2025

EY Net Zero Centre, Charting the path to 2035 and beyond: Eight keys to unlock lower costs, improve security and deliver net zero emissions, 2025.

EY Australia, Response to the Productivity Commission's Interim Report: Investing in cheaper, cleaner energy and the net zero transformation, 2025.

How can EY help?

The EY Net Zero Centre helps organisations look beyond compliance to find opportunities that can drive value, open new markets, transform business models, and strengthen supply chains.

Led by the region's foremost climate strategists, transactions, energy market and transformation professionals, the Net Zero Centre provides targeted, detailed decarbonisation solutions, from corporate reporting and strategy development to mergers and acquisitions, regulatory compliance, risk management, and stakeholder engagement to help you shape your net zero future with confidence.

Emma Herd

Co-leader, EY Net Zero Centre

Partner, Climate Change & Sustainability Services, Ernst & Young, Australia

+61 2 9276 9392

emma.herd@au.ey.com

Declan McManus

Co-Leader, EY Net Zero Centre

Partner, EY-Parthenon, Ernst & Young, Australia

+61 7 3011 3482

declan.mcmanus@parthenon.ey.com

Dr Steve Hatfield-Dodds

EY Net Zero Centre Head of Research

Regional Chief Climate Economics and Policy Officer, Oceania

EY-Parthenon, Ernst & Young, Australia

+61 2 9221 2222

steve.hatfield-dodds@parthenon.ey.com

Paul Boulus

Partner, EY-Parthenon, Ernst & Young, Australia

+61 2 9221 2222

paul.boulus@parthenon.ey.com

Fiona Hancock

Partner, Climate Change & Sustainability Services, Ernst & Young, Australia

+61 8 8417 1697

fiona.hancock@au.ey.com

Other authors and contributors:

Jarrod Allen

Tamara Monty

Madison Smith

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multidisciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

About EY Sustainability

With a 20+ year legacy in sustainability and ESG services, EY combines deep technical skills across a breadth of business issues to help business create value for sustainability as well as help sustainability create value for business. Working in this way ensures we help protect and create value for business, people, society and the world as a whole and build a better, more sustainable working world. We call this value-led sustainability, and it's everybody's business.

EY refers to the global organisation, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organisation, please visit ey.com.

EYSCORE 009887-25-AUNZ
PH6200311
ED None

ey.com/au