Rewarding companies to do nothing is undermining Australia's climate cuts

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Imagine trying to bail out a boat with a teaspoon while adding water by the bucket load.

Welcome to Australian climate policy.

Australia has two opposing climate policies, they cannot both be pulling the nation in the right direction

The federal government is spending several billion dollars a year undermining its flagship emissions scheme.

That's because the amount it gives back to the largest polluters in fuel tax credits vastly exceeds the payments the same companies have to make under the Safeguard Mechanism to drive down industrial pollution.

The top 18 recipients of the fuel tax credits collectively received a $3.3 billion rebate for the diesel they used over 2024-25. Under the Safeguard Mechanism, they paid just $150m. That's a ratio of 22 to one.

The analysis is from Climate Integrity, a not-for-profit group focused on corporate accountability, which commissioned Tim Baxter from NARU Research to look at the latest figures from Climate Energy Finance.

We all pay fuel excise when we buy petrol or diesel, but companies that use diesel off-road get that tax refunded. Whether you call it a subsidy as its opponents do, or a rebate as the business lobby does, the cost to taxpayers listed in the budget papers was $8.8bn last year.

The Safeguard Mechanism caps how much the biggest polluters can emit, and shrinks it every year. In principle, they abate first, then buy Australian Carbon Credit Units (ACCUs) to cover the shortfall.

A Volvo electric truck by New Energy Transport for Unilever

BHP received $622m a year in fuel tax credits and had Safeguard Mechanism costs of $19m, a ratio of 32 to one, the report says. For Rio Tinto, it was $432m versus $21m, a ratio of 21 to one. For Glencore, $349m versus $9m, or 41 to one. And for Fortescue, it was $344m versus $7m, a whopping 47 to one.

You get the idea. They all receive a huge amount in fuel tax credits, but pay a piddling sum in Safeguard costs.

This is absurd. Australia is signed up to the Paris Agreement goal of net zero emissions by 2050, and has an interim goal of 62 to 70% lower than 2005 levels by 2035. If you actually want to drive down emissions, all policy levers should pull in the same direction.

Former Treasury secretary Dr Ken Henry agrees: “If you want to change business behaviour you’ve got to make sure that what you’re taking with one hand exceeds what you’re giving with the other.”

Labor Environment Action Network wants the party to wind back the fuel rebate. The position adopted at the national conference in Adelaide last week was less ambitious, but could make it easier for the government to act in future.

A statement from a group called the Fuel Tax Credit Alliance, emailed by the **Minerals Council of Australia** last week, used the headline “HANDS OFF OUR FUEL” to applaud the Labor Party’s decision not to table reform of the rebate. The statement included comments from lobby groups for mining, agriculture, construction, forestry, fishing and marine tourism. The general contention is that the excise is to fund public roads, so businesses using fuel on private land or at sea should not have to pay it.

This is a weak argument. The fuel excise is treated as general tax revenue and does not directly fund roads.

ANU Professor Frank Jotzo, a prominent climate economist, says the effect of the fuel tax rebate is five or six times larger than the Safeguard Mechanism per litre of diesel or tonne of emissions. The fuel excise had an historical link to road funding, Jotzo says, but is now mostly a revenue-raising instrument that provides a strong incentive for energy efficiency and electrification. This should be maintained in the shift to a road user charge, and expanded to all sectors of the economy including mining, agriculture and aviation, he says.

We've all witnessed the boom in electric cars this year. My inbox is also full of pitches about companies adopting electric trucks – Australia Post, Unilever and Woolworths among them.

But companies that don't pay the excise have less incentive to electrify. Take BHP. In May, the ABC and *The Guardian* reported on the "BHP files" – leaked documents that seem to show the company has shelved "urgent" plans to cut emissions in Western Australia. (BHP for its part says it is still progressing its decarbonisation plans).

ANU Professor Andrew Macintosh says: "I don't blame BHP. It's a business, and it's responding logically to the incentives provided by the government through the Safeguard Mechanism." Macintosh supports removing the fuel credits, but says it must come alongside serious reform of the Safeguard Mechanism, which is up for statutory review. The policy covers 228 large polluting facilities, but only 10% of their emissions. And with ACCUs trading at about $38/t of CO2, the cost of paying to pollute is often much cheaper than abatement, he says.

While the Climate Change Authority reports emissions under the Safeguard Mechanism have fallen since government reforms in 2023, Macintosh attributes this mostly to market factors such as a coal mine fire.

Climate Change Minister Chris Bowen's office says the Climate Integrity report focuses on the cost of compliance through ACCUs and ignores actual emissions reductions.

BHP declined to comment on the report, Rio Tinto did not respond, and Glencore directed questions to the Minerals Council, which says the report is "misinformation … peddled by activist groups" because it conflates two unrelated policies and refers to the tax credit as a subsidy.

Fortescue has broken ranks with other miners to campaign to cap fuel tax credits to $50m a year, which would capture big companies, including itself, while protecting small operators. A spokesperson says the report reinforces Fortescue's longstanding argument that the Safeguard Mechanism and fuel tax credits work against each other. "Those two policies cannot both be pulling Australia in the right direction", he says.

Beware of perverse incentives. Australia will struggle to cut emissions as long as the reward for doing nothing exceeds the encouragement to decarbonise.

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