



Australian Government

Department of Climate Change, Energy,
the Environment and Water

Safeguard Mechanism Review Consultation Paper

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Acknowledgement of Country

We acknowledge the Traditional Owners of Country throughout Australia and recognise their continuing connection to land, waters and culture. We pay our respects to their Elders past and present.

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1 Introduction

The Safeguard Mechanism is a key part of the policy framework for supporting Australia's industrial competitiveness and improving efficiency to deliver a Future Made in Australia. It was reformed in 2023 to better deliver on this objective and align with Australia's goal to reduce emissions to 43% below 2005 levels by 2030.

This paper seeks feedback on the extent to which the reforms are working as intended and are appropriately calibrated to achieve the Safeguard Mechanism's 2030 targets and support industry competitiveness. Feedback is also sought on the best policy settings to achieve the Safeguard Mechanism's share of the 2035 target in the context of the Australian Government's plan to achieve net zero emissions by 2050.

Climate change is no longer a distant threat. Its effects are being felt now. The Government's *Net Zero Plan* sets out Australia's plan for achieving a fair, orderly and efficient transition to net zero. That plan shows how Australian heavy industry and our economy can continue to grow and capture opportunities from the global clean energy transformation, with the risks and costs of a disorderly transition or abandoning climate policy significant. The Safeguard Mechanism plays a central role for key sectors in the *Net Zero Plan*, driving critical investment with a stable and predictable policy framework.

The 2025 emissions projections show that with current policies Australia meets its 2030 target to reduce emissions to 43% below 2005 levels on a budget basis and is within reach of the 2030 point-in-time target. The Government recently announced an ambitious and achievable 2035 target to reduce emissions to 62 to 70% below 2005 levels by 2035.

The Safeguard Mechanism is central to meeting these goals. It limits the emissions of over 200 of Australia's biggest emitters, covering around 30% of national emissions. In 2023, major reforms resulted in these emissions limits—known as baselines—falling for the first time. The Safeguard is now delivering a proportional share of Australia's 2030 emissions target on a trajectory to net zero in 2050. Baselines are set to fall by 4.9% each year, with a target to reduce emissions from 139 Mt to 100 Mt between 2023 and 2030.

The Safeguard's contribution to the national emissions reduction task is significant. It covers mines, oil and gas fields, steelworks, cement plants and other manufacturers—as well as airlines, trucking, rail and landfills. These are key industries with some of the 'hardest-to-abate' emissions.

Efforts to reduce emissions have broader benefits. Safeguard facilities will become less dependent on fossil fuels. Facilities are expected to save 18 billion litres of diesel and over 1,000 petajoules of natural gas use to 2035.¹ This can cut operating costs, enhance competitiveness and reduce Australia's vulnerability to external price shocks, as has recently been experienced with the war in the Middle East. In addition, Safeguard demand for land sector offsets is channelling significant investment into regional communities. These projects

¹ DCCEEW 2025, [Australia's emissions projections 2025](#), November, Figure 12.

have the potential to create regional jobs, including in First Nations communities; and protect Australia's landscape—improving soil health and reducing erosion, enhancing biodiversity, and mitigating wildfire risk.

This review has two objectives. First, it will assess current policy settings to confirm the 2023 reforms are working as intended and appropriately calibrated. Specifically, it will consider the extent to which the Safeguard is on track to meet its 2030 targets—in a way that is fair, lowest practicable cost and without undue complexity. It will consider the Safeguard's effectiveness at unlocking closely related benefits, including fuel resilience. Second, it will inform the best policy settings to achieve the Safeguard Mechanism's share of the 2035 target in the context of the Government's plan to achieve net zero emissions by 2050.

In undertaking the review, policy certainty and stability are a priority. The Government has worked with businesses to develop a framework that has strong foundations, with legislated targets that anchor its effectiveness. Baselines rise and fall with production—helping to decouple emissions reductions from economic growth. Flexible compliance options help businesses manage their costs without compromising environmental outcomes. And measures are in place to support trade-exposed facilities facing global competition from countries yet to match Australia's emissions reduction efforts. With gross and net emissions tracking well from the first two years of the reforms, the scheme appears to be working as intended to meet its 2030 legislated outcomes.

Maintaining stable policy settings and a measured and predictable emissions reduction trajectory to net zero underpins long-term investment decisions. These investments are central to transitioning the economy. A focus on policy stability is reflected in the following principles which have been set by the Government to guide the review:

- The review is not intended to make fundamental reforms to the Safeguard Mechanism's design.
- The primary focus of the review is on post-2030 policy settings and long-term investment certainty, taking into account the *Net Zero Plan*.
- Changes will generally take effect from 1 July 2030, without precluding earlier resolution of implementation issues raised by stakeholders, where consistent with the overall framework.
- The Safeguard Mechanism will continue to deliver a proportionate share of the 2035 target, similar to its contribution to the 2030 target.
- The obligation to reduce net emissions towards net zero by 2050 will remain, ensuring ongoing access to Australian Carbon Credit Units (ACCUs) and Safeguard Mechanism Credits (SMCs), with the extent of that flexibility after 2030 to be considered by the review.
- Domestic abatement will remain the priority for the Safeguard Mechanism.
- The Safeguard Mechanism will continue to support the competitiveness of trade-exposed industries, sovereign capability and our Future Made in Australia agenda.

- The Safeguard Mechanism will be calibrated to strengthen Australia’s energy resilience and help industry cut costs through reduced dependence on fossil fuels.
- The scheme and existing government support arrangements, such as the National Reconstruction Fund’s Net Zero Fund, Powering the Regions Fund, Australian Renewable Energy Agency and Clean Energy Finance Corporation, will continue to deliver on-site abatement.
- Scheme coverage will take into account competitive neutrality for Australian businesses, and consideration of any extension would only be where a material benefit can be demonstrated.

The timing and scope of the review was established when the Safeguard Mechanism was reformed in 2023. It was set out in the Explanatory Statement that accompanied legislative changes (see Attachment A). The review seeks feedback on the issues identified in this scope and also considers issues raised and ideas put forward by businesses who are operating in the context of the Safeguard Mechanism’s emissions limits, and other stakeholders with interests in carbon markets and Australia’s climate policy. The Government has not made decisions on changes to any of the detailed design elements of the scheme included in this consultation paper. The issues are presented for feedback in the following sections:

- Section 2: Tracking progress to 2030
- Section 3: Review of current settings
- Section 4: Meeting the 2035 target.

1.1 Safeguard outcomes

The Safeguard Mechanism has formal objectives set out in the *National Greenhouse and Energy Reporting Act 2007* (see Box 1.1).

This review is considering the effectiveness of current policy settings against these outcomes, with a view to maximising environmental outcomes, minimising costs and sharing the effort fairly among participants.

Box 1.1: Safeguard outcomes

To contribute to the achievement of Australia's greenhouse gas emissions reduction targets by ensuring that each of the following outcomes are achieved:

- **Each facility meets its emissions limit:** net emissions for each facility do not exceed the facility's baseline.
- **Net emissions** decline to:
 - **Point target:** no more than 100 Mt CO₂-e by 2029-30;
 - **Emissions budget:** 1,233 Mt CO₂-e between 2020 and 2030; and
 - **Net zero by 2050:** zero for any financial year after 2049-50.
- **Gross emissions:** 5-year rolling average gross emissions each year is lower than the 5-year rolling average for past years.
- **On-site abatement:** each Safeguard facility has a material incentive to invest in reducing covered emissions from the operation of the facility.
- **Industry competitiveness:** the competitiveness of trade-exposed industries is appropriately supported as Australia and its regions seize the opportunities of the move to a global net zero economy.

Source: *National Greenhouse and Energy Reporting Act 2007*, section 3(2). Outcomes have been paraphrased.

1.2 Process and timing

The Safeguard Mechanism review is scheduled to be completed in 2026-27.

Feedback is invited on the issues raised in this paper by **Friday, 18 September 2026**.

The Climate Change Authority released a consultation paper on 2 July with a focus on the Safeguard Mechanism's contribution to the national target and on-site abatement. It will provide advice to Government as part of its Annual Progress Report.

The Government intends to release a position paper containing final positions early next year.

2 Tracking progress to 2030

The Safeguard Mechanism was reformed in 2023 to align with Australia’s goal to reduce emissions to 43% below 2005 levels by 2030. The changes were significant—they introduced meaningful constraints on emissions, putting large industrial facilities on a trajectory to net zero by 2050. Key elements of the reformed scheme are in Box 2.1.

This review assesses whether post-reform policy settings are working as intended and the 4.9% decline rate is sufficient to deliver the Safeguard’s 2030 emissions targets.

Box 2.1. The Safeguard Mechanism at a glance

The Safeguard Mechanism has an emissions-intensity framework which supports economic growth while reducing emissions. It:

- **sets an emissions budget:** equal to a proportional share of the national emissions task
- **allocates emissions limits:** emissions-intensity baselines are set for individual facilities—these baselines (plus a reserve) sum to the emissions budget
- **finds least cost abatement:** Safeguard facilities earn tradable credits (SMCs) for overperformance—that is, for reducing emissions below their baseline—that can be used for compliance by other participants with higher abatement costs.
 - ✧ This ensures all facilities have an incentive to reduce their emissions.

The Safeguard Mechanism has a flexible compliance framework, which includes:

- **offsets:** businesses can surrender ACCUs in place of on-site abatement to lower costs
- **intertemporal flexibility:** businesses can bank or borrow units and use multi-year monitoring, allowing them to optimise their compliance path
- **cost containment measure:** businesses can access a pool of ACCUs available for sale at a fixed price—providing a level of assurance about maximum compliance costs

The scheme supports trade-exposed businesses to maintain competitiveness through concessional baselines where foreign competitors do not face comparable carbon costs.

- **Avoiding carbon leakage:** eligible at risk businesses can access lower baseline decline rates if their costs are above published thresholds.

The Safeguard Mechanism has a strong architecture, which makes it flexible and scalable.

- **Legislated target:** the emissions budget and point target for 2030 and a commitment to net zero in 2050 are legislated. This anchors the effectiveness of the scheme.
- **Baseline decline:** From 2023 to 2030, emissions limits will fall by 4.9% each year, reducing net Safeguard emissions from 139 Mt to 100 Mt CO₂-e.

The Safeguard is on track to meet its 2030 targets

Three years have passed since the reforms began and there are now 2 years of data on scheme performance². While businesses need time to adapt and respond to regulatory changes, short-term results suggest the reforms are working as intended.

Safeguard emissions are falling. Net emissions fell by 7.4% and 5.5% in 2023-24 and 2024-25. Australia's emissions projections suggest the Safeguard Mechanism is on track to meet both its point target and emissions budget. Net emissions are projected to be 90 Mt in 2030—compared with a 100 Mt target—and 1,181 Mt over the decade from 2021 and 2030, compared with a 1,233 Mt target.³

Table 2.1 Net emissions are falling

	2022-23 Pre-reforms	2023-24 Year 1	2024-25 Year 2	2029-30 Projected Target	
Net emissions	137	127	120	90	100
% change from previous year		-7.4%	-5.5%		

Source: NGERs data, Australia's emissions projections 2025.

Gross emissions are also falling, but at a slower rate. Gross emissions fell by 1.9% and 2.4% in 2023-24 and 2024-25⁴. This may reflect the lead-time required to reduce emissions at large industrial facilities. Many emissions reduction projects involve large capital investments, which may take several years to plan and implement. The ACCU market is established, so ACCUs are a readily available short-term compliance option.

This remains a watch point moving forward and the Government is keen to ensure the pace of industrial decarbonisation is sufficient to meet Australia's medium and long-term emissions goals. There are a number of policy levers within the Safeguard framework that can impact incentives for on-site abatement, including access to offsets, the level of the cost containment measure and eligibility for concessional baselines. These policy settings are discussed in section 3.

Table 2.2 Gross emissions are falling at a slower rate

	2022-23 Pre-reforms	2023-24 Year 1	2024-25 Year 2	2029-30 Projected
Gross emissions	139	136	133	122
% change		-1.9%	-2.4%	

Source: NGERs data, Australia's emissions projections 2025.

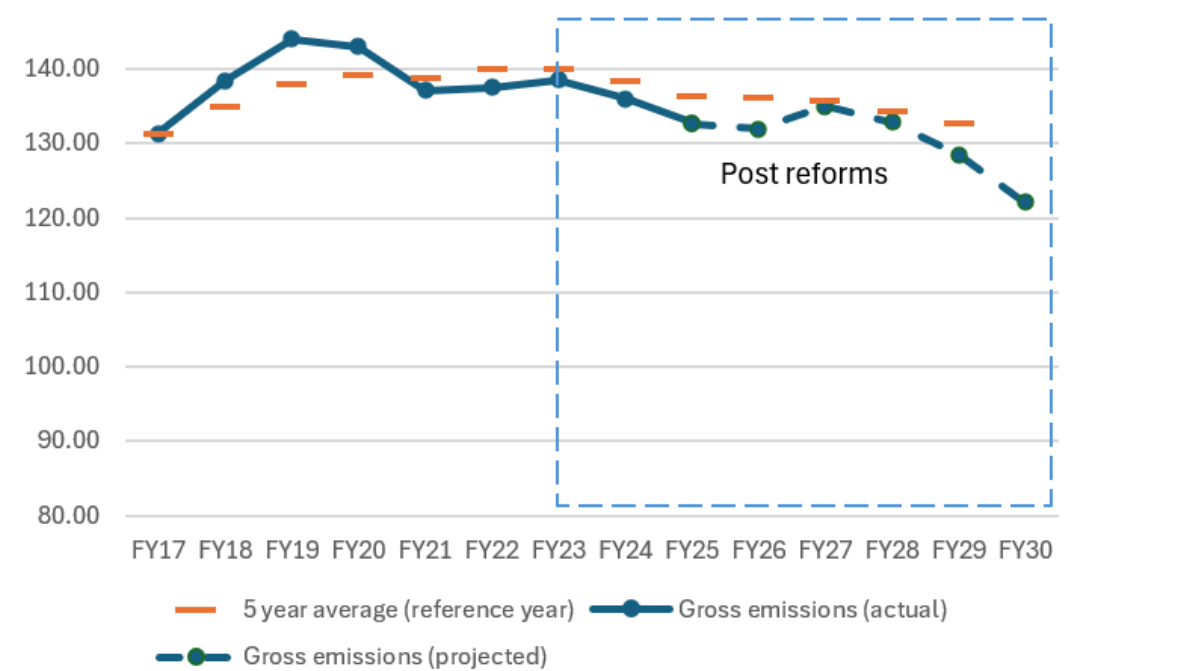
² Facilities will report for the 3rd financial year by 31 October 2026.

³ DCCEEW 2025, [Australia's emissions projections 2025](#), November.

⁴ Of the 6Mt of gross emissions reductions between 2022-23 and 2024-25, 1.1Mt can be attributed to a reduction in covered facilities from 219 to 208.

The Safeguard objectives require that gross emissions fall over time measured on a 5-year, rolling average basis. This requirement is currently being met, and projections suggest this will continue to 2030, but with a reasonably small margin (see Figure 2.1). This is partly due to low emissions during pandemic years (2020-21 and 2021-22).

Figure 2.1 Expected 5-year rolling average emissions to 2030



Source: NGERs data, Australia’s emissions projections 2025.

Notes: The 5-year rolling average for a given year is the average gross emissions for 5 years that ended either 2 or 3 years before the given year.

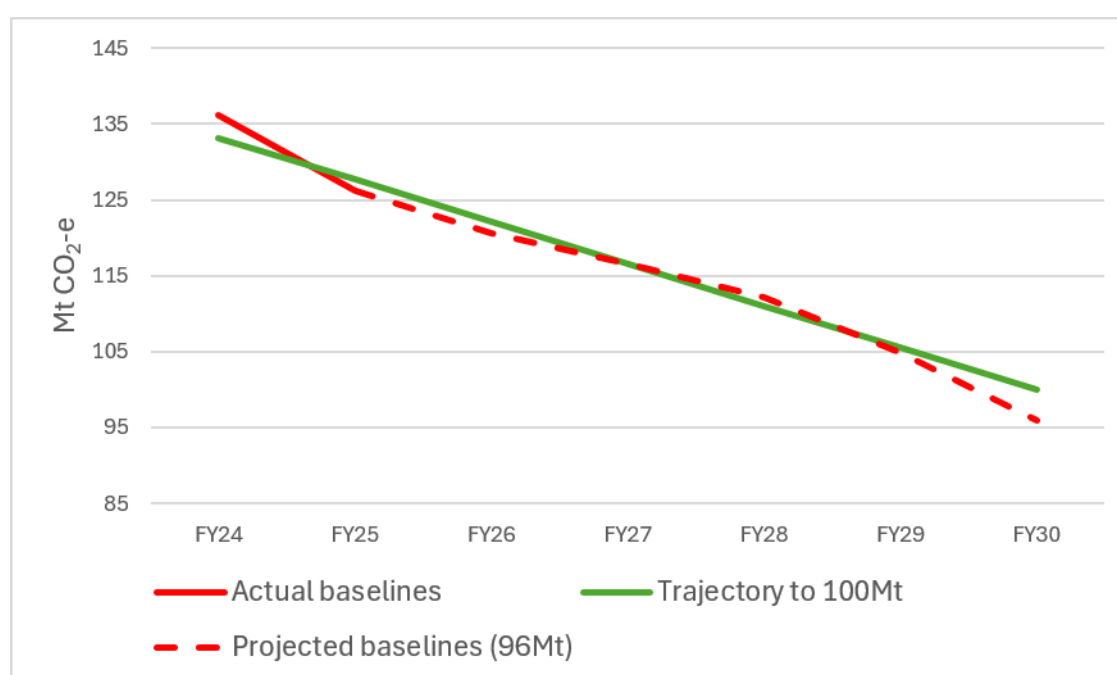
Taking a deeper look at underlying factors

The headline figures suggest the Safeguard is performing well. Other metrics can also help determine whether current settings are appropriately calibrated to reliably support Australia’s medium to long-term climate goals. Aggregate baselines—which represent the overall emissions constraint or ‘allowable’ emissions’—and factors underlying the decline rate calculation are of particular interest.

Safeguard baselines rise and fall each year with production, so aggregate baselines are not expected to take a straight-line path to 2030. And lower decline rates for eligible trade-exposed facilities—which can be 1% for manufacturers and 2% for other facilities—mean the average decline rate across facilities will be less than 4.9%.

A reserve is built into decline rates to take account of this. It provides a ‘buffer’ that accommodates uncertainties relating to production growth and uptake of concessional baselines—providing confidence that legislated targets will be met. Figure 2.2 and the accompanying table illustrate how aggregate baselines are tracking, including future expectations based on Australia’s published emissions projections.

Figure 2.2 Tracking aggregate baselines



	2022-23 (Pre reform)	2023-24 (Headroom removed)	2024-25	2029-30 (projected)
Aggregate baselines	172	136	126	96
% change		-20.7%	-7.3%	

Source: NGERs data, Australia's emissions projections 2025.

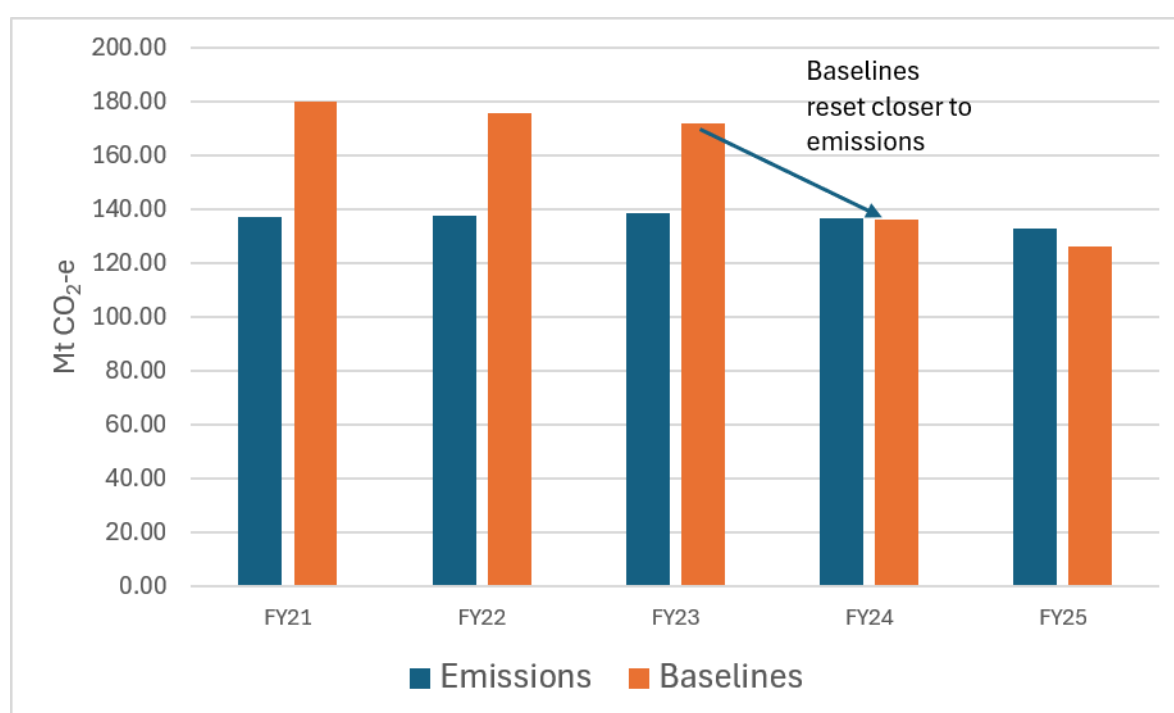
Aggregate baselines are tracking within a reasonable range of a straight-line trajectory to 100 Mt and are projected to be below 100 Mt in 2030. There are 3 main factors underlying this.

First, baseline setting arrangements are working well. Baseline setting is important. It determines the relative costs and effort between Safeguard facilities. Prior to the 2023 reforms, aggregate baselines were 171.6 Mt—more than 32 Mt above aggregate emissions of 138.7 Mt. This meant most facilities had little incentive to reduce their emissions.

Baselines were reset in 2023, requiring them to be set in a consistent and transparent way. New arrangements were designed to remove the 'headroom', ideally bringing aggregate baselines close to 4.9% below the previous year's emissions and placing downward pressure on emissions from the first year.

In 2023-24, aggregate baselines fell to 1.8% below the previous year's emissions, removing most of the headroom. A small amount remained, so the starting point of the trajectory is a little higher than expected. However, these results suggest that baseline setting arrangements are working well. This means industry average emissions-intensity values are sufficiently representative and the process for setting site-specific values is robust. The review does not intend to revisit baseline setting arrangements or emissions-intensity values.

Figure 2.3: Resetting baselines successfully removed 'headroom'



Source: Clean Energy Regulator, Safeguard Mechanism data.

Second, aggregate emissions growth from production has not been as high as assumed.

The baseline decline rate was calculated assuming an average annual increase in emissions linked to production of up to 0.9% between 2023 and 2030. This includes additional production at new facilities, which have baselines set with reference to international best practice emissions performance (see Box 2.2).

Box 2.2 The 2023 reforms introduced robust baselines for new entrants

Following the Safeguard reforms, all facilities that commence production after 1 July 2023 have their baselines set using international best practice emissions intensity levels, adapted for an Australian context. Best practice benchmarks also apply at existing Safeguard facilities if they begin producing new products.

These robust baselines are encouraging new facilities to adopt world's best practice emissions performance into their design. For example, the benchmark for coal production is 0.00592 t CO₂-e per tonne of run-of-mine coal. This is less than 10 per cent of the industry average value used by existing coal facilities of 0.0653 t CO₂-e. This means that, all else being equal, new coal mines will have baselines that are less than 10% of those for existing coal mines.

In practice, this has been a conservative assumption so far, with actual emissions from production lower than assumed in the calculations at the start of the reforms. Growth in emissions from production will likely rebound in future years, but is not considered to present a significant risk to achieving 2030 Safeguard targets.

Third, uptake of concessional baselines has been higher than expected. Support for trade-exposed businesses to maintain competitiveness as the global economy decarbonises is an essential component of Safeguard design. Eligible trade-exposed facilities can apply for a lower decline rate if their Safeguard related costs exceed published thresholds. The baseline decline rate was calculated using an estimate of the expected uptake of these concessional baselines.

In the first two years after the reforms, the impact of concessional baselines has been around 0.4 Mt higher than anticipated. Differences between predicted and actual results are expected. This highlights the importance of having a reserve, which ensures emissions targets can be reliably met even when outcomes differ from expectations.

Overview of high-level results

The first two years of the 2023 reforms suggest that the Safeguard is working as intended under new policy settings. In particular, the framework for setting and declining baselines appears to be working well, creating incentives for all facilities to reduce their emissions. Legislated targets are on track to be delivered, indicating the 4.9% decline rate is correctly calibrated. These early results suggest that the Safeguard Mechanism architecture is robust, providing confidence moving forward.

Initial results indicate that reformed policy settings are working as intended and the Safeguard is on track to deliver its 2030 emissions targets.

The review is interested in feedback on any perceived risks for the Safeguard Mechanism and whether it is on track to deliver its legislated outcomes.

3 Review of current settings

Section 3 will review current policy settings in more detail to determine if they are working effectively. It will cover:

- **Section 3.1:** flexible compliance, including domestic and international offsets
- **Section 3.2:** inter-temporal flexibility and the cost containment measure
- **Section 3.3:** policies to support trade-exposed industries
- **Section 3.4:** sector specific issues focusing on coal and transport
- **Section 3.5:** coverage arrangements
- **Section 3.6:** technical and administrative matters.

3.1 Flexible compliance

It is important for businesses to have clear and practical options for meeting their Safeguard obligations. To this end, the Safeguard has a range of flexible compliance options. They allow businesses to choose the nature and timing of their emissions reduction efforts and implement the plan that suits them best. This flexibility can reduce costs and give businesses confidence that there is a simple and reliable compliance pathway available to them.

Sections 3.1 and 3.2 consider how aspects of the compliance pathway are working. Chapter 3.1 begins with a short discussion about emerging abatement technologies then looks at domestic and international offsets. Chapter 3.2 considers inter-temporal flexibility and the cost containment measure.

3.1.1 Emissions reduction technologies

The industrial sector covers a wide range of emissions sources—fuel combustion, fugitive emissions, chemical process and others. Some of these sources have readily available emissions reduction solutions. Others are harder to abate. In previous consultations, businesses advised that some technologies are not yet available or are uneconomic, making it difficult or costly for some facilities to meet Safeguard Mechanism obligations.

Much work has been done on assessing emissions reduction technologies. The Climate Change Authority's *Sector Pathways Review* highlights that working to reduce emissions now using mature and available technologies, while developing and commercialising emerging technologies, is the most efficient pathway. Delay increases risks and cost, and sees Australia miss opportunities.⁵

Similarly, the *Net Zero Sector Plans* contain sectoral pathways that consider decarbonisation technologies available in the near term, as well as technologies that may be available or developed over the medium to longer term.

The Government's *Future Gas Strategy* is also relevant to this assessment, recognising that gas may continue to have a role in some industrial processes and energy security during the transition, while emphasising that alternatives to gas must be pursued where feasible and gas-related emissions must decline over time.

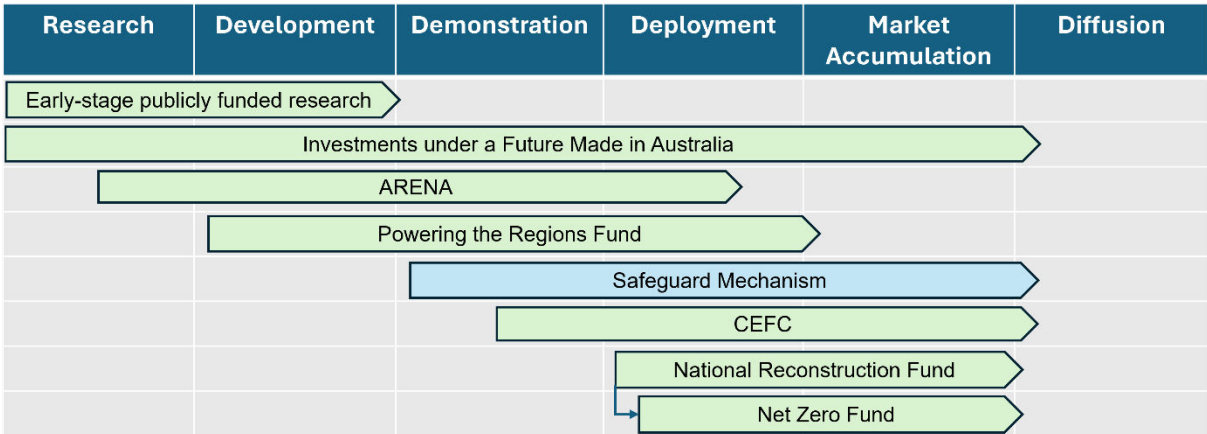
Concerns about the cost and availability of abatement technologies highlight the importance of having flexible compliance options that can lower costs and ensure obligations can be reliably met. The Safeguard is non-prescriptive—it does not force a particular emissions outcome from individual facilities. Instead, businesses can purchase abatement from other Safeguard entities (SMCs) or from outside the scheme (ACCUs), if this is preferred to reducing emissions on-site. They can access banking and borrowing to help smooth their compliance path. And the cost containment measure provides a level of assurance about maximum compliance costs.

⁵ Climate Change Authority, [Sector Pathways Review Part 1 Introduction](#), 2024.

The Safeguard’s decline rate trajectory to net zero in 2050 provides a clear investment signal that will help to develop emerging and prospective emissions reduction technologies. This trajectory, along with access to SMCs, provides a signal to invest in on-site abatement.

In addition, there are opportunities for Government support in developing and commercialising technologies through programs such as the Future Made in Australia Innovation Fund, Powering the Regions Fund, the National Reconstruction Fund’s Net Zero Fund, Australian Renewable Energy Agency (ARENA) programs, Clean Energy Finance Corporation (CEFC) funding, and the Research and Development Tax Incentive (Figure 3.1).

Figure 3.1. Technology development and deployment environment



The Powering the Regions Fund is designed to reduce emissions while also supporting trade-exposed industrial facilities by bringing forward investment and technology adoption. The Fund has a total available allocation of \$1.4 billion split between three streams. To date, it has made over \$700 million in grant funding available for trade-exposed Safeguard facilities.

Are Safeguard policy settings and Government support mechanisms suitable for developing and deploying emissions reduction technologies for the industrial sectors? Are there any remaining barriers to undertaking on-site abatement, including sector-specific barriers?

Are there any important areas that are not covered by government policy or programs?

3.1.2 Domestic offsets

A key source of flexibility for Safeguard facilities is the option to surrender project-based offsets—ACCUs—from outside the scheme.

Offsets give Safeguard facilities access to an additional source of abatement—which may be cheaper than reducing their own emissions. This lowers compliance costs and provides an alternative pathway for businesses with limited or costly abatement options.

The Safeguard Mechanism also represents the main source of demand for ACCU projects, helping to reduce emissions and provide a source of revenue to other sectors—notably agriculture, land and waste.

This is a mutually beneficial arrangement, which sees industrial facilities driving emissions reductions outside the scheme at a lower cost than reducing their own emissions on-site. It allows heavy industry to support regional development and employment opportunities, including for First Nations people.

There are no restrictions on the quantity or type of ACCUs that can be used, but enabling legislation makes it clear that offsets are intended to supplement, not replace, efforts to reduce industrial sector emissions. Scheme objectives require that there is a 'material incentive' for on-site abatement and that gross emissions must fall each year on a 5-year rolling average basis⁶. A facility that surrenders ACCUs totalling more than 30% of its baseline must explain what is preventing it from reducing emissions on-site⁷.

These guardrails are in place to support investment in on-site abatement at Safeguard facilities. With unrestricted ACCU use, the ratio of on-site emissions reductions and ACCU use is determined by the market. This means businesses can defer on-site action and invest instead in abatement in uncovered sectors. Australia has a world-leading offsets scheme. ACCUs are an essential part of Australia's climate policy framework. But access to a significant supply of lower-cost ACCUs could delay the on-site abatement needed to deliver Australia's future climate goals.

Around 59 million tonnes of ACCUs are currently in holdings and an additional 20 million are expected to be issued in each of the next 4 years to 2030. This is roughly equivalent to the Safeguard Mechanism's remaining abatement task to 2030 of 140Mt. This readily available stock of ACCUs could divert the industrial sector away from the trajectory needed to meet Australia's long-term targets. This could make future emissions reduction efforts more costly and reduce the availability of ACCUs for when they are needed to offset harder to abate processes over time.

This is important, because the industrial sector is characterised by long-lived assets, so investment decisions made today can affect emissions for decades. For many Safeguard Mechanism facilities, there may be only one or two investment cycles between now and 2050. Conversely, accelerating industrial sector abatement can improve the resilience of Australia's economy as global markets decarbonise. It can drive innovation, helping to reduce the costs of abatement technologies and accelerate their pathway to commercialisation.

Current ACCU use

Australia's ACCU market is well established—it has been operating in various forms for more than 20 years. The SMC market is comparatively new. This is reflected in current compliance patterns, which favour the use of ACCUs over SMCs.

⁶ *National Greenhouse and Energy Reporting Act 2007*, section 3(2)(d)(e).

⁷ Section 72C(5) of the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015* requires facilities to explain why more abatement was not undertaken, including information on any technological limitations or regulatory barriers and identifying future abatement opportunities.

In 2024-25, 10.8 million ACCUs were surrendered compared with 2.6 million SMCs. In 2023-24, 7.1 million ACCUs were surrendered compared with 1.4 million SMCs. Around 10% of facilities surrendered ACCUs totalling more than 30% of their baseline: 18 in 2023-24; and 23 in 2024-25.

ACCU and SMC surrender is only a partial indicator of on-site abatement efforts and two years of operation is not sufficient to understand long-term trends, but Australia's emissions projections forecast that businesses will continue to rely on ACCUs to 2040 to meet their compliance obligations.⁸

Options for encouraging on-site abatement

The unrestricted use of offsets lowers the cost of meeting climate targets in the short term, but could create risks to the achievement of national emissions goals over time.

To better encourage on-site abatement and ensure the Safeguard Mechanism can meet its legislated goal to reduce gross emissions on a 5-year rolling average basis, the review is seeking feedback on whether measures are needed to restrict the use of ACCUs for Safeguard compliance.

Stakeholders have raised three main approaches for consideration:

- **Quantitative limits:** a limit on the volume of ACCUs surrendered as a proportion of a facility's baseline, gross emissions or exceedance.
- **Discounting:** a requirement to surrender more than 1 ACCU for each tonne of baseline exceedance, whether generally or after a threshold.
- **Qualitative restrictions, in particular vintages:** a limit on the method type or vintage of ACCUs used for safeguard compliance.

These could be used individually or in some combination. For example, California's emissions regulations have both a 6% quantitative limit on the use of offsets and a requirement that at least half must improve water and air quality within the State⁹.

Quantitative limits versus discounting

Quantitative limits would restrict the number of ACCUs surrendered as a proportion of a facility's baseline, emissions or exceedance. Quantitative limits are widely used in global carbon markets.

Discounting is less common. It changes the relative value of ACCUs compared with on-site abatement. There is no hard limit, so outcomes would depend on the market—that is, the relative cost of ACCUs compared with abatement at industrial facilities. This means discounting could increase the value and marginal incentive for on-site abatement.

⁸ DCCEEW 2025, [Australia's emissions projections 2025](#), November.

⁹ [Direct Environmental Benefits in the State \(DEBS\) | California Air Resources Board](#).

However, discounting has one key advantage—it can deliver emissions reductions that are over and above the Safeguard Mechanism target. Businesses would need to surrender more than 1 ACCU for each tonne of emissions they want to offset. This could be expected to increase demand for ACCUs and help to deliver abatement beyond Safeguard Mechanism requirements.

Another advantage of discounting is that it changes the relative price of ACCUs and SMCs in a continuous and predictable way. It would affect all facilities equally—improving incentives for on-site abatement consistently across the scheme. Quantitative limits would impact only a subset of facilities.

Both options would cause ACCU and SMC prices to diverge. SMC prices would be expected to rise, but the impact on ACCU prices would depend on policy design. Quantitative limits would reduce the demand for ACCUs and, consequently, their price. Discounting creates extra ACCU demand, but makes ACCUs less valuable compared to SMCs, so the net effect on ACCU prices is less certain.

The review welcomes views on discounting and quantitative limits and will continue to assess the impacts on carbon markets of different quantitative limits and discounting rates.

Vintages

Allowing offsets to remain in the market indefinitely can create emissions accounting risks. The ACCU scheme has been operating since 2011—first as the Carbon Farming Initiative, then the Emissions Reduction Fund and now the ACCU scheme. Credits circulating in the market today could represent abatement that took place up to 15 years ago.

Ideally, there would be a link between the timing of abatement and the emissions it is intended to offset. This could be achieved by restricting the vintage of ACCU surrender. Options include:

- **5-year rolling vintage limit:** a facility could only surrender ACCUs issued in the previous 5 years.
- **Limits for fixed periods:** for example, after 2030, a facility could only surrender ACCUs issued after 2023, with another date from 2035.

The emissions impact of an ACCU is the same no matter when it was created. However, vintage restrictions could help to align offset creation with compliance phases, prevent oversupply of ACCUs from legacy projects and ensure ACCUs used for compliance reflect the most up-to-date integrity standards.

If vintages were implemented, transitional arrangements would be needed to ensure market participants have sufficient time to surrender or sell existing holdings. Around three-quarters of current holdings were issued after 2023 and more than 95% in the last 5 years.

Removing red tape

Bolstering the scheme to enhance on-site abatement, including through reducing reliance on ACCUs, could provide an opportunity to reduce the administrative costs associated with existing and suggested requirements to submit carbon abatement plans.

For example, the Climate Change Authority has proposed that facilities be required to submit compliance strategies to improve transparency around planned on-site abatement and help to inform future supply of SMCs and demand for ACCUs¹⁰. The more the scheme drives on-site abatement, the less such requirements are needed.

Are new policy measures for ACCU use needed to accelerate industrial decarbonisation?

If policy measures are needed, what would be the best way to reduce reliance on ACCU use without unduly disrupting the carbon market and when should any such measures start?

Are requirements to submit carbon abatement plans needed to improve transparency and help inform future supply and demand for ACCUs and SMCs? How would any such requirements complement or duplicate corporate climate disclosure requirements?

3.1.3 International units

The global carbon market provides another potential source of carbon offsets that could be used for Safeguard Mechanism compliance. In the past, businesses have supported the use of international units to lower compliance costs in the context of historically low prices under the Kyoto Protocol. It is not clear that low-cost offsets will be available under the Paris Agreement's international trading framework.

Australia's *Net Zero Plan* prioritises domestic action to ensure the benefits of decarbonisation remain in Australia. Its focus is firmly on enabling our industries to reduce emissions domestically as this places them in the best position to capture the economic benefits of the transition to net zero. This follows advice from the Climate Change Authority that our 2035 target can be met without using international units¹¹. Accordingly, the Government's approach to this review is to continue the Safeguard Mechanism's focus on domestic abatement and not introduce access to international carbon markets.

While Australia's current plans are tightly focussed on domestic action, international trading remains a mechanism under the Paris Agreement to enable the action required for achieving net zero globally. Any future consideration of international units in the Safeguard Mechanism would be limited to high integrity units that can be counted towards Australia's NDCs, such as those created under Article 6 of the Paris Agreement:

¹⁰ Climate Change Authority, [2024 Annual Progress Statement](#).

¹¹ [2035 Emissions Reduction Targets Report | Climate Change Authority](#).

- **Article 6.2:** allows trading of units that count towards countries' NDCs—these units are known as Internationally Transferred Mitigation Outcomes (ITMOs) and can include project-based offsets created under Article 6.4 once authorised by the host country.
- **Article 6.4:** establishes a centralised mechanism for trading project-based offsets—known as the Paris Agreement Crediting Mechanism (PACM).

Currently, global trade in international markets is dominated by the voluntary market. The vast bulk of international units traded are not aligned with the Paris Agreement, which means that they cannot be counted towards a country's NDC. The ability to contribute towards Australia's NDC is considered essential for any international unit to be included in the Safeguard Mechanism.

ITMOs are created under a Paris Agreement-supervised operational framework, including reporting and accounting rules, which allows them to be used towards a country's NDC. Arrangements enabling trading under Article 6 are now in place, but the ITMO market remains relatively immature.

While ITMO trading is still developing it is unlikely that international units would offer significant offsetting opportunities at a price that is competitive with ACCUs.

Is there any ongoing interest in using international offsets for Safeguard Mechanism compliance in the future and what is the rationale for this?

How would the market need to develop before inclusion in the Safeguard Mechanism could be considered at future review points and what considerations should be given regarding interoperability, recognition and integrity?

3.2 Inter-temporal flexibility and the cost containment measure

This section explores settings which give businesses flexibility around the timing of their emissions reduction activities, including:

- **Banking:** SMCs created in one year can be used for compliance in a future year (section 3.2.1).
- **Borrowing:** a facility can 'borrow' baseline from the following year (section 3.2.2).
- **Multi-year monitoring:** a facility can average their compliance obligations over up to 5 years (section 3.2.3).

The review is also considering the sufficiency of the cost containment measure for giving businesses certainty about the maximum cost of compliance (section 3.2.4).

3.2.1 Banking

Banking is an important characteristic of a well-functioning carbon market. It gives businesses flexibility about the timing of their emissions reduction activities, allowing them to follow a least cost pathway.

Banking encourages early action, because businesses can generate surplus SMCs when they reduce emissions earlier than is needed to meet their baseline. It also promotes price stability, by allowing credits to be banked when prices are low and sold when they are high.

The 2023 reforms highlighted the need to consider the implications of allowing unrestricted banking of SMCs beyond 2030. This included the potential for surplus SMCs to be carried over from the 2023-2030 compliance phase to the 2031-2035 compliance phase. These phases are distinct in the sense that they have different emissions targets. Excessive carry-over could compromise decarbonisation efforts and make tracking progress more difficult.

For example, before the reforms, aggregate baselines were 30 Mt higher than aggregate emissions. There were concerns that some of this 'headroom' may be retained when baselines were reset—for example, if emissions intensity values used for baseline setting were too high. Banking restrictions were intended to prevent carry-over of any residual 'headroom'.

In practice, aggregate baselines fell by 32.7 Mt when the new baseline setting arrangements came into place—from 171.6 Mt in 2022-23 to 136.1 Mt in 2023-24. This compared to emissions of 136.0 Mt in 2023-24, so headroom was effectively removed. This means there is little risk that an excess supply of SMCs will be carried over to the 2031-35 compliance period.

Allowing banking to continue beyond 2030 could be expected to accelerate decarbonisation efforts this decade and lower price volatility. The review would be interested in views about whether current banking arrangements are useful and whether they should extend beyond 2030 and continue to be unrestricted through to 2050.

Is banking working to encourage businesses to reduce their emissions ahead of schedule?
Are there any strong reasons why banking should not extend beyond 2030?

3.2.2 Borrowing

Borrowing helps businesses manage year to year variations in their emissions by smoothing out compliance obligations. Under current arrangements, businesses can borrow up to 10% of next year's baseline. They must pay this back with interest in the following year. Interest is 2% in 2024-25 and 2025-26, and increases to 10% from 2026-27 onwards. The lower interest rate during the first 2 years was intended to help businesses adjust to new policy settings.

Eligibility requirements for borrowing are intended to ensure it is used when there is a genuine need to manage short-term exceedance. A facility cannot borrow if it has a multi-year monitoring period and it cannot borrow and earn SMCs in the same year. To prevent borrowing in the year before a facility falls below the coverage threshold, a successful borrowing application requires the facility to demonstrate that it expects to remain a Safeguard facility in the following year.

Borrowing arrangements appear to be working as intended. Four facilities have used them, 3 in 2023-24 and 1 in 2024-25. Borrowing amounts were small—typically around 10,000 to 15,000 tonnes CO₂-e.

The opportunity for borrowing is an important element of the Safeguard’s flexible compliance approach. Like banking, borrowing is another mechanism that supports well-performing carbon markets. It helps to contain price spikes or volatility if there are unexpected issues with other compliance pathways, such as the supply or demand for ACCUs or SMCs.

Borrowing does introduce a risk of delayed action. This risk is limited to one year at a time, though borrowing across compliance phases (between 2029-30 to 2031-35) can create a specific risk for the achievement of the Safeguard’s 2030 targets. However, the Safeguard Mechanism is currently on track to exceed the 2030 target, and the requirement to pay back borrowed baseline with interest provides confidence that businesses will only borrow for genuine reasons.

The review is interested in views about whether current borrowing rules are working well, and whether they should be retained after 2030.

Are current borrowing arrangements working to help businesses manage short-term exceedance?

Should borrowing continue beyond 2030?

3.2.3 Multi-year monitoring

Multi-year monitoring allows businesses to smooth their compliance obligations over multiple years. It works by extending the compliance period from a single year to multiple years, with no obligations until the end of the nominated period. It was originally intended to average out short-term variations in emissions over 3 years, so businesses could avoid the administrative complexities and costs of temporary exceedance. The borrowing provisions described above now serve this purpose.

Multi-year monitoring was retained during the 2023 reforms—and extended to 5 years—in response to industry concerns about the lack of commercial readiness and the high cost of available technologies to reduce emissions. This was intended to give businesses time to respond to reforms which saw baselines fall for the first time. During this time businesses needed to plan and implement emissions reduction projects.

The nominated period for this adjustment was aligned with Australia’s national emissions commitments, giving businesses 7 years—until 2030—to plan and adapt. Under current arrangements, multi-year monitoring periods cannot extend beyond 2029-30.

To manage the risk that multi-year monitoring periods could delay action until close to the end of this decade, businesses must apply to the Clean Energy Regulator outlining a plan to reduce emissions below the multi-year baseline by the end of the period. Uptake has been moderate, with eight facilities currently operating under multi-year monitoring arrangements.

There is a question about whether multi-year monitoring periods should be extended beyond 2030. They introduce risks that businesses may delay action. By 2030, declining baselines will no longer be new and businesses will have had time to develop and implement compliance plans. The Safeguard Mechanism has a range of other flexible compliance options that can help businesses manage their Safeguard obligations.

The Department is interested to hear if there are circumstances where multi-year monitoring periods will continue to be needed after 2030.

Should the current policy that prevents multi-year monitoring periods from extending beyond 2030 be retained?

Are there circumstances that could benefit from access to multi-year monitoring after 2030?

3.2.4 Cost containment measure

During consultation on the 2023 reforms, businesses expressed concerns about upside price risks in carbon markets. They sought assurances about the maximum compliance cost that businesses would face. The cost containment measure was designed to address these concerns.

The cost containment measure provides a ‘backstop’ or ‘safety net’ that allows businesses to purchase ACCUs from the government at a fixed price. ACCUs could only be purchased by liable entities and would be automatically surrendered to meet compliance obligations.

The price was intended to be sufficiently high that it would be accessed only in exceptional circumstances, to prevent excessive price volatility and manage upside price risk without deterring cost effective abatement. This is important. If the price is set too low, it could discourage businesses from taking action to reduce their emissions, as they may discount the risk of future price increases when considering whether to invest in emissions reduction projects.

The price was set at \$75 per ACCU (equivalent to 1 tonne CO₂-e) in 2023-24 and rises by the consumer price index (CPI) plus 2 per cent each year.

Is the current design sufficient to manage upside price risk?

Businesses are only expected to access the cost containment measure when the ACCU price exceeds the cost containment measure price. In 2025-26, an ACCU purchased from the cost containment measure would cost \$82.68, while the average spot price for ACCUs was \$36.99.¹² As a result, no ACCU purchases from the cost containment measure have occurred to date and market analysts suggest that purchases are very unlikely before 2030.¹³

The effectiveness of the cost containment measure is determined by whether it offers effective price stability for a reasonable length of time. Current holdings are around 5.5 million ACCUs and market analysts suggest it could accumulate to up to 26 million ACCUs by 2030, though this is subject to project delivery, market dynamics and the outcomes of exit arrangements for carbon abatement contracts.¹⁴ This compares to projected compliance demand of 26 million ACCUs in 2030 and 35 million in 2035.¹⁵ This means holdings in the cost containment measure may cover less than a year of ACCU demand.

Cost containment measure holdings are finite because they accumulate through the exit of carbon abatement contracts to the Clean Energy Regulator. This inflow will cease by 31 December 2030. After that date the existing carbon abatement contracts would not replenish ACCU holdings in the cost containment measure. However, any new government purchasing initiatives would impact future ACCU prices.

The limited accumulation of ACCUs means the cost containment measure can provide temporary price stability, but not ongoing price risk management. Once the ACCU price exceeds the cost containment measure price it may continue rising in line with increases in compliance demand as Safeguard Mechanism baselines fall, although this is dependent on how ACCU supply develops.

Feedback is sought on whether the cost containment measure is sufficient for managing upside price risks, and whether the price is sufficient to prevent businesses from delaying emissions reduction projects.

Is the current design of the cost containment measure sufficient to allow businesses to manage upside price risks?

Could the current cost containment measure price deter investments in emissions reduction activities?

¹² RepuTex EnergyIQ Platform, Carbon Markets, 2026, June a.

¹³ RepuTex EnergyIQ Platform, Carbon Markets, 2026, June b, EY 2026, [A Time for Clarity and Confidence, Australian Carbon Market Outlook 2026](#).

¹⁴ RepuTex EnergyIQ Platform, 2025, Australian Carbon Price, Supply and Demand Outlook, December.

¹⁵ DCCEEW 2025, [Australia's emissions projections 2025](#), November.

3.3 Trade exposed and strategic industries

3.3.1 Economic opportunities and competitiveness

The global transition to net zero presents new economic opportunities, with emerging, green industries delivering new jobs and regional growth. Australia's climate and industry policies are designed to work together to ensure Australian businesses are well placed to take advantage of these opportunities. They encourage private investment in industrial decarbonisation and clean technologies, while supporting emerging and strategic industries.

The recent crisis in the Middle East has highlighted the importance of sovereign capacity in key industries as supply chains have come under pressure and fuel, fertiliser and related products have experienced price and supply constraints. Support for critical supply chains, energy sovereignty and other national interests are provided from outside the Safeguard Mechanism, for example through the Australian Fuel Security and Resilience Package.

The Government has signalled its support for critical and strategic industries through the Future Made in Australia agenda. Priority industries identified by the National Interest Framework include green metals; renewable hydrogen; low carbon liquid fuels; clean energy technology manufacturing; and critical minerals processing.

Priority sectors are supported under one of two streams:

- **Net Zero Transformation Stream:** which includes industries where Australia will have a comparative advantage as the global economy transitions to net zero and public investment is likely to be needed for the sector to make a significant contribution to emissions reduction at an efficient cost; or
- **Economic Resilience and Security Stream:** which includes industries where some level of domestic capability is necessary to deliver economic resilience and security and the private sector will not deliver the necessary investment in the sector without government support.

The Government has made a range of investments across these priority sectors, as announced in the 2024-25 Budget, including through the Future Made in Australia Innovation Fund. The Future Made in Australia Innovation Fund has two streams targeting innovation and deployment for three priority technology areas: Green Metals (\$750 million); Renewable Energy Technology Manufacturing (\$500 million); and Low Carbon Liquid Fuels (\$250 million). The Government also announced the \$1.1 billion Cleaner Fuels Program in September 2025, to encourage domestic production of low carbon liquid fuels, while strengthening fuel security and supporting new jobs in the net zero economy.

In addition, the Government has committed funding through the \$15 billion National Reconstruction Fund to target further priority areas. The Net Zero Fund, delivered through the National Reconstruction Fund Corporation, is a commitment of up to \$5 billion to support large industrial facilities to decarbonise, improve energy efficiency, and transition to net zero, while also scaling up domestic manufacturing of renewables and low emissions technologies. The Net Zero Fund is designed to support investments in sectors that have the

greatest opportunity and need for decarbonisation, and those most impacted by the economy's transition in a net zero economy; and where public investment is likely needed for the sector to make a significant contribution to emissions reduction at an efficient cost.

Future Made in Australia and the Net Zero Fund complement the Safeguard Mechanism which is focussed on reducing emissions, allowing industry policy to enhance industry outcomes. This allows the Safeguard to operate efficiently and provide long-term emissions reduction incentives, which apply consistently across all covered facilities.

Within the Safeguard Mechanism, support to maintain competitiveness is available for eligible trade-exposed facilities. Safeguard design elements that support trade-exposed businesses are discussed in the rest of this section.

3.3.2 Carbon leakage

Climate policy ambition is increasing globally, but differences remain in its coverage and effectiveness, including between Australia and our trading partners. Such differences create a risk of carbon leakage, which can hamper global decarbonisation and lead to unnecessary costs for the Australian economy.

Carbon leakage refers to shifts in production from countries with more ambitious climate policies to those with weaker (or no) policies, due only to differences in policy. Changes in production that occur due to other factors—such as differences in production costs or emissions intensity under equal climate policy treatment—are not carbon leakage. Carbon leakage risks should be managed to avoid hindering global progress towards net zero emissions and avoid economic costs.

The Safeguard Mechanism's production-adjusted framework allocates baseline per unit of production. This helps to reduce carbon leakage risks by encouraging facilities to improve their emissions intensity, not reduce their output. In addition, trade-exposed baseline-adjusted (TEBA) arrangements reduce baseline decline rates where there is a significant impact on revenue for non-manufacturing facilities, or earnings before interest and tax (EBIT) for manufacturing facilities. Some businesses can also access the Powering the Regions Fund and the Net Zero Fund to help them decarbonise.

Following the 2023 Safeguard reforms, the Government committed to review policy options to address carbon leakage. The Carbon Leakage Review, led by Professor Frank Jotzo, assessed carbon leakage risks and examined policy options to address them, including existing measures, a border carbon adjustment, emissions product standards, targeted public investment in decarbonisation, and multilateral or plurilateral initiatives. The Review's final report was published in February 2026.

It found existing policy measures, such as access to concessional baseline decline rates and public co-investment, mitigate leakage risks in the short to medium term. However, for some sectors, the Review considered settings may need to be augmented with additional measures over time. Its recommendations are in Box 3.1.

Box 3.1 Carbon Leakage Review recommendations

1. A border carbon adjustment be introduced for a select group of commodities that are of particular risk of carbon leakage from imports, adopting the following approach:
 - a. A border carbon adjustment be introduced for cement and clinker.
 - b. A border carbon adjustment be considered for: lime; hydrogen, ammonia and derivatives; steel and iron; and glass, subject to further assessment.
 - c. A border carbon adjustment that provides rebates for exports not be pursued, for consistency with Australia's emissions reduction targets and to avoid international trade law concerns.
2. Should the government decide to pursue a border carbon adjustment, it should be designed consistently with Australia's international trade law obligations and:
 - a. The border carbon adjustment should mirror domestic emissions policy settings for imports to provide a level playing field.
 - b. The liability should be assessed based on scope 1 emissions above benchmarks set in line with Safeguard Mechanism baselines and differences between the effective carbon price paid in the originating country and an Australian benchmark price. This assessment should be based on explicit emissions prices only.
 - c. TEBA provisions for a commodity should be removed once a border carbon adjustment is fully implemented for that commodity.
 - d. Compliance requirements of the border carbon adjustment, including emissions measurement, reporting and verification requirements should be designed to minimise administrative burden.
 - e. The design and implementation stage should include consultation with domestic and international stakeholders, including trading partner countries.
 - f. In conjunction with the potential revenue, options should be pursued to help build capacity in trade partner developing countries for emissions monitoring, reporting and verification.

That the Government continue to actively engage in multilateral and plurilateral initiatives that could support the implementation of border carbon adjustments, for example through the development of interoperable standards and approaches to default emissions intensities or measurement of embedded emissions.

The Carbon Leakage Review's recommendations, including the recommendation to implement a border carbon adjustment, are being considered as part of this review. Section 3.3.3 considers TEBA arrangements and section 3.3.4 considers whether a border carbon adjustment should be implemented.

3.3.3 Trade-exposed baseline adjustments

The reformed Safeguard Mechanism is designed to ensure that the competitiveness of trade-exposed industries is appropriately supported as Australia decarbonises. To support this objective, trade-exposed facilities¹⁶ can apply for TEBA status, which provides a reduced baseline decline rate for three years.

Eligibility for TEBA is linked to the impact of scheme costs. That is, facilities can access TEBA if their assessed scheme cost impact is above prescribed thresholds. These arrangements are intended to manage compliance costs for facilities that genuinely need it, while retaining incentives to reduce emissions.

- **Manufacturers** are eligible if their scheme costs are more than 3% of earnings before interest and taxes (EBIT)¹⁷, reflecting the value-added nature of their margins. Their decline rate is commensurate with the cost impact, with a minimum 1% decline rate available to facilities whose scheme costs are 10% or more of EBIT.
- **Non-manufacturers** are eligible if their scheme costs are more than 3% of revenue, with a minimum 2% decline rate applying to facilities whose scheme costs are 8% or more.

Since the commencement of the Safeguard Mechanism reforms, 23 manufacturing facilities have received TEBA status with nearly all receiving the minimum 1% decline rate. Recipients are largely in alumina and aluminium; cement, clinker; lime; steel; and chemical manufacturing and represent a large portion of covered facilities within these sectors. No non-manufacturing facilities have received TEBA.

Is TEBA appropriately targeted?

Businesses support the need for the Safeguard Mechanism to address carbon leakage risks, but there is a range of views on whether current arrangements are appropriately targeted.

Some businesses are concerned that linking eligibility to cost impacts creates inequity between facilities that can access TEBA and those that cannot—particularly when they compete in the same markets. The sum of all facility baselines must match the Safeguard Mechanism’s overall emissions target.

This disparity could be expected to grow, because TEBA eligibility is linked to Safeguard cost impacts which will typically increase as baselines decline. This means more facilities are likely to become eligible for TEBA assistance over time, which could result in a disproportionate effort by non-TEBA facilities or act as a brake on Safeguard ambition.

Further, the link between TEBA eligibility and scheme costs could be contributing to businesses deferring on-site abatement. This is because reducing emissions will reduce scheme costs, and this may prevent a facility from accessing TEBA assistance. A facility may

¹⁶ A trade-exposed facility is a facility whose primary production variable is a trade-exposed production variable in the first financial year that a TEBA determination would apply.

¹⁷ EBIT is required to be calculated using the [Safeguard Mechanism Earnings Before Interest and Tax \(EBIT\) Guidelines](#).

prefer to delay emissions reduction projects to retain TEBA status and access to a lower baseline decline rate.

Finally, there is currently no mechanism for TEBA facilities' decline rates to 'catch-up' to their non-TEBA counterparts. Once a facility's TEBA status ends, its decline rate returns to the default rate—currently 4.9%—but it is starting from a higher value, so will remain on a higher trajectory to 2050. This makes it harder to achieve targets, especially as more facilities access TEBA over time.

There may be opportunities to better target TEBA arrangements. Two options are discussed below:

- **Moving TEBA to a sectoral approach:** eligibility could be based on sectors at risk of carbon leakage, instead of scheme cost impacts.
- **Introducing a 'catch-up' mechanism:** so that the contribution of facilities that receive TEBA assistance converges with the contribution of non-TEBA facilities before 2050.

Moving TEBA to a sectoral approach

Stakeholders have suggested that linking TEBA eligibility to scheme cost impacts has the potential to create inequities between competing facilities. An alternative 'sectoral TEBA' approach could be considered, where all facilities in sectors at risk of carbon leakage could get access to a lower baseline decline rate.

This could more effectively address carbon leakage risk because TEBA would target the sectors most at risk. It would also address disincentives to undertake on-site abatement because facilities could access TEBA whether or not they reduce their emissions.

The sectors considered to be at risk of carbon leakage could be drawn from the analysis undertaken by the Carbon Leakage Review. The Carbon Leakage Review found that additional leakage policies are warranted for¹⁸:

- **clinker, cement and lime**, which had high leakage risk levels across a range of indicators;
- **glass**, which had moderate trade leakage risk, significant risk of investment leakage, and domestic leakage risk from uneven coverage of the sector by the Safeguard Mechanism;
- **hydrogen, and ammonia and its derivatives**, which had material or close to material leakage risk;
- **steel and iron**, which had material or close to material leakage risk.

The Carbon Leakage Review also proposed that this review should consider additional policies for the following sectors:

- **alumina and aluminium**, where carbon costs as a share of product prices are modest, but there are material risks of investment leakage;

¹⁸ DCCEEW, [Carbon Leakage Review Final Report](#), 2025, Table 4.

- **refined petroleum**, where carbon costs form a relatively small share of product price, addressing leakage could support a transition to low emissions fuel production, and where interactions with fuel security policies should be considered;
- **pulp and paper**, where trade leakage risk is low, but there is potentially high susceptibility to investment leakage risks.

Under the ‘sectoral-TEBA’ approach, the sectors listed above could get a lower decline rate than the default rate that applies to other facilities. The decline rate for sectors at risk of leakage would need to be higher than the current minimum decline rate for TEBA facilities, to ensure that Safeguard Mechanism emissions targets can be met and that the costs and effort of meeting these targets are distributed fairly between TEBA recipients and other facilities. Differential decline rates based on a sector’s level of carbon leakage risk could also be considered.

This approach could commence in 2031. Under this arrangement, facilities outside these sectors with existing TEBA arrangements would retain their adjusted baseline decline rate until the conclusion of their existing TEBA period, with the period of any subsequent applications not extending beyond 2029-30.

Do current arrangements that link TEBA eligibility to scheme cost impacts create equity concerns among competing facilities or discourage uptake of on-site abatement?

Would a sectoral approach to TEBA eligibility better target carbon leakage risks and help to address any equity concerns?

Introducing a catch-up mechanism

A ‘catch-up’ mechanism could be introduced to ensure TEBA settings are sustainable in the lead-up to 2050. This would ensure baselines for facilities that have received TEBA are on a trajectory to net zero before all baselines are set to equal zero in 2049-50.

Baseline decline is implemented using a decline factor called the ‘emissions reduction contribution’ (ERC) in the formula for setting baselines. The ERC decreases by the decline rate each year, and so is equal to 0.951 in 2023-24, 0.902 in 2024-25, 0.853 in 2025-26 etc. Facilities that get TEBA or have gotten TEBA previously have a bespoke ERC that is higher than the ‘default ERC’ that applies to facilities that have never gotten TEBA.

A catch-up mechanism could be implemented by transitioning facilities to the default ERC over time. This would be implemented using a ‘transition proportion’, similar to the method used to transition existing facilities from a facility-specific emissions intensity to the industry average emissions intensity. A transition that commences in 2030-31 and finishes in 2049-50 could help to ensure the scheme operates more effectively, fairly, and sustainably, while providing time to adjust to the new arrangements.

Could a ‘catch-up mechanism’ be introduced for TEBA to better distribute the effort between TEBA recipients and other Safeguard facilities?

Other approaches for improving TEBA could also be considered, such as phasing out TEBA after a certain date before 2050; or increasing the minimum decline rate for TEBA facilities. Combinations of approaches could also be considered.

The Carbon Leakage Review recommended that should the Government decide to pursue a border carbon adjustment, TEBA provisions for a commodity should be removed once a border carbon adjustment is fully implemented for that commodity. This recommendation is discussed in Section 3.3.4 below.

Feedback is sought on options for improving TEBA that would continue to effectively manage carbon leakage, and deliver Safeguard Mechanism objectives, including emissions targets and incentives for on-site abatement.

3.3.4 A potential Border Carbon Adjustment

The Carbon Leakage Review found that current Safeguard Mechanism settings are effective at mitigating carbon leakage risk in the short to medium term. But settings for some sectors may need to be augmented with additional measures over time, reflecting that declining baselines could see leakage risk become more significant for some sectors.

A potential border carbon adjustment for Australia

The Carbon Leakage Review assessed options for addressing this longer-term risk. It found that a border carbon adjustment (BCA) applied to imports could be an appropriate measure for selected Safeguard-covered commodities with high carbon leakage risk. This could efficiently support industrial decarbonisation and the emergence of low emissions industries.

The purpose of a BCA would be to prevent distortions by ensuring domestic producers and importers face the same carbon obligations, creating a level playing field. As such, it would mean that imports of certain goods would have a liability that mirrors costs faced by domestic producers. It could be calculated on the basis of the emissions embedded within the imported product, adjusted to reflect carbon costs paid overseas.

The main advantage of implementing a BCA is that it is effective at addressing carbon leakage in markets where domestic goods compete with imports. It can do this while strengthening incentives to decarbonise production and invest in low emissions facilities in existing industries, as well as supporting the emergence of new low emissions industries.

But implementation of a BCA does create challenges. These include developing sufficiently robust frameworks for measurement, reporting and verification of emissions that work in international settings, and minimising administrative burden. Constructive engagement with international trading partners would be required to provide assurance that a BCA is not intended to be a barrier to open trade, and to support effective design which mitigates potential challenges.

Australia's economic prosperity has been enhanced by open trade, and the Carbon Leakage Review placed importance on the international rules-based trading system. It recommended that should Australia implement a BCA, it should be designed consistently with Australia's international trade law obligations.

The Carbon Leakage Review discussed the design of a potential border carbon adjustment, which is relevant for consideration of whether to implement one. Its recommendations included that the design should mirror domestic emissions policy settings, and that compliance requirements, including emissions measurement, reporting and verification requirements, should be designed to minimise administrative burden.

To mirror domestic emissions policy settings, the liability under a border carbon adjustment for imported covered goods would be based on the liability that equivalent goods would face under the Safeguard Mechanism if they were produced domestically, netting off any carbon liabilities discharged overseas. Like for the Safeguard Mechanism, a potential way for importers to discharge this liability could be the purchase and surrender of ACCUs.

Which goods should be covered by a potential BCA?

The Carbon Leakage Review found that cement and clinker would be most suitable for initial implementation of a BCA. It found that lime, hydrogen, ammonia and derivatives, steel, iron and glass are also candidates for a BCA. However, these commodities have partial Safeguard Mechanism coverage or more complex supply chains, which would require more time to investigate and resolve before a decision could be made.

A BCA addresses leakage risk for imports. An 'export BCA' that provides rebates for exports would be inconsistent with Australia's emissions reduction targets and could raise considerable international trade law concerns. For these reasons a BCA for exports is unlikely to be appropriate for Australia or achieve the relevant policy objectives. Cement, clinker, and lime—the commodities found to be most at risk of carbon leakage—compete in import markets rather than export markets.

Should a border carbon adjustment be introduced for cement and clinker?

Implementing a BCA for goods where the Safeguard Mechanism does not cover the vast majority of domestic production could result in the production of the uncovered goods being at a competitive advantage compared to imports covered by a BCA, as well as compared to Safeguard covered production of those goods. One approach to manage this issue could be to set a bespoke Safeguard coverage threshold for facilities that produce those goods.

The Carbon Leakage Review's assessment, based on the complexities involved, was that a BCA for steel and iron could not proceed as quickly as for other commodities such as clinker and cement. Some stakeholders suggested implementing a BCA sooner for some specific types of steel that are relatively homogenous and exhibit fewer complexities, such as reinforcement bar. Doing so may provide an opportunity to undertake earlier covering of a BCA for some types of steel where suitable to do so, before expanding to the broader steel and iron group.

If the Government decides to implement a BCA, further consultation on its design would be undertaken before it is implemented. This consultation would also consider what goods should be initially covered by a BCA, and the process for considering what other goods should be included in a BCA down the track. Such a process could include criteria for assessing carbon leakage risk of goods on an ongoing basis; timing; and implementation feasibility in consultation with industry.

If a BCA is implemented, what elements should be included in any process for considering and consulting on the inclusion of further commodities over time?

Treatment of TEBA for goods covered by a BCA

The Carbon Leakage Review recommended that should a BCA be implemented, TEBA provisions should be removed for covered commodities. This is because a BCA would create a level playing field for domestic production and imports. Once in place, there would be little justification for retaining additional assistance in the form of concessional TEBA baselines for covered commodities.

Removing TEBA for a particular commodity would prevent facilities producing that commodity from getting new TEBA determinations. Under current arrangements, once a TEBA determination ends, the facility's decline rate returns to the default decline rate—currently 4.9%—but from a higher starting point, resulting in a permanently higher baseline. One option for removing TEBA could be to continue with these arrangements. Another option could be to reset baselines to match the baselines of facilities that did not receive TEBA. There would be little justification for differentiated baselines once a BCA was in place. It would also be possible to phase TEBA arrangements out over time, for example, by increasing the minimum decline rates available for relevant sectors.

If a BCA is implemented, but TEBA is retained, this would result in a lower liability for imported goods. This is because the BCA would mirror the domestic policy settings, including the concessional baselines for TEBA facilities. For this reason, it would likely be difficult to justify the administrative costs of implementing a BCA if TEBA arrangements were retained.

Should TEBA provisions for a commodity be removed once a BCA is fully implemented for that commodity?

What would the appropriate timing and mechanics be for removing TEBA provisions for a commodity covered by a BCA?

3.4 Sector specific issues

3.4.1 Coal mining

Coal mining operations constitute around a third of covered facilities under the Safeguard Mechanism and around 24% of covered emissions. Those covered emissions rose slightly from 31.4 Mt to 31.7 Mt from 2023-24 to 2024-25, with 19.5 Mt of those emissions being methane. The coal sector has a range of abatement opportunities, including electrification, utilisation of waste coal mine gas for power generation and oxidation of ventilation air methane.

The coal sector has varied emissions profiles among coal mines and over time, which can relate to variability in fugitive methane emissions between coal seams, pre-drainage of methane in advance of production, and particular safety and regulatory considerations. For all facilities and circumstances, the Safeguard Mechanism is intended to encourage facilities to effectively manage and reduce their emissions.

Alongside the 2023 reforms, the Department reviewed production variables to ensure they remained fit for purpose in the context of declining baselines. This included a review of production variables for coal mining.

The review resulted in a single production variable for coal mining activities, with a default emissions intensity value set at the average of the 'industry average value' and the 'site-specific value' for each facility. This outcome reflected high emissions intensity variation across the industry. It doesn't impact the coal sector's contribution to the Safeguard Mechanism target, but it does affect the distribution of effort within the coal sector. Specifically, crediting and liabilities are lower for all coal mines under this approach.

These hybrid averaging arrangements only apply to coal mining. Other facilities will transition away from site-specific emissions intensity values to industry average by 2030. Under current policy settings, the hybrid approach for coal mining will remain beyond 2030 because it is built into the production variable. Table 3.1 below shows how the default emissions intensity transitions to 2030 for the coal industry, compared to other sectors.

Table 3.1: Ratio of industry average: site specific emissions intensity for hybrid baseline setting to 2030

	23-24	24-25	25-26	26-27	27-28	28-29	29-30
Standard	10:90	20:80	30:70	40:60	60:40	80:20	100:0
Coal	5:95	10:90	15:85	20:80	30:70	40:60	50:50

The Department welcomes views on appropriate baseline setting arrangements for coal mines past 2030, including whether the current hybrid approach should be retained.

Should baseline arrangements for coal facilities after 2030 remain unchanged or be aligned with baseline arrangements for other sectors?

Unplanned interruptions at coal mines

Some businesses have raised concerns about emissions following an ignition event at a coal mine, when there is no or low production, but emissions remain high. A facility may be required to temporarily cease production, but must continue to meet health and safety requirements, including continuing active methane ventilation.

The Safeguard Mechanism deliberately links baselines to production. This encourages economic growth alongside emissions reduction. It also encourages facilities to continue to actively manage emissions during periods of low production—whether planned or otherwise. Coal mining has inherent risks. Low production events and shutdowns, while not planned, are expected to occur during a mine’s lifetime and be managed accordingly.

Actions to manage emissions during production benefit the facility during a disruptive event. And technological solutions available to manage and reduce emissions during production continue to be available during shutdowns.

The Safeguard has a range of flexible compliance arrangements available to help facilities manage emissions during periods of non-standard operation. The review invites views on whether current settings are sufficient to help businesses manage unplanned shutdowns or low production periods, while retaining incentives for all coal mining emissions to be managed and reduced.

Are there specific circumstances where current settings do not operate as intended to encourage coal facilities to manage and reduce their emissions?

Are current settings sufficient to allow businesses to manage shut-downs or extended periods of low production?

How could this be addressed while remaining consistent with the Safeguard’s output-based architecture and retaining incentives to manage and reduce all coal mining emissions?

3.4.2 Road and rail transport

The transport sector is a service industry with unique circumstances. It operates across the whole of Australia, so defining facility boundaries and production variables is challenging.

The Safeguard builds on the NGERs framework for measuring and reporting emissions and defining facilities. NGERs recognises that transport activities are non-stationary, making them difficult to attribute to a ‘single site’. To accommodate this, transport businesses can choose to define their facilities at either the state/territory or national level.¹⁹ This optionality extends to Safeguard coverage—because whether a facility is covered depends on their

¹⁹ See regulations 2.19 and 2.19A of the NGER Regulations.

emissions as reported under NGERs.²⁰ Once a facility has nominated to report as a national facility, it cannot return to state or territory-based reporting.

The prospect of Safeguard Mechanism coverage may discourage national facility reporting. Most road and rail facilities report on a state or territory basis. This means road transport facilities that operate in WA are more likely to be covered than facilities in other states due to the large geographical area that is covered. For example, a road transport business that operates in both NSW and Victoria, may have the same, or higher, level of activity than a business in WA, but would not exceed the Safeguard threshold as the emissions are split between two different states. The combined geographical area of NSW and Victoria is smaller than WA, but the level of road transport activity could be the same or more.

As a result of state or territory based reporting and other factors, stakeholders have cited potential inconsistency in how the Safeguard Mechanism covers land freight transport. Over the past few years, between one and three road transport facilities were covered, compared to six rail facilities. Some stakeholders suggest this creates a competitive distortion, because rail and road transport arguably overlap in the activity they carry out—transporting freight from one location to another.

Whether a competitive distortion exists, depends on whether road and rail are direct competitors in a particular market. Generally, the transport of bulk and non-bulk freight is informed by the best match between the characteristics of the freight to be moved (volume, mass and handling requirements) and transport options (cost, speed, service frequency, reliability, availability and flexibility).

The road transport sector can be more agile than rail and tends to specialise in delivering time-sensitive or perishable commodities. Road also performs bulk freight tasks where rail infrastructure is not available or is financially unviable. Major parts of the Australian railway network are dedicated to serving individual bulk commodity flows, especially to ports. However, road and rail transport can operate cooperatively, meaning they work together to perform different legs of a freight task. Some freight tasks are also contestable between road and rail where there are multi-modal freight hubs available, for example. This suggests road and rail freight transport may, depending on the market, provide different transport needs, be either complementary services or competitors.

In the context of Safeguard reforms, the Department conducted a review of production variables in 2023, to ensure they remained effective and appropriate. During the review, stakeholders expressed concerns about overlap between the bulk freight production variables in the rail and road sectors. The Department commissioned experts to research, analyse and consult with the road and rail industries on whether the overlap between the production variables was substantial enough to require production variable changes. The work concluded that there is no significant overlap between most of the bulk freight transport task (coal and iron ore). There is overlap, on a much smaller scale, in the transport of other commodities such as grain, minerals, chemicals and construction materials.

²⁰ National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015 and the NGER Regulations.

However, the overlap in grain is periodic, with movements concentrated on harvest times and little to no overlap occurring in the movements from farm to receival site.

Following the 2023 reforms, further concerns have been raised regarding potential disproportionate impacts between road and rail freight services, particularly with regard to containerised (or non-bulk) freight. Stakeholders have argued that due to low coverage of road freight transport under the Safeguard Mechanism, they do not face the same costs as rail freight services. Therefore, there may be incentive to transfer the freight task to road, resulting in increased emissions.

To properly assess potential overlap and competitive distortion, the Department is seeking further information regarding contestable freight, particularly in non-bulk or containerised categories.

As a first step, removing the option to report on a state or territory basis (i.e. requiring national facility reporting for transport) could reduce any competitive distortion that exists between road and rail, while also reducing disproportionate impacts within the road sector across states.

Based on 2024-25 NGER reporting, Table 3.2 below shows the indicative change to coverage for the rail and road freight sectors under a mandatory national transport facility definition. These estimates do not consider what might happen in other transport sectors, such as aviation and shipping.

Table 3.2: Indicative coverage of road and rail freight under a national transport definition, based on 2024-25 reported NGER data

	Rail freight		Road Freight	
	Emissions (Mt CO ₂ -e)	% share of total NGER reported emissions	Emissions (Mt CO ₂ -e)	% share of total NGER reported emissions
Current Safeguard coverage	2.9	84%	0.4	10%
Indicative National transport facility definition coverage	3.1	92%	1.7	51%

It should also be noted that parallel to this Safeguard Review, the Government is progressing consultation and development of a market measure that drives demand for new Australian low carbon liquid fuel production. Supply and demand side policies both have the potential to overlap with Safeguard Mechanism obligations. The department is working through these issues in consultation with stakeholders.

Could removing optionality about state and territory versus national reporting for transport facilities help to improve land transport sector coverage?

Would a mandatory national facility definition for transport sectors create any unintended consequences for land transport or other sectors, such as aviation or shipping?

Are there particular freight corridors where there is high freight contestability? Can stakeholders provide information about potential overlap and competitive distortions?

Are there other changes to Safeguard Mechanism design that could address potential distortions consistent with Safeguard Mechanism objectives?

3.5 Coverage

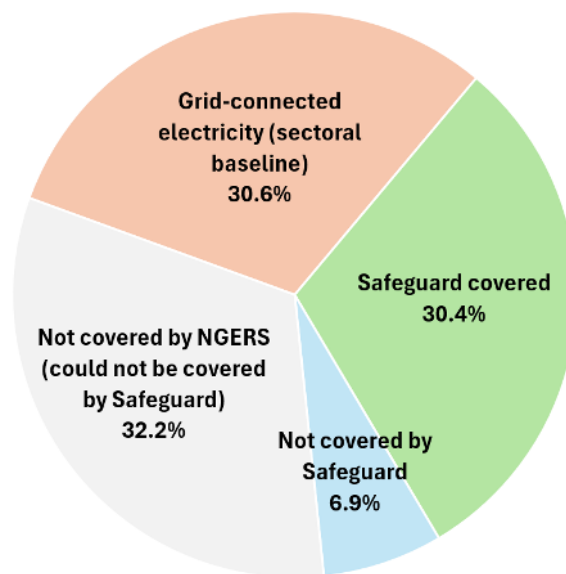
Australia is within reach of its 2030 targets, but meeting the 2035 target will require additional effort. The *Net Zero Plan* identifies the Safeguard Mechanism as having the potential to help fill the gap. This is because the Safeguard is an established and stable scheme that is well understood by businesses. Building on its architecture may be simpler than designing new frameworks.

Current arrangements

The Safeguard Mechanism has a coverage threshold of 100,000 tonnes CO₂-e emissions per year and covers around 30% of national emissions (Figure 3.2).²¹

It builds on the NGERs framework and can only cover emissions reported under that scheme. NGERs has a range of reporting thresholds, including a facility level threshold of 25,000 tonnes CO₂-e per year. It covers around 68% of national emissions.²²

Figure 3.2 Australia's emissions 2024-25, 438 Mt



Source: NGERs emissions data 2024-25.

²¹ The Safeguard covers direct (scope 1) emissions of all greenhouse gases, including CO₂, CH₄, N₂O, SF₆, PFCs and HFCs. Emissions produced off-site, such as emissions from using imported electricity (scope 2), are not covered.

²² The 32% not covered by NGERs includes emissions from individually small sources, such as private vehicle use and agricultural emissions.

The following section considers whether the Safeguard Mechanism could be expanded by lowering the coverage threshold. Changes to coverage settings are not being considered before 2030. One of the parameters for the review is that scheme coverage should take into account competitive neutrality for Australian businesses, and consideration of any extension would only be where a material benefit can be demonstrated.

Should the Safeguard Mechanism cover a larger portion of national emissions?

3.5.1 Coverage threshold

Opportunities for reducing emissions are dispersed throughout the economy. It will be important to access as many of these as possible as we move towards net zero emissions and Australia's post-2030 emissions targets.

Lowering the coverage threshold could help to reduce compliance costs by giving businesses access to a larger pool of potentially low-cost abatement. And more businesses would have an incentive to manage and reduce their emissions, which better distributes the costs and effort of meeting Australia's climate goals.

Lowering the coverage threshold could also help to address industry concerns about potential competitive distortions, which can occur between competitors operating above and below the coverage threshold. Competitive distortions can occur at any threshold. In some sectors, negative impacts decline as coverage expands, but this may not always be the case. For example, if a lower coverage threshold introduces a new sector or activity, this may create a competitive distortion in an industry for the first time.

Finally, the Carbon Leakage Review highlighted that the scope of any potential border carbon adjustment mechanism could be hampered by partial coverage in some sectors, such as lime, treated flat steel products, pulp and paper and glass manufacturing. This is because any border carbon adjustment would ideally mirror requirements placed on *most or all* Australian producers—not a subset of them—to avoid triggering concerns from Australia's trade partners.

The benefits must outweigh the costs

Any decision to expand coverage would need to balance these benefits against the additional costs, which include increased regulatory requirements and compliance costs for newly covered facilities. These are smaller facilities that may have less capacity to absorb these costs. New facilities operated by companies that already operate existing Safeguard facilities have the potential to share experience and resources, so may find new obligations easier to manage.

There may also be additional administrative costs and potential complexity relating to the need to develop new production variables if a lower threshold brings in new industries or activities.

Options for lowering the coverage threshold

Lowering the coverage threshold would increase covered emissions and the number of Safeguard facilities. The coverage threshold could be lowered in increments, for example by 5,000 or 10,000 tonnes each year, or as a one-off adjustment. Table 3.3 summarises the aggregate impacts of five lower coverage thresholds on emissions and facility numbers based on actual data for 2024-25. It does not include forecasts of new facilities that may enter in future years.

Table 3.3: Estimated coverage of emissions at lower threshold (million tonnes)

2024-2025	Above 100kt CO₂-e (current policy)	Above 90kt CO₂-e	Above 80kt CO₂-e	Above 75kt CO₂-e	Above 50kt CO₂-e	Above 25kt CO₂-e
Covered emissions	132.8	134.3	136.2	136.9	140.6	147.0
New covered emissions	N/A	1.5	3.4	4.1	7.8	14.2
Number of facilities	208	224	247	256	316	499
Additional facilities	N/A	16	39	48	108	291
New sectors	N/A	Nil	Nil	1	5	18

Reducing the threshold to 80,000 tonnes does not introduce any new sectors into the Safeguard Mechanism. New sectors begin to be introduced at a 75,000 tonne threshold, though most new facilities are in sectors that are already covered by the Safeguard Mechanism and would likely use existing production variables. The biggest increase in facility numbers is in metal ore mining and oil and gas extraction.

A coverage threshold of 75,000 tonnes CO₂-e may help to manage competitive distortions in sectors where a number of facilities may be operating close to the current threshold. These include metal ore mining, metals manufacturing, some chemical manufacturing, some transport, cement and lime, and landfills. One additional sector—water freight transport—could be covered, but has been covered in the past.

A coverage threshold of 50,000 tonnes CO₂-e brings in 5 new sectors. These are ceramic product manufacturing, converted paper product manufacturing, heavy and civil engineering construction, water freight transport and water transport support services. Water freight transport facilities and converted paper products have been covered in the past.

A coverage threshold of 25,000 t CO₂-e could cover 291 more facilities, including 18 additional ANZSIC groups. The additional abatement delivered at this threshold, although significant, would be unlikely to justify the additional administrative costs, particularly as some facilities could be newly covered by both NGERs and the Safeguard Mechanism at the same time if they grow into this bracket.

Baselines for new facilities

A lower coverage threshold would require consideration of how baselines are set for newly covered facilities. Safeguard baselines for existing facilities are calculated as²³:

$$\text{Baseline} = \text{production} \times \text{emissions intensity} \times \text{emissions reduction contribution (ERC)}$$

There are two main options for setting baselines for newly covered facilities. In this example, it is assumed that the threshold is lowered from 2030-31:

- **Option 1: Baselines set in the same way as existing facilities:** In 2030-31, the emissions reduction contribution (ERC) will be 0.624 so a newly covered facility would have the following baseline:

$$\text{Baseline} = \text{production} \times \text{emissions intensity} \times 0.624$$

- **Option 2: Baselines begin to decline from the time that coverage begins:** As an illustrative example, if the decline rate remains at 4.9% after 2030, the baseline for a newly covered facility in its first year could be:

$$\text{Baseline} = \text{production} \times \text{emissions intensity} \times 0.951$$

Option 1 would avoid competitive distortions between new and existing facilities, but newly covered facilities face a potentially significant and somewhat abrupt compliance obligation in their first year. To manage this, future coverage obligations should be announced with sufficient lead time to allow businesses to prepare and take action to reduce their emissions in advance.

Option 2 could see competitors facing different carbon costs, retaining some of the competitive distortions that existed before the threshold was lowered. Consideration could be given to progressively bringing the emissions reduction contribution for new facilities in line with existing facilities over time, so that they converge at some point before 2050.

Under either approach, the minimum baseline—currently 100,000 tonnes—would fall to be consistent with the new coverage threshold.

²³ This is a simplified baseline calculation which does not account for the possibility of borrowing or concessional baselines.

Potential timing for introduction of lower threshold

Australia's emissions projections foreshadow a trending decline in gross emissions at Safeguard Mechanism facilities through to 2040, alongside increasing demand for units to meet compliance obligations through to 2050. Expanding the base of the Safeguard Mechanism by lowering the threshold is a potential pathway to meeting some of this future demand. As facilities reduce the emission intensity of their production, the current threshold of the Safeguard Mechanism may not remain fit-for-purpose after 2030.

The coverage threshold could be lowered once or in increments. Incrementally lowering the threshold over a longer period of time would begin to capture smaller producers and producers that make goods through lower-emission processes (e.g. from recycled materials). An early announcement of any future changes would provide a signal for facilities to continue to decarbonise production. Timing for potential introduction of a lower threshold for the Safeguard Mechanism could also be considered alongside timing of a potential border carbon adjustment mechanism.

Should the Safeguard Mechanism threshold be lowered and, if so, when?

How should baselines be set for facilities that would enter the Safeguard Mechanism as a result of a lower threshold?

What new production variables would be needed for facilities below the current 100,000 tonne CO₂-e threshold?

3.6 Technical and administrative matters

In addition, since the 2023 reforms, several technical and administrative matters have been either brought forward by stakeholders or identified through the implementation of reforms. The update of the Safeguard Rule following the review provides an opportunity to address these matters. Doing so will help to clarify how certain provisions are intended to operate and to further improve the consistency and certainty of the scheme's operation. Stakeholders will have an opportunity to provide feedback on these administrative amendments when the draft legislation is published early next year.

Feedback is sought regarding administrative aspects of the Safeguard Mechanism.

4 Meeting the 2035 target

4.1 Safeguard share of 2035 target

In 2025, the Government set a target to reduce emissions to 62 to 70% below 2005 levels by 2035. This Review will enable the Safeguard Mechanism to make an appropriate contribution to that 2035 target.

The Safeguard target as a proportional share

The Safeguard Mechanism's emissions targets determine the relative effort of Safeguard facilities compared with the rest of the economy. During the 2023 reforms, it was decided that the Safeguard Mechanism will contribute a proportional share of Australia's 2030 target—that is a share equivalent to its share of national emissions. This corresponds to a point target of 100 Mt in 2030 and an emissions budget of 1,233 Mt over the decade.²⁴

This approach balanced a range of views. Some felt the Safeguard should do less, because it covers many of the 'hard-to-abate' manufacturing sectors, while others felt it should do more because the Safeguard covers Australia's biggest emitters.

The Government proposes to retain the 'proportional share' approach for setting the 2035 target. It represents an objective distribution of effort that asks Safeguard facilities to reduce their emissions at a rate that is consistent with their relative contribution to national emissions.

For the 2023 Safeguard reforms, the 28.1% proportional share was based on 2020-21 data, which was the most recent data available at the time. However, subsequent updates to Australia's inventory have resulted in lower national emissions in 2020-21, meaning the Safeguard's share of emissions in that year is now 31.1%. It makes sense to anchor the proportional share to a period prior to the commencement of the reforms, but there is merit in updating the reference period to include more recent data, now that it is available. Using the average proportional share in the two years prior to the commencement of reforms, that is, 2021-22 and 2022-23, would make the Safeguard's share of national emissions 29.8%.²⁵

The Safeguard Mechanism will continue to do a proportional share of the national emissions reduction task.

²⁴ As measured in 2023, national emissions were 621.1 Mt CO₂-e in 2005 and must fall to 354 In Mt CO₂-e by 2030 for Australia to meet its international target. The equivalent emissions budget for 2021-30 is 4,381 Mt CO₂-e. In 2020-21, Safeguard contributed 28% of national emissions. The corresponding share of the national point target is 99.6 Mt (28.14% of 354 million) and the emissions budget is 1,233 Mt (28.14% of 4,381).

²⁵ The proportional share would need to be revisited if coverage changes as a result of this review.

Should the proportional share be updated from 28.1% to 29.8% to reflect data in the two years prior to the commencement of the reforms or is there an alternative method that would retain a proportional share?

The 2035 target

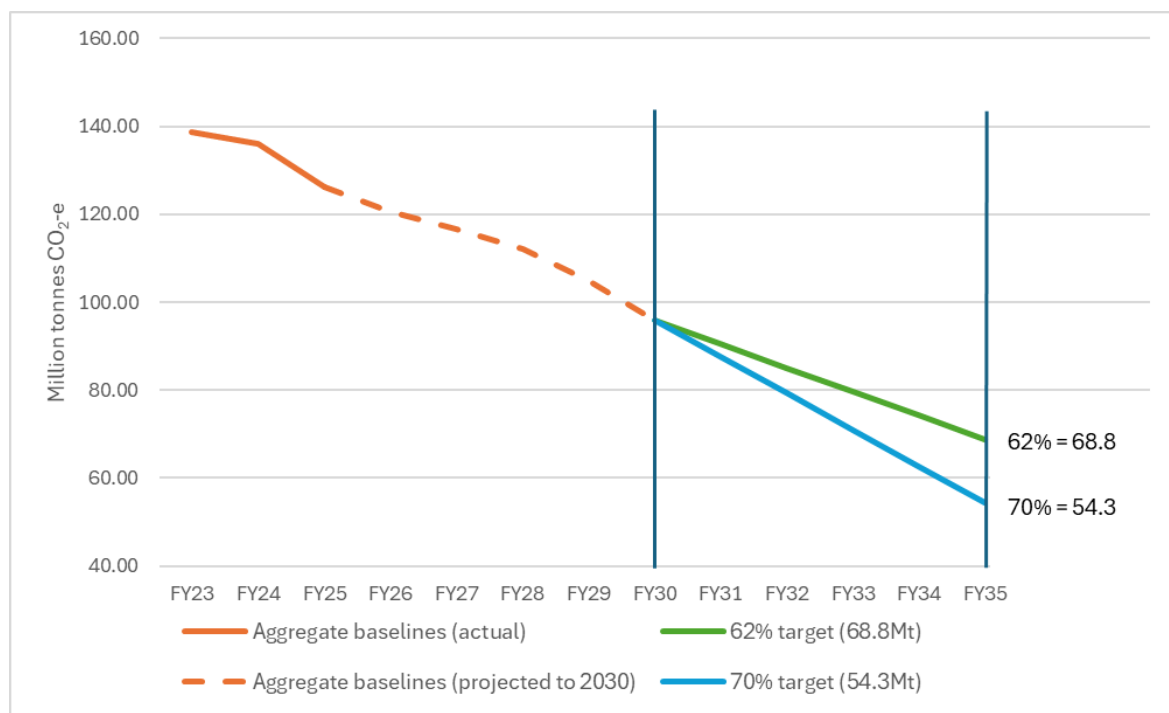
The Paris Agreement sets out a process for countries to set emissions targets with increasing ambition every 5 years aligned with a long-term goal. The 5-yearly interim targets—submitted as Nationally Determined Contributions—are useful milestones that ensure progress is ongoing.

Australia’s 2035 target will be implemented as an emissions budget, estimated to be 1,240 to 1,386 Mt CO₂-e between 2030-31 to 2034-35²⁶. Global warming impacts are cumulative, so the total emissions released over the period better represents Australia’s contribution to mitigating climate change than emissions in a single year.

A corresponding share of the 2035 target for the Safeguard Mechanism, based on its proportional share of national emissions (29.8%) is:

- **As a point target:** 68.8 to 54.3 Mt CO₂-e (62 to 70% below 2005)²⁷
- **As an emissions budget:** 369.3 to 412.8 Mt CO₂-e between 2030-31 to 2034-35.

Figure 4.1 Safeguard Mechanism’s proportional share of the 2035 target



Source: CER Safeguard baseline data, Australia’s emissions projections 2025.

²⁶ A range of 1,248 to 1,395Mt was published in [Australia’s 2035 Nationally Determined Contribution](#). This has been revised to 1,240 to 1,386 in subsequent updates to Australia’s inventory.

²⁷ Based on 2005 national emissions of 607.7 Mt CO₂-e (Australia’s *National Inventory Report 2024*).

Where should Safeguard target sit within the 62 to 70% range?

The 2035 target range of 62 to 70% presents new opportunities for setting the Safeguard target.

The current targets reflect a single value—43% below 2005 levels by 2030. This is reflected in the Safeguard targets—a point target of 100 Mt by 2030 and an emissions budget of 1,233Mt over the decade. However, there is some uncertainty in predicting aggregate baselines over time, as each facility’s baseline adjusts each year with production and there are concessional arrangements for trade-exposed facilities.

A reserve was built into the 2030 decline rate to manage this uncertainty and ensure Safeguard targets can be reliably met. Safeguard baselines are already tracking a little higher than originally expected, but are still well within the limits of the reserve, so we remain on track to meet the 100 Mt target.

This suggests the reserve is both working and is needed. This approach could be retained when setting post-2030 decline rates. However, the characterisation of the 2035 target as a range also presents the opportunity to use an alternative approach to manage these risks.

For example, the Safeguard could combine a conservative target with a more ambitious baseline decline rate. For example, the Safeguard target could sit towards the bottom of the range—that is, closer to 62%; but the decline rate could track towards the top of the range, closer to 70%. This approach would allow ambition to be set high, while ensuring the target could be reliably met, including under a range of different international scenarios impacting demand for our products over the next 10 years, including demand for fossil fuels and other commodities.

What factors should be considered in setting the Safeguard Mechanism target for 2035?
How should the reserve be set for 2035 to account for variation in production and new entrants?

4.2 Decline rates after 2030

The decline rate for 2030-31 to 2034-35 will be calculated to meet the Safeguard’s share of the 2035 target. It cannot be calculated until the Safeguard target is finalised and other policy settings are settled. The final decline rate will take account of:

- **The Safeguard Mechanism target for 2035:** which is the subject of this consultation process.
- **Expected production growth:** estimates of production at existing facilities and the expected pace of facilities entering or exiting the market.
- **Access to concessional baselines:** estimates about how many trade-exposed facilities are eligible for concessional baselines.

- **Any policy changes resulting from this process:** policy changes coming out of this review could impact the above factors.
- **Treatment of a reserve:** a decision about how to manage uncertainty about production growth and access to concessional baselines, to ensure the Safeguard can reliably meet its targets.
- **Credits issued to facilities that fall below the coverage threshold:** the decline rate calculation must take account of credits issued to businesses that have been previously covered by the Safeguard, but have dropped below the threshold.

Once the decline rate for 2030 to 2035 is settled, the review will consider the appropriate decline rate to apply between 2035 and 2050.

What factors should be taken into account when determining an appropriate baseline decline rate to apply from 2030-31 to 2034-35, noting that it must be calibrated to meet the agreed target?

Attachment A: Matters to be considered by the 2026-27 Review

Explanatory Statement to the *National Greenhouse and Energy Reporting (Safeguard Mechanism) Amendment (Reforms) Rules 2023, Attachment B*²⁸

Context

The Government has committed to review Safeguard Mechanism policy settings in the financial year 2026-27, to ensure the scheme's design is appropriately calibrated and effectively delivering emissions reductions in line with Australia's targets. The 2026-27 review will be made on two years of post-reform data and consider reforms outcomes, whilst providing an opportunity to ensure its continued effectiveness. The review will be an opportunity to provide stakeholders with certainty on a range of key policy measures to 2030 and beyond in driving further investment in on-site abatement.

Scope

The review will broadly consider the effectiveness of the design of the Safeguard Mechanism reform in achieving the objects of the *National Greenhouse and Energy Reporting Act 2007* (NGER Act). The review will assess the ongoing effectiveness of a range of policy elements that are key to the scheme's success. The scope of the review will include matters such as:

- the emissions baseline decline value
- whether international units should be considered
- the suitability of arrangements for emissions-intensive, trade-exposed activities
- the role and importance of manufacturing facilities in providing sovereign manufacturing capability (in particular, capabilities that support national decarbonisation investment and investments made by such facilities after the commencement of the reforms)
- the impact of any carbon border adjustment mechanism that might be in place at the time of the review
- the commercial readiness and viability of technology to reduce emissions from manufacturing and other facilities
- the carbon efficiency of these facilities when compared to the competing import facilities
- the progress of international commitments and policies to reduce emissions

²⁸ [National Greenhouse and Energy Reporting \(Safeguard Mechanism\) Amendment \(Reforms\) Rules 2023 - Federal Register of Legislation.](#)

- the sufficiency of the cost containment measure
- the treatment of flexibility mechanisms beyond 2030, such as banking and borrowing and multi-year monitoring periods
- the use of Safeguard Mechanism Credits and offsets beyond 2030, noting these credits provide a significant incentive for investment in on-site abatement
- whether any competitive neutrality issues have arisen with the coverage arrangements.

As part of the 2026-27 review, the **Climate Change Authority** will advise the Government on the extent to which on-site abatement is being driven by the reforms, and whether any additional incentives are required (such as a discount on ACCUs when used for more than a certain percentage of a baseline or any circumstances where limits on the use of ACCUs may be appropriate).