

Policy Brief: Options for reforms to the Safeguard Mechanism

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Policy Brief: Options for reforms to the Safeguard Mechanism informed by empirical research on Australia's metals & mining sector¹

What is the Safeguard Mechanism?

- Safeguard Mechanism + Australian Carbon Credit Unit ('ACCU') Scheme = Australia's core industrial decarbonisation toolkit.
- The Safeguard Mechanism sets scope 1 GHG emissions baselines for Australia's highest-emitting industrial *facilities*—those releasing over 100,000 tonnes of CO₂-e in scope 1 emissions annually from the mining, oil and gas, manufacturing, transport, and waste sectors.
- Crucially, this applies at the scale of the facility, not the corporate entity. One corporate entity may operate multiple facilities.
- Following the 2023 reforms, facilities now have declining emissions baselines and earn Safeguard Mechanism Credits (SMCs) for outperforming their emissions reduction obligations.
- Facilities have three main compliance options under the Safeguard Mechanism:
 - reduce emissions on site, with the potential to generate SMCs,
 - surrender SMCs for compliance, or
 - surrender Australian Carbon Credit Units (ACCUs) generated from sectors that are not covered by the Safeguard Mechanism (external offsets).

Why this matters

- **The Safeguard Mechanism is doing a lot of the heavy lifting** - it is expected to deliver ~28% of Australia's 2030 emissions reductions,² making its effectiveness critical to meeting Australia's climate targets,³ and contributing to meeting the global climate goals under the *Paris Agreement*.
- **Our concern:** The current design of the Safeguard Mechanism provides substantial flexibility to meet declining baselines through external offsets, creating a risk that investment in on-site industrial abatement is delayed.

¹ Forthcoming: Ella Vines, Anke Leroux, Anita Foerster, Anna Huynh and Bei Cui, 'Compliance In Transition: Early Corporate Responses to Australia's Reformed Safeguard Mechanism' (under review).

² Australian Government, Department of Climate Change, Energy, the Environment and Water, *Safeguard Mechanism Reforms* (Position Paper, January 2023) 2.

³ 43% reductions on 2005 levels by 2030, and between 62-70% reductions on 2005 levels by 2035 - *Climate Change Act 2022* (Cth) s 10(1)(a).

Research question

Is the reformed Safeguard Mechanism driving on-site decarbonisation at Australia's highest-emitting industrial facilities, and what does this mean for the credibility of the Safeguard Mechanism in driving decarbonisation in line with Australia's national and international climate goals?

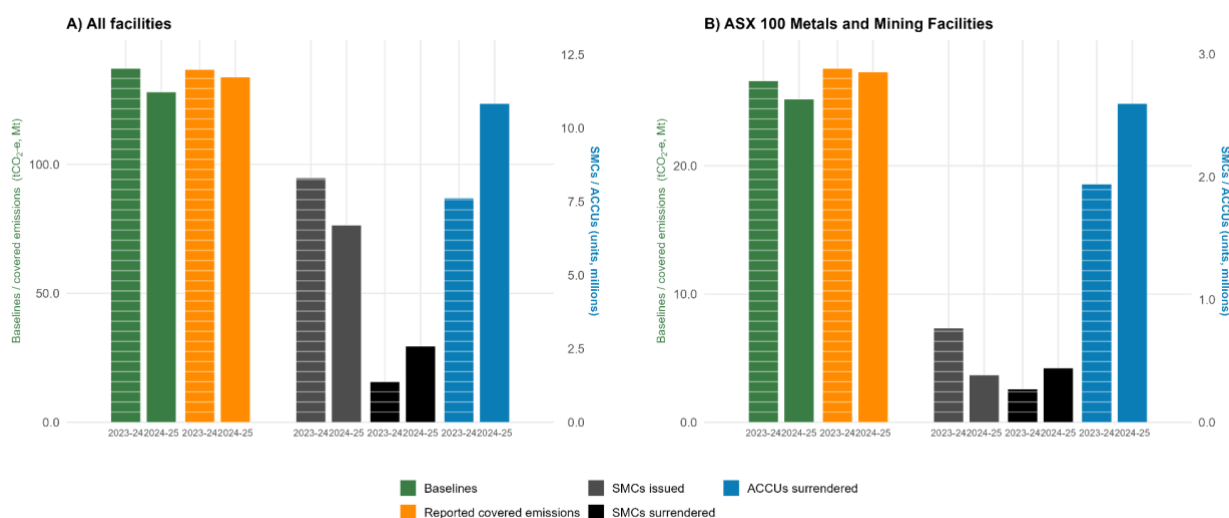
Study

- Descriptive analysis of ASX100 metals and mining companies with Safeguard obligations, combining company climate disclosures with Clean Energy Regulator compliance data for 2023–24 and 2024–25.
- Dataset: 14 companies with a combined 59 facilities with Safeguard Mechanism obligations, representing 20.2% of total emissions covered by the Safeguard Mechanism in 2024.⁴

Key findings

1. Early compliance remains heavily reliant on ACCU surrender.⁵

Figure 1: Mechanism credit surrenders and SMC issuances: 2023–2024 and 2024–2025



Source: CER baselines and emissions data, 2023–24 and 2024–25

2. Companies disclose multiple decarbonisation strategies, but provide limited information on capital allocation and implementation. Existing disclosures provide limited visibility into Safeguard compliance pathways.

⁴ Mechanism-wide aggregate covered emissions from Safeguard Mechanism facilities for 2023–24 was approximately 136.0 Mt CO₂- Clean Energy Regulator, *2023–24 safeguard data insights* (Report) 5. The total emissions contributed by sample Mechanism facilities was 27.6 Mt CO₂. The number of Mechanism facilities in our sample reduced to 51 facilities in 2024–5 as 8 facilities from 2023–24 were no longer defined eligible facilities by the Clean Energy Regulator in 2024–5, and thus did not have Mechanism compliance obligations for this year/do not appear in the Clean Energy Regulator datasets used our study.

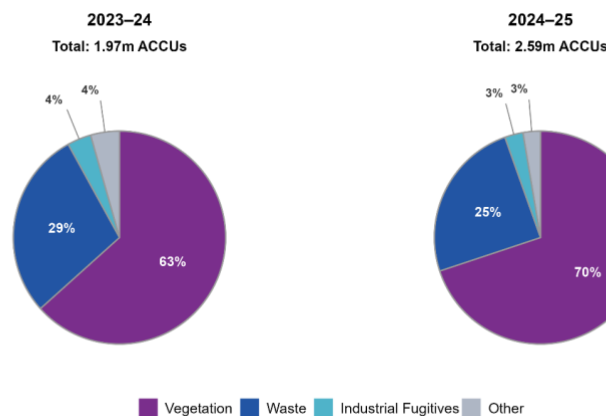
⁵ A key assumption in our research is that SMCs are high integrity and represent onsite decarbonisation. However, we note the integrity of SMCs has been called into question by recent research – see e.g. Fergus Green and Frances Medlock, the Australia Institute, *Safeguarding the Fossil Fuel Industry? How Carbon Offsetting Undermines the Safeguard Mechanism* (Report, June 2026) 37–38.

Figure 2: Decarbonisation Portfolios of ASX 100 Mining & Metals Companies with and without Mechanism Facilities: Lever Use, Disclosure Prevalence, Role of Offsets, and Allocation of CapEx (derived from 2024 and 2025 company disclosures)

Decarbonisation levers	SM Companies																				Non-SM companies							
	S32		FMG		MIN		BHP		NEM		PLS		RIO		EVN		NST		BSL		ILU		LYC		SFR		IGO	
	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
Product change	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Carbon capture storage and utilisation	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Disinvestment	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Process optimisation	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Supply chain decarbonisation	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Carbon offsets	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Energy efficiency	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Electrification/Fuel switching	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
CapEx allocated to decarbonisation levers	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes	No	No	No	No	Yes	Yes	No	No	No	No	No	No	No	No
Does the company have a long-term Scope 1 target (Net Zero)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Does the company have an interim/medium-term Scope 1 target?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No	Yes	Yes	No	No
Does the company have a short-term Scope 1 target?	No	No	No	No	No	No	No	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No	No	No	No	No	No	No	No	No	Yes

3. Most ACCUs surrendered come from method types that have attracted significant integrity debate.

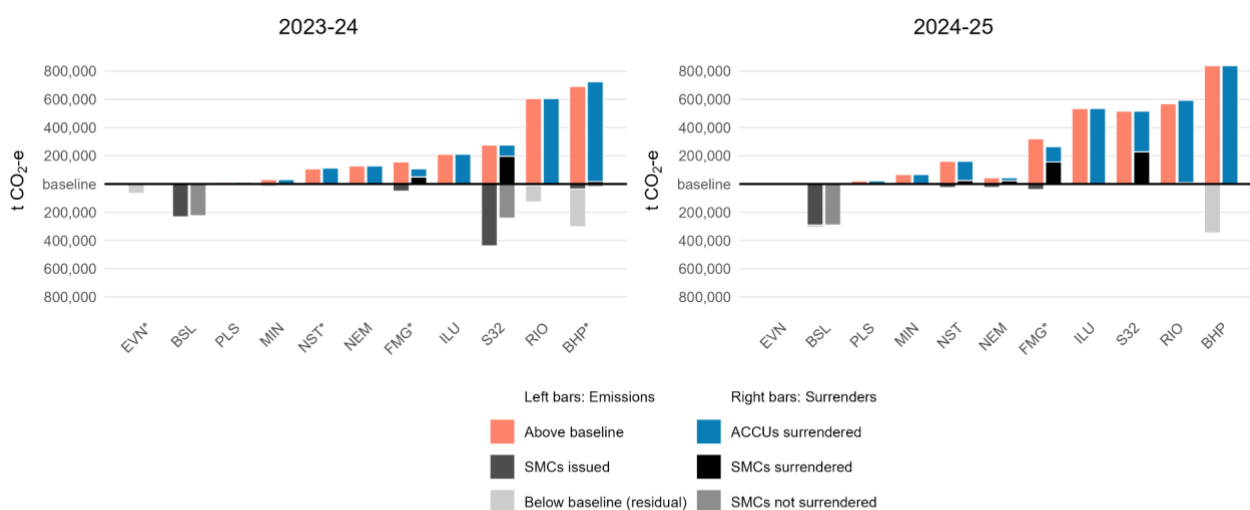
Figure 3: ACCU surrenders for compliance purposes by method type, ASX 100 Metals & Mining Mechanism facilities: 2023–24 and 2024–25



Source: CER ACCU methods data, 2023–24 and 2024–25

4. Corporate climate disclosures provide limited visibility into how companies will achieve facility-level Safeguard compliance.

Figure 4: Emissions relative to baseline and credit surrenders by company: 2023-24 and 2024-25



* Indicates companies operating facilities subject to multi-year monitoring provisions.

Source: CER baselines and emissions data, 2023–24 and 2024–25

Policy implications

- Current design settings risk delaying investment in on-site industrial decarbonisation.
- Heavy reliance on external offsets (ACCUs) may reduce incentives for structural emissions reductions in Australia's most emissions-intensive sectors, weakening the Safeguard Mechanism's contribution to Australia's 2030–35 climate targets.

Reform options

1. Recommendation 1: Introduce a staged 30% → 0% limit on ACCU surrender.

We recommend a substantive quantitative limit on ACCU surrender, initially capped at 30 per cent of emissions above baseline. This 30 per cent starting point builds on the Safeguard Mechanism's existing policy architecture by converting the current 30 per cent 'comply and explain' disclosure trigger into a substantive quantitative limit on ACCU surrender. The limit should then progressively decline by approximately 5–10 percentage points per year, providing facilities with a clear and predictable pathway towards reduced reliance on ACCUs and, ultimately, full delinking of the ACCU and SMC markets for routine compliance.

The staged reduction should be accompanied by strengthened cost-containment arrangements to manage the risk of abrupt compliance-cost increases as access to ACCUs is reduced. This would allow the Government to strengthen incentives for on-site abatement without requiring facilities to bear disproportionate compliance costs where SMC market conditions become unusually constrained.

2. Retain and strengthen cost containment during the transition, with an SMC-focused mechanism after delinking

Cost containment should be retained during the transition as ACCU surrender limits are progressively reduced. The existing cost-containment reserve should continue to protect against significant ACCU supply disruptions and other unexpected market conditions that could materially increase compliance costs. However, the reserve should not permit facilities to surrender ACCUs above the applicable surrender limit, even where ACCU prices reach the existing cost-containment threshold.

As ACCUs play a progressively smaller role in routine compliance, the policy focus should shift towards managing risks arising from the smaller and still developing SMC market. During the transition, scheduled reductions in the ACCU surrender limit could be paused or temporarily relaxed if SMC prices reach a predetermined ceiling. This would preserve the trajectory towards reduced ACCU reliance while protecting facilities against abrupt or disproportionate compliance-cost increases.

Following full delinking of the ACCU and SMC markets, cost containment should become primarily SMC-focused. If SMC prices reach a predetermined ceiling, facilities could be given access to a limited ACCU backstop, for example through a regulatory reserve or a mechanism allowing ACCUs to be used to meet obligations at the SMC ceiling price. The SMC trigger price should increase progressively as the SMC market develops, with its longer-term level informed by a credible international carbon credit benchmark.

Cost containment should therefore operate as a backstop against severe compliance-cost pressures, rather than a routine alternative to on-site abatement. At the same time, strengthening the SMC price signal cannot by itself resolve the broader environmental and regulatory limitations of the Mechanism's baseline-and-credit architecture. These include the potential for production-adjusted baselines to permit increases in absolute emissions and concerns about the integrity of emissions data underpinning SMC issuance. These issues warrant continued policy attention alongside reforms to cost containment.

3. Introduce Safeguard-specific carbon abatement plans to improve transparency

The Government should consider requiring Safeguard entities to prepare carbon abatement plans setting out how they expect to meet declining baselines over time.

Such plans could include:

- planned material abatement measures;
- indicative implementation timeframes;
- expected emissions reductions;
- significant technological, infrastructure or energy dependencies;
- the facilities at which material abatement is expected to occur; and
- the anticipated use of ACCUs and SMCs.

This would directly address current information gaps identified in our research, including limited visibility into Safeguard Mechanism compliance in corporate climate risk disclosures.

Carbon abatement plans can be designed to complement rather than duplicate AASB S2 climate-related financial disclosures, adding robust and targeted information about decarbonisation strategy and implementation.

Bottom line

The first years of the reformed Safeguard Mechanism suggest that compliance is currently external offset-led rather than on-site decarbonisation-led, while information about how companies will deliver future facility-level abatement remains limited.

The current statutory review provides an opportunity to strengthen incentives for on-site industrial emissions reductions while maintaining flexibility for business.

The Government should therefore use the statutory review to:

- 1. establish a staged pathway to reduce reliance on ACCUs for ordinary compliance;**
- 2. retain and strengthen cost-containment arrangements so that stronger abatement incentives do not create disruptive compliance costs;**
- 3. introduce Safeguard-specific carbon abatement plans to improve transparency and inform future ACCU and SMC demand; and**

These reforms would strengthen the incentive for genuine industrial emissions reductions while preserving sufficient flexibility to manage technological uncertainty, infrastructure constraints and compliance-cost risks.

For further insights: please see the recording of our webinar, *Safeguard Mechanism in Practice: Lessons for Policy Reform*, with expert analysis from Monash Business School Green Lab, Newcastle University School of Law and Justice, the Carbon Market Institute, and the Australian Conservation Foundation available here:

- Link: Click [here](#)
- Passcode: 5ZL!hX^=

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