

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 and generate SMCs,
 - use/purchase SMCs credits 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:** In emissions-intensive sectors such as mining and metals, the current design of the Safeguard Mechanism may allow companies to defer investment in direct emissions reductions. Heavy reliance on carbon offsets risks delaying the structural decarbonisation needed in Australia's highest-emitting industries.

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 credibility of the Safeguard Mechanism in driving decarbonisation in line with Australia's national and international climate goals?

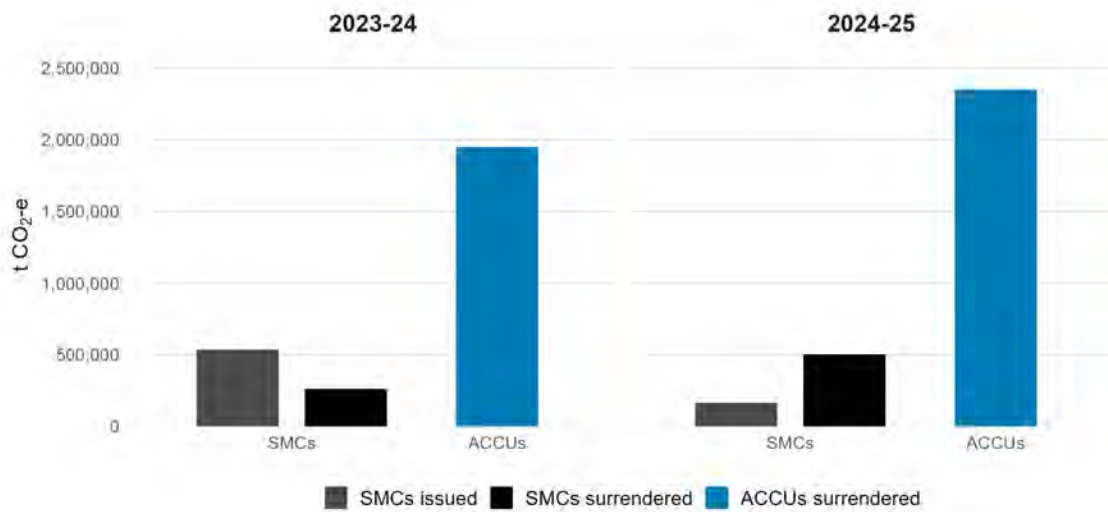
Study

- Analysis of ASX100 metals and mining companies with Safeguard obligations, combining company climate disclosures with Clean Energy Regulator compliance data for 2023–24 and preliminary 2024–25 data.
- Dataset: 14 companies with a combined 59 facilities with Safeguard Mechanism obligations.

Key findings

1. **Compliance is overwhelmingly driven by ACCU surrender rather than on-site emissions reductions.**⁴

Figure 5.3: Surrendered credits and SMC issuance by/to ASX 100 Metals & Mining Company Facilities



⁴ 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.

2. Companies commonly disclose multiple decarbonisation strategies, but offset use remains a central compliance pathway.

Figure 5.1: Decarbonisation Portfolios of ASX 100 Mining & Metals Companies with and without Safeguard Mechanism Facilities: Lever Use, Disclosure Prevalence, Role of Offsets, and Allocation of CapEx (derived from 2024 company disclosures)

Decarbonisation levers	SM Companies										Non-SM companies			
	BHP	EVN	FMG	MIN	NEM	NST	PLS	RIO	SS2	WMC	IGO	LYC	PRU	SFR
Product change														
Carbon capture storage and utilisation (CCS/CCU/CCUS)														
Disinvestment/reorientation from carbon intensive company activities														
Process optimisation														
Supply chain decarbonisation														
Carbon offsets														
Energy efficiency														
Electrification/Fuel switching														
CapEx allocated to decarbonisation levers	Yes	No	Yes	Yes	Yes	No	No	Yes	Yes	No	Yes	No	No	No

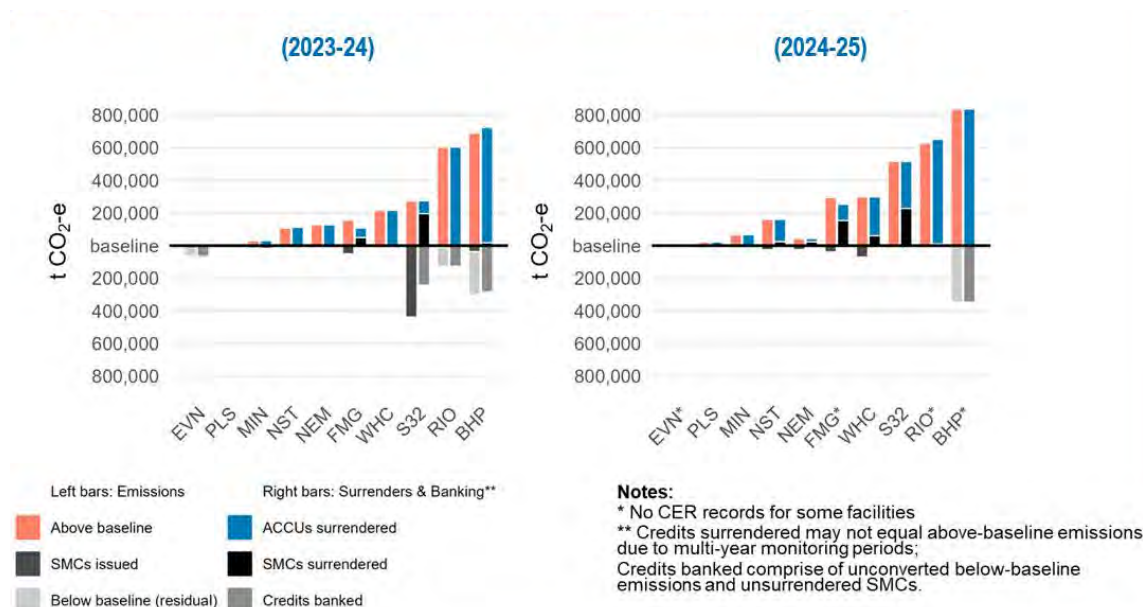
3. Most ACCUs surrendered come from method types that have attracted significant integrity debate.

Figure 5.6: Quantity of ACCUs surrendered to meet Safeguard Mechanism obligations by ACCU method type



4. Companies are strategically banking and managing SMCs across facilities and compliance years, reducing the volume of credits available for trade in the SMC market.

Figure 5.5: Emissions relative to baseline and credits surrendered and banked by company



Policy implications

- Current design settings risk delaying investment in direct 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

- Strengthen incentives for on-site abatement by tightening ACCU surrender rules.
- Consider separating the ACCU and SMC markets so SMCs provide a stronger incentive for direct emissions reductions. Ensuring SMC integrity will be essential to this reform option.
- Explore limits on the quantity of ACCUs that facilities may surrender for compliance.
- Consider using ACCUs primarily as a price-stability mechanism.
- Consider imposing limits on SMC banking.⁵
- Assess whether company-level obligations could be more effective than the current facility-based approach.

⁵ We note that under current settings, SMCs can be used for compliance in any year to 2030, and that their eligibility for use after 2030 has been flagged as an issue subject to the 2026 27 Safeguard Mechanism review.

Bottom line

The first years of the reformed Safeguard Mechanism suggest that compliance is currently offset-led rather than direct decarbonisation-led.

The forthcoming statutory review provides an opportunity to strengthen incentives for genuine industrial emissions reductions while maintaining flexibility for business.

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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