August 2026

Submission to Climate Change Authority – Consultation – 2026 Annual Progress Advice

We welcome the opportunity to contribute to the Climate Change Authority's consultation on the 2026 Annual Progress Advice. This submission has been prepared by academics from Monash Business School Green Lab.

Green Lab serves as a hub for interdisciplinary and applied research on sustainability, bringing together academics from economics, finance, law, accounting and management, to contribute applied research to address current sustainability policy challenges.

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1. Summary

Our submission draws on our original empirical research examining early corporate responses to Australia's reformed Safeguard Mechanism,[1] and directly relates to the second element of the CCA's input to the Australian Government's 2026–27 review of the Safeguard Mechanism, namely, the extent to which on-site abatement is being driven by the reforms, and whether additional incentives are required.[2]

[1] Ella Vines et al, 'Compliance in Transition: Early Corporate Responses to Australia's Reformed Safeguard Mechanism' (2026, under peer review). Please see our policy brief based on this research here. We also expect to publish further empirical research tracking early climate risk disclosure under AASB S2 later this year and we will share this with the CCA when available. This research is relevant to broader questions posed in this consultation (questions 2 and 3) as it provides insights into if and how companies are decarbonising their operations as part of their climate-related transition risk management, and whether or not the introduction of mandatory climate reporting is sufficient to drive robust risk management and disclosure of credible targets and transition plans.

[2] Climate Change Authority, 2026 Annual Progress Advice, Consultation Paper, July 2026, ('Consultation Paper') 36-39 [3.4].

Sample and data - Our research draws on publicly available Safeguard Mechanism compliance data and Australian Carbon Credit Unit Register data from the Clean Energy Regulator,[3] combined with analysis of company climate-related disclosures.[4] The sample consists of 14 companies selected from the ASX100 constituents as at the close of trading on 31 December 2024 and classified within the Global Industry Classification Standard (GICS) Metals & Mining Industry Group. The sample was fixed at 31 December 2024 because Australia's mandatory climate-related financial disclosure regime commenced for Group 1 entities with financial years beginning on or after 1 January 2025 with reporting requirements prescribed by AASB S2. Fixing the sample immediately prior to the commencement of the regime enables us to examine changes in the disclosures and behaviour of a consistent set of companies over time, rather than changes resulting from movements in the composition of the ASX100. Metals and mining companies were selected because of their significant emissions profiles, exposure to climate-related transition risks, and central role in supplying minerals essential to the global low-carbon transition.

We collected data for the 2024 and 2025 disclosure years. Eleven of the 14 sample companies operate facilities regulated under the Safeguard Mechanism, collectively accounting for 59 of the 233 regulated facilities and 20.2% of total covered emissions in 2024.[5] We find that compliance trends within our Metals & Mining sample broadly mirror those observed across the Safeguard Mechanism as a whole. This makes company- and facility-level examination of the sector a valuable window into the compliance behaviour and decarbonisation progress of large emitters under the reformed mechanism.

Key findings - Our research shows that:

- Across the companies examined, Safeguard Mechanism compliance remains overwhelmingly reliant on the surrender of Australian Carbon Credit Units (ACCUs), while relatively few Safeguard Mechanism Credits (SMCs) are surrendered. Reflecting the composition of the ACCU market, ACCUs surrendered are primarily generated through land-sector methods that have been the subject of ongoing integrity concerns. Our data also suggests strategic SMC use, whereby companies transfer credits across their facilities and timeframes to manage compliance obligations.
- In their corporate climate disclosures, sample companies primarily disclose incremental operational improvements to reduce emissions and manage climate-related transition risks—particularly electrification, fuel switching and energy efficiency—supplemented by carbon offsets. Technologies and strategies such as carbon capture and storage and product transformation were reported less frequently. While these approaches vary considerably in their maturity and potential contribution to emissions reduction, their relatively limited disclosure suggests that companies remain focused on incremental operational improvements rather than broader changes to industrial production.

These findings suggest that Australia's largest industrial emitters are, at least in the early years of the reformed mechanism, relying heavily on flexible compliance pathways, with the associated risk of delaying investment in the scale of on-site emissions reductions required over the longer term. Our findings also draw attention to a structural

[3] Figures 1, 4 and 5 are derived from CER 'baselines and emissions' tables for the corresponding year. Figure 3 is derived from CER 'ACCU methods' tables for the corresponding year. There are discrepancies between these two CER datasets which we have written to the CER about to clarify and will provide updates to the Climate Change Authority when available.

[4] published in annual reports, sustainability or ESG reports (where published separately), dedicated climate change reports (where available), and ESG databooks. Data drawn from these sources is collectively referred to as 'company disclosures'.

[5] Our sample, listed alphabetically by ASX ticker, comprises: BHP, BSL, EVN, FMG, IGO, ILU, LYC, MIN, NEM, NST, PLS, RIO, SFR, S32. Of these, LYC, IGO and SFR are not responsible for any Safeguard Mechanism facilities.

challenge inherent in the current regulatory framework: Safeguard Mechanism compliance obligations are imposed at the facility level, whereas climate disclosure obligations are imposed at the company level. This makes it difficult to evaluate how companies are managing decarbonisation across their whole operations and to assess the effectiveness of company-wide transition strategies.

Accordingly, this submission makes the following recommendations (explored in more detail in **section 4** below):

- **Recommendation 1**: **Strengthen incentives for on-site abatement by tightening ACCU surrender rules.** Tightening ACCU surrender rules will produce a stronger SMC price signal, giving facilities a clearer incentive to reduce emissions on-site. This could be achieved through:
    - **Reform option 1a:** Limiting the quantity of ACCUs facilities may surrender for compliance at any point in time.
    - **Reform option 1b:** Delinking the ACCU and SMC markets for day-to-day operations, while retaining and potentially strengthening existing price-stabilisation measures.[6]
- **Recommendation 2:** Reconsider whether company-level obligations could be more effective than the current facility-based approach.

2. Insights from other emissions trading schemes

The reformed Safeguard Mechanism operates as a baseline and credit scheme, while many international counterparts use a cap-and-trade design.[7] Despite this structural difference, both approaches fall within the broader category of emissions trading schemes and share many of the same strengths and limitations.

Two recurring design challenges have been observed in relation to emissions trading schemes:

- high carbon price volatility (**see 2.1 below**) and,
- excessive permit banking (**see 2.2 below**).[8]

Price volatility and excessive permit banking prevent carbon prices from consistently reflecting the social cost of carbon and can undermine investment in on-site abatement. In some jurisdictions, this has prompted the introduction of price stabilising mechanisms.

[6] Ensuring that SMCs represent genuine emissions reductions will be important under either option. 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 discussed further in section 4 below.

[7] For example, the Regional Greenhouse Gas Initiative in the north-east United States, California's AB-32 cap-and-trade system; and the European Union Emissions Trading System – see in general the discussion of these schemes in R. Schmalensee and R. N. Stavins, 'The design of environmental markets: What have we learned from experience with cap and trade?' (2017) 33 *Oxford Review of Economic Policy* 572.

[8] See, eg, T. N. Cason and L. Gangadharan, 'Emissions variability in tradable permit markets with imperfect enforcement and banking' (2006) 61 *Journal of Economic Behavior & Organization* 199; L Gangadharan, R Croson and A Farrell, 'Investment Decisions and Emissions Reductions: Results from Experiments in Emissions Trading' in JA List and MK Price (eds), *Handbook on Experimental Economics and the Environment* (Edward Elgar, 2013) 23.

2.1 Measures to address price volatility

Schemes such as the US Regional Greenhouse Gas Initiative,[9] the California Carbon Market,[10] and the New Zealand Emissions Trading Scheme[11] set minimum carbon prices to prevent prices from falling too low, while releasing additional credits from the reserve when prices rise above predetermined thresholds to limit excessive price increases. Similarly, the EU Emissions Trading Scheme's (EU ETS) Market Stability Reserve has a price stabilisation objective, with movements into and out of the reserve triggered by thresholds in the total number of banked permits.

2.2 Measures to curb excessive banking and tighten future supply

Existing measures to address this design challenge include cancelling:

- allowances held in the reserve above a specified threshold, and
- permits banked for extended periods.[12]

Price stabilisation mechanisms in combination with the automatic cancellation of unused credits,[13] transform emissions trading schemes into hybrid price- and quantity-based instruments. Such hybrid instruments are generally regarded as beneficial because they combine the strengths—and mitigate the weaknesses—of purely price-based or purely quantity-based climate policies.

Like the Safeguard Mechanism's use of ACCUs, several emissions trading schemes internationally permit the use of offsets generated in external markets.[14] However, unlike the Safeguard Mechanism, these schemes typically impose strict quantitative and qualitative limits on offset use to preserve the integrity of the emissions cap and the effectiveness of price signals.[15] For example:

- Under the European Emissions Trading Scheme, the use of international offset credits has been progressively restricted and ultimately prohibited, in response to concerns about cap integrity, price dilution, and the substitutability of external abatement for emissions reductions within covered sectors.[16]
- The California Cap and Invest program recognises offset credits under the California Compliance Offset Protocols (including forest projects, livestock manure, coal and trona mine methane capture). Prior to 2021

[9] Schmalensee and Stavins (n 7).
[10] S. Borenstein et al, 'Expecting the unexpected: Emissions uncertainty and environmental market design' (2019) 109 *American Economic Review* 3953.
[11] For details regarding the NZ ETS see New Zealand, Ministry for the Environment, 'The NZ ETS Market' (Web page, 20 September 2024) <https://environment.govt.nz/what-government-is-doing/areas-of-work/climate-change/ets/nz-ets-market/>.
[12] For analyses on the effect of the Market Stability Reserve within the EU ETS, see, eg, in general S. Borghesi et al, 'The market stability reserve in the EU emissions trading system: A critical review' (2023) 15 *Annual Review of Resource Economics* 131; G. Perino and M. Willner, 'Procrastinating reform: The impact of the market stability reserve on the EU ETS' (2016) 80 *Journal of Environmental Economics and Management* 37.
[13] J. E. Aldy and R. N. Stavins, 'The promise and problems of pricing carbon: Theory and experience' (2012) 21(2) *The Journal of Environment & Development* 152, 167-170.
[14] Schmalensee and Stavins (n 7).
[15] M. Ranson and R. N. Stavins, 'Linkage of greenhouse gas emissions trading systems: Learning from experience' (2016) 16 *Climate Policy* 284, 289-291.
[16] Directive 2009/29/EC of the European Parliament and of the Council amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community [2009] OJ L140/63; Directive (EU) 2018/410 amending Directive 2003/87/EC for the period from 2021 to 2030 [2018] OJ L76/3.

the offset credit use limit was 8% of a covered entities compliance obligation. This limit was reduced to 4% between 2021-2025 and increased to 6% between 2026-2030.[17]

While many of the challenges identified above arise across emissions trading schemes generally, a critical distinction between cap-and-trade systems and baseline-and-credit schemes such as the reformed Safeguard Mechanism lies in how emissions constraints are defined. Whereas cap-and-trade schemes impose an explicit aggregate cap on total emissions, baseline-and-credit schemes establish facility-level baselines derived from an explicit emissions-intensity standard—that is, as tonnes of carbon per unit of output rather than as fixed absolute emissions limits. As a result, a facility's total annual emissions may rise or fall with changes in output while remaining in compliance, provided its emissions intensity does not exceed the pre-determined standard. This design generates an implicit, output-contingent aggregate cap that fluctuates with total production, that has been shown to result in higher aggregate emissions and greater efficiency losses than under a fixed cap, with the performance standard effectively operating as a subsidy to output.[18] In addition, issues such as volatile price signals and excessive credit banking (described above) tend to be more pronounced in baseline-and-credit schemes such as the Safeguard Mechanism, raising important questions about the scheme's capacity to drive timely and sustained emissions reductions consistent with Australia's national targets and international climate commitments.

3. Empirical research findings

Overall, the findings from our research suggest that the 2023 reforms have strengthened Australia's industrial emissions reduction framework, but they also put into question whether the current design of the Safeguard Mechanism is generating sufficiently strong incentives for widespread on-site industrial decarbonisation. While company compliance in the first two reporting years has shifted alongside the declining baselines introduced by the reforms, it continues to rely predominantly on external offsets (ACCUs) rather than emissions reductions within regulated facilities. This suggests that the Safeguard Mechanism's current settings may be insufficient to deliver sustained, on-site industrial decarbonisation consistent with Australia's emissions reduction targets, and that additional reforms warrant consideration.

3.1 Compliance is overwhelmingly driven by ACCU surrender rather than on-site emissions reductions.

Across the study sample approximately 1.94 million ACCUs were surrendered for compliance during the 2023–24 reporting year, compared with approximately 271 thousand SMCs surrendered despite more than 767 thousand SMCs being issued during the same period. While emission baselines declined by more than 5% across the regulated facilities in our sample between 2023-24, aggregate covered emissions only declined by 1%. The increased compliance gap was met by an additional 656k ACCUs being surrendered compared with 2023-24. SMC surrender also increased by 60% while only half as many SMCs were issued in 2024-25 than in 2023-24 (**Figure 1**).

This pattern is not unexpected during the early years of a reformed emissions trading framework. Many industrial decarbonisation projects require substantial capital investment and lengthy implementation periods. However, without introducing some limits on the use of ACCUs, there is a substantial risk that companies will continue to meet

[17] Similar caps on within-country generated credits apply in the Quebec Cap and Trade, Korean K-ETS and China National ETS. In contrast there is no percentage ceiling on use of domestic offset credits in the Japan-Tokyo Cap and Trade Program, Indonesia's Nilai Ezonomi Karbon or the Kazakhstan ETS. See, Fowlie et al, 2024 Annual Report of the Independent Emissions Market Advisory Committee (25 Feb 2025), < https://calepa.ca.gov/wp-content/uploads/2025/02/2024-ANNUAL-REPORT-OF-THE-IEMAC-final.pdf> .

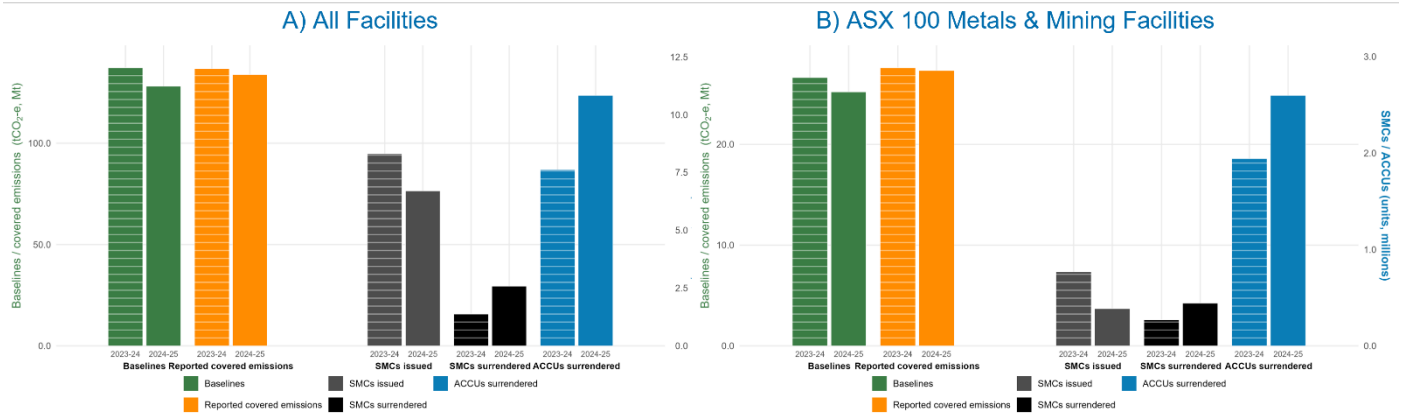
[18] As demonstrated theoretically and experimentally by N. J. Buckley, S. Mestelman and R. A. Muller, 'Baseline-and-credit emission permit trading' (2008) *Environmental economics, experimental methods* 9.

a large proportion of their compliance obligations through externally generated emissions reductions rather than investing in direct reductions at regulated facilities.

This distinction is important because the Safeguard Mechanism was reformed not simply to maintain compliance with emissions baselines, but to drive structural emissions reductions within Australia's highest-emitting industrial sectors. Continued reliance on ACCUs may therefore delay investment in the technological and operational changes required to achieve long-term industrial decarbonisation.

The compliance trends observed in the Metals & Mining sample broadly correspond with those observed across the Safeguard Mechanism as a whole (**Figure 1**). Between 2023–24 and 2024–25, aggregate baselines in the Metals & Mining sample declined by 5%, while reported covered emissions declined by only 1%. This compares with a 6.7% decline in aggregate baselines and a 2.1% decline in covered emissions scheme-wide. In the Metals & Mining sample, the increased compliance gap was met by an additional 656,000 ACCUs being surrendered, while SMC surrender increased by 60%. Scheme-wide, ACCU surrender increased by approximately 3.0 million units (39%), while SMC surrender increased by 86%. SMC issuance also declined at both levels, although the decline was substantially greater in the Metals & Mining sample. Only half as many SMCs were issued in 2024–25 as in 2023–24 within the sample, compared with a 19% decline scheme-wide, from approximately 8.3 million to 6.7 million SMCs. These trends broadly correspond across the two datasets, particularly the faster decline in baselines relative to emissions and the increased reliance on surrendered credits.

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



Note: This data was derived from the CER's 'baselines and emissions' tables for 2023-4 and 2024-5 and includes 'deemed surrenders' of ACCUs.

3.2 Companies commonly disclose multiple decarbonisation strategies, but offset use remains a central decarbonisation pathway

Our analysis of company disclosures indicates that companies generally report pursuing multiple decarbonisation strategies rather than relying on a single approach (**Figure 2**). Across disclosure years 2024 and 2025, commonly disclosed measures included electrification and fuel switching, energy efficiency improvements, process optimisation, supply-chain decarbonisation and carbon offsets. The use of multiple decarbonisation levers was particularly evident

among companies operating facilities regulated by the Safeguard Mechanism, although the mix of measures varied considerably between companies and over time.

The disclosures nevertheless indicate a continued emphasis on operational measures, particularly electrification and fuel switching, energy efficiency and process optimisation, rather than more transformational changes to products and production processes. Product change and carbon capture, storage and utilisation were less consistently disclosed across the sample, while divestment was comparatively uncommon. Carbon offsets also remained a prominent component of the decarbonisation strategies reported by many Safeguard Mechanism-regulated companies.

Importantly, disclosure of decarbonisation measures did not necessarily correspond with disclosure of the financial resources allocated to their implementation. While some companies reported capital expenditure associated with their decarbonisation strategies, several Safeguard Mechanism-regulated companies did not disclose CapEx allocated to decarbonisation levers, and there was little evidence of a clear improvement in this respect between 2024 and 2025. Even where climate-related capital expenditure was disclosed, companies often reported an aggregate figure rather than allocating expenditure to individual projects or decarbonisation levers.

Overall, the findings indicate that companies are pursuing a range of approaches to decarbonisation but provide less evidence of the financial commitments and more substantial changes to products and production processes that may be required to achieve deeper emissions reductions. The persistence of offsets alongside predominantly operational decarbonisation measures also provides important context for the patterns of Safeguard Mechanism compliance discussed below.

Figure 2: 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 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																												
Carbon capture storage and utilisation																												
Disinvestment																												
Process optimisation																												
Supply chain decarbonisation																												
Carbon offsets																												
Energy efficiency																												
Electrification/Fuel switching																												
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	Yes	Yes

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

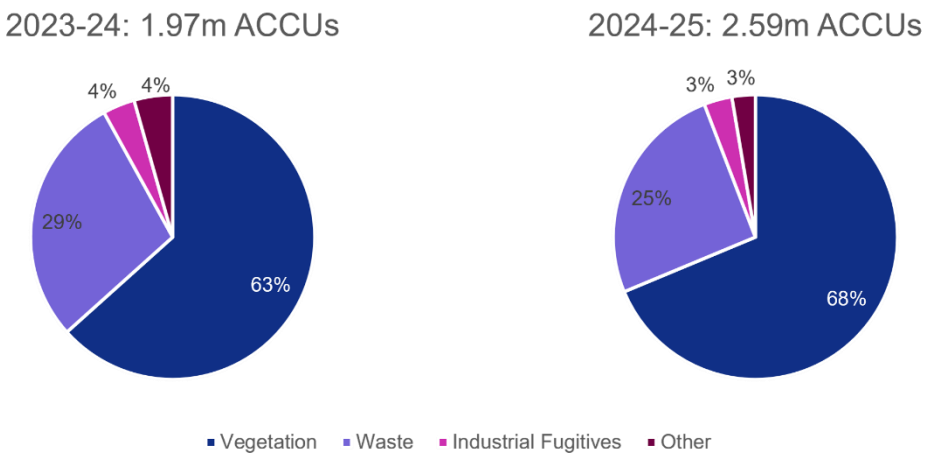
Our research also examined the composition of ACCUs surrendered to meet Safeguard Mechanism obligations.

The results show that companies overwhelmingly relied on ACCUs generated using land-sector methodologies, with 63% of ACCUs surrendered being derived from vegetation projects in 2023-2024. This share increased to 68% in 2024-25 while other method category shares declined (**Figure 3**). This pattern broadly reflects the current structure of the Australian carbon market, where land-sector projects comprise the largest proportion of ACCUs available for purchase.

The prevalence of these methods is significant because some vegetation methodologies, such as human induced regeneration projects, have been the subject of sustained debate regarding environmental integrity and additionality. Although reforms have strengthened governance of the ACCU Scheme and some methodologies have been amended or discontinued, credits generated under earlier methodologies continue to comprise a substantial proportion of the market. The long-term availability and integrity of these offsets therefore remain relevant considerations when

assessing the extent to which emissions reductions achieved under the Safeguard Mechanism represent actual emissions reductions.

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



Note: This data was derived from the CER's 'ACCU methods' tables for 2023-4 and 2024-5.

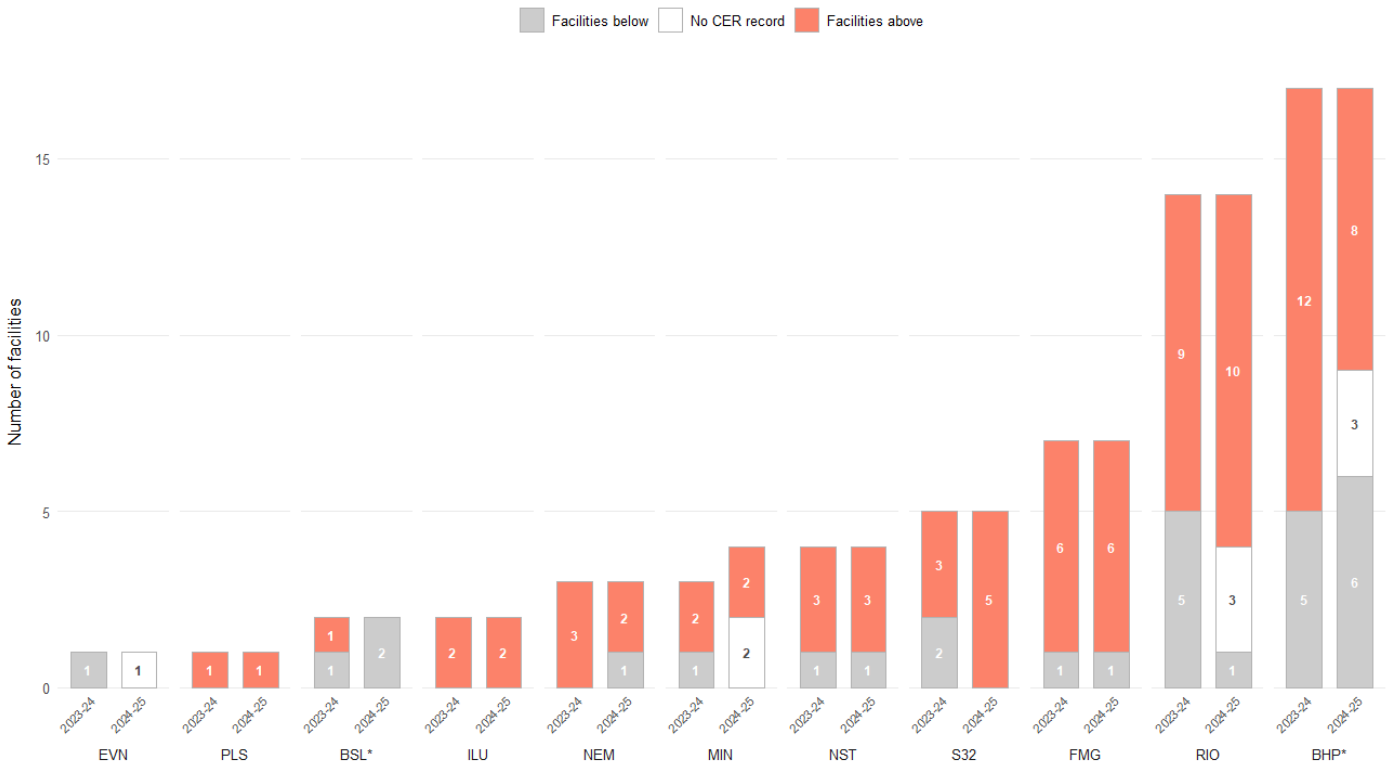
3.4 Companies appear to manage SMCs across facilities and compliance years, with implications for the development of the SMC market

The majority of companies in our dataset operate multiple Safeguard Mechanism-regulated facilities, often with different net positions, with some facilities operating above and others below their baselines (**Figure 4**). These differences create the potential for internal credit transfers, whereby SMCs generated by below-baseline facilities can be used to meet compliance obligations at above-baseline facilities within the same corporate group.

Although substantial numbers of SMCs were generated during the study period, relatively few were surrendered. The available data do not allow us to directly observe SMC holdings or transactions between entities. However, the relatively low level of SMC surrender compared with issuance is consistent with companies retaining a substantial proportion of issued SMCs for potential future use, including as facility baselines become progressively more stringent.

These patterns have implications for the development of the SMC market. The capacity to use SMCs across facilities within a corporate group, together with the retention of SMCs for future compliance, may limit the volume of SMCs entering the market and available for external trade. At the same time, continued access to ACCUs provides facilities with an alternative means of meeting present compliance obligations. The combination of internal use, retention of SMCs and reliance on ACCUs may therefore contribute to relatively limited SMC market activity and weaken the SMC price signal that might otherwise incentivise direct emissions reductions at Safeguard facilities.

Figure 4: Facilities above and below their emission baselines by company: 2023-24 and 2024-25



Notes:

* Indicates companies operating facilities that are eligible under s58B.

This data was derived from the CER's 'baselines and emissions' tables for 2023-4 and 2024-5.

3.5 The facility-based design of the Safeguard Mechanism obscures company-level decarbonisation strategies

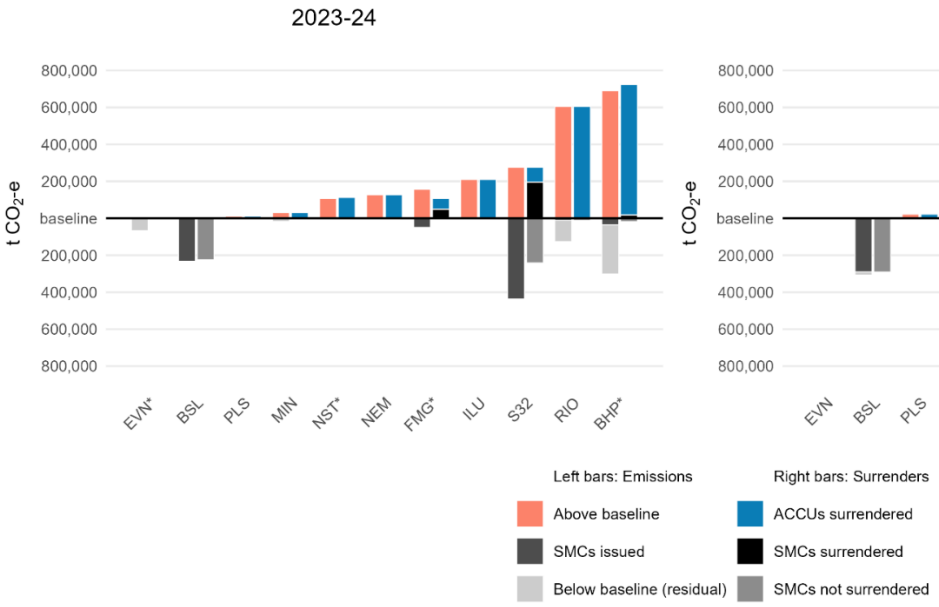
At the company level, many firms simultaneously operated facilities above and below their emissions baselines (**Figure 4**). When facility-level performance is aggregated at the company level (**Figure 5**), all but three companies in 2023–24, and all but one company in 2024–25, had a negative net position: aggregate covered emissions across their operated facilities exceeded their aggregate facility baselines. In both compliance periods, this gap was predominantly met through ACCU surrender and, to a more limited extent, SMC surrender.

The data also indicates that companies may manage SMCs across facilities and compliance periods. While the available Safeguard Mechanism data does not allow us to directly observe SMC trading or banking, in some cases observed SMC surrenders correspond with SMCs issued to other facilities operated by the same company in the current or preceding compliance year. This is consistent with companies using SMCs generated by below-baseline facilities to meet compliance obligations at above-baseline facilities, including through the use of previously banked SMCs.

These dynamics illustrate the difficulty of assessing corporate decarbonisation strategies through a regulatory framework in which obligations and credit generation operate at the facility level. A company may simultaneously generate SMCs at some facilities, surrender ACCUs or SMCs at others, and bank or transfer SMCs across its portfolio and over time. Consequently, establishing a direct relationship between company-level decarbonisation strategies, as reflected in corporate disclosures, and facility-level emissions performance and compliance behaviour, as captured by

Safeguard Mechanism data, is inherently difficult. The facility-based design can therefore obscure the overall direction and coherence of a company's decarbonisation efforts.

Figure 5: Emissions relative to baseline and credit surrenders by company: 2023-24 and 2024-25



Notes:

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

This data was derived from the CER's 'baselines and emissions' tables for 2023-4 and 2024-5.

4. Recommendations

Recommendation 1: Strengthen incentives for on-site abatement by tightening ACCU surrender rules.

Tightening ACCU surrender rules will produce a stronger SMC price signal, giving facilities a clearer incentive to reduce emissions on-site. This could be achieved through:

- **Option 1a:** Limiting the quantity of ACCUs facilities may surrender for compliance at any point in time.
- **Option 1b:** Delinking the ACCU and SMC markets for day-to-day operations, while retaining and potentially strengthening existing price-stabilisation measures.

Ensuring that SMCs represent genuine emissions reductions will be important under either option. In this regard, submissions by the Australia Institute have raised concerns about both the design of SMC crediting and the integrity of the emissions data underpinning their issuance.[19] In particular, they argue that the production-adjusted baseline

[19] 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.

framework can allow facilities to increase production and absolute emissions while still generating SMCs. They also raise concerns that emissions from coal and gas facilities are often estimated rather than directly measured, creating a risk that actual emissions are underestimated and SMCs are issued without corresponding real-world emissions reductions.

The SMC market is small relative to the ACCU market, so under full linkage with no limits to ACCU surrender, the SMC market will be a price taker with SMC prices effectively tracking ACCU prices. As the ACCU price sits well below carbon prices in jurisdictions that have achieved meaningful on-site decarbonisation[20], this linkage risks producing a price signal too weak to drive abatement under the Safeguard Mechanism. Our observations of early compliance behaviour, discussed above, support this concern: facilities have so far relied predominantly on ACCU surrender rather than on-site abatement. Tightening ACCU surrender rules would allow the SMC price to diverge from the ACCU price and rise to a level that better reflects the cost of on-site abatement, strengthening the incentive for facilities to pursue internal emissions reductions.

Under Option 1a, ACCU surrender would be capped at a pre-determined proportion of a facility's total compliance obligation, with the remainder required to be met through SMC surrender. This would weaken, though not eliminate, the price-taker dynamics described above, as a portion of credit demand would need to be met within the SMC market regardless of the relative price of ACCUs.

Option 1b is the stronger of the two options. Under this option, ACCUs can no longer be freely surrendered for compliance. Instead, they would only retain their current function as a price-stability reserve: under the existing cost-containment measure, Safeguard facilities that exceed their baseline may purchase ACCUs held in reserve by the Clean Energy Regulator at a fixed ceiling price, with the Clean Energy Regulator currently holding 4.4 million ACCUs for this purpose.[21] The reserve mechanism would be retained to manage volatility in the SMC market, which would otherwise operate independently of the ACCU market. The key departure from the current design is the trigger for release. Presently, release is triggered by the ACCU price rising above a fixed, CPI+2% - indexed threshold. Under this proposal, release would instead be triggered once the SMC price itself rises above an escalating price ceiling. This distinction matters because the current market-size imbalance between the ACCU and SMC markets means ACCU prices are likely to remain deflated relative to the cost of on-site abatement for the foreseeable future, with a trigger tied to the ACCU price unlikely to ever be activated in practice. Delinking the SMC market from the ACCU market with a price stability reserve trigger tied to the SMC price, would allow the SMC price to rise more freely and strengthen the incentive for on-site decarbonisation, while safeguarding against excessive SMC price spikes once the ceiling is reached.

The escalating SMC price should be calibrated to converge on a global carbon price benchmark by the next 5-yearly Safeguard Mechanism Review. This alignment would ensure that the on-site decarbonisation incentives are aligned with international incentives while guarding against Safeguard facilities facing competitive disadvantage relative to their international peers.

As a last-resort price stabilisation measure, facilities could be permitted to draw on a limited, pre-determined quantity of ACCUs they hold in reserve or purchase from the ACCU market. This measure would require two

[20] For example, the EU Carbon Permit Price on 13 August 2026 is € 81.87.

[21] CER, *Quarterly Carbon Market Report* (September Quarter 2025) 5. The price stabilising capacity of this measure is currently reduced by the linked nature of the Safeguard Mechanism and ACCU Scheme.

conditions to be met: i) the regulator's cost containment reserve has been fully released and ii) the SMC price remains above the ceiling price even after that release. This retains the reserve as the primary cost-containment tool, with facility-level ACCU surrender available only as a secondary safeguard once the primary tool has been exhausted and proven insufficient.

Recommendation 2: Assess whether company-level obligations could complement or improve upon the current facility-based approach.

In line with the findings described in section 3.5 above, the current facility-based structure of the Safeguard Mechanism can make it difficult to assess the relationship between facility-level compliance behaviour and company-wide climate targets and transition strategies. We therefore recommend that the statutory review consider whether, and to what extent, obligations or accountability mechanisms at the company level could complement or improve upon the existing facility-based approach. A company-level perspective could improve transparency and enable more robust assessment of the consistency between corporate transition strategies, capital allocation and compliance behaviour across a company's portfolio of Safeguard facilities.

Any move towards company-level obligations would, however, require careful consideration of the Safeguard Mechanism's baseline-and-credit architecture. Baselines are currently determined at the facility level, with different production variables and emissions-intensity values potentially applying across a company's facilities. Aggregating these into a company-level obligation would therefore introduce considerable complexity, particularly for companies operating facilities across different industries or producing different products. This complexity may reduce over time as emissions-intensity values increasingly converge towards industry-average values but would not necessarily disappear.

International experience also suggests that facility-level regulation is not unusual in emissions trading and baseline-and-credit schemes. For example, the EU Emissions Trading System generally regulates stationary industrial installations at the installation level. However, its maritime transport regime places compliance obligations on shipping companies, providing a potentially useful example of how company-level accountability can operate within a broader emissions trading framework. Rather than presupposing wholesale replacement of facility-level baselines, the statutory review could therefore examine whether company-level obligations, aggregation mechanisms or supplementary reporting and accountability requirements could address some of the limitations identified in our analysis while retaining facility-level emissions-intensity benchmarks where necessary.