

## **Safeguard Mechanism reform – Consultation open**

**19 August 2022**

On Thursday 18 August 2022, Minister for Climate Change and Energy, Chris Bowen, released the consultation paper on the design of the Australian Government's reforms to the Safeguard Mechanism.

As the Australian Government has increased its emissions reduction ambition to 43 per cent by 2030, reforms to the Safeguard Mechanism are needed to facilitate the reduction of industrial sector emissions while avoiding increases to production costs.

The reforms intend to build on the existing Safeguard Mechanism architecture, changing the settings to reduce emissions and increase industry productivity and competitiveness in a decarbonising global economy.

The Government is seeking views from industry and other interested stakeholders on issues including:

- setting baselines for existing and new facilities;
- setting indicative rates for baseline decline;
- lowering costs through crediting over performance and the use of offsets;
- identifying options for tailored treatment for emissions-intensive, trade-exposed businesses; and
- taking account of available and emerging technologies.

Key points and questions raised in the consultation paper include:

- The current coverage threshold of 100,000 tonnes of Scope 1 (direct) CO<sub>2</sub>-e emissions each year will remain in place under the reformed scheme.
- What should the Safeguard Mechanism's share of Australia's climate targets be?
- Should we retain, and build on, the existing production-adjusted (intensity) baseline setting framework or return to a fixed (absolute) approach?
- How should crediting and trading, domestic offsets and international units, be handled?
- Should banking and borrowing arrangements be implemented for Safeguard Mechanism Credits?
- Would additional funding opportunities effectively assist emissions-intensive, trade-exposed (EITE) facilities to adapt to declining Safeguard baselines?
- Are differential decline rates an appropriate way to reduce the impact on EITE facilities?
- What are the appropriate characteristics for the decline trajectory to 2030 that can deliver the Safeguard Mechanism's share of Australia's climate targets, and the process for setting baselines post-2030?
- How should landfills be treated?

## International offsets

In both the discussion paper and media appearances surrounding its release, Minister Bowen has not ruled out the potential for Australian businesses to purchase international offsets to help them lower the costs of meeting Australia’s emissions reduction targets.

International offsets will only be considered in the Safeguard Mechanism if they are of high integrity and can be formally transferred to count towards Australia’s Paris Agreement commitments. A transformation of Australia’s domestic economy is a priority, and limits on the use of international offsets may be appropriate.

International offsets are not proposed to be a part of the initial Safeguard Mechanism implemented on 1 July 2023. The government has however left room for discussion on the matter, and potential inclusion of international offsets in the future.

## Timing



Figure 1: Consultation paper, p.6

The Safeguard Mechanism reforms are scheduled to take effect from 1 July 2023.

The Government has suggested a two phased approach to implementation to 2030:

- Phase 1 (2 years from 2023-24 to 2024-25): transition commencing 1 July 2023.
- Phase 2 (5 years from FY26 to FY30): changes commence in full on 1 July 2025.

## **Further information**

The consultation paper is available [here](#), and submissions can be made from now until 20 September 2022.

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