

**Safeguard Mechanism
29 March 2023
Hawker Britton Occasional Paper**

On Tuesday 10 January 2023, Federal Minister for Climate Change and Energy, Chris Bowen, released the Albanese Government’s proposed reforms to the Safeguard Mechanism. The proposal, outlined in a position paper and draft legislative rules available [here](#), is the result of over nearly 6 months of consultation.

Consultation on the proposed design then closed on 24 February 2023.

On 27 March 2023, the Albanese Government reached an agreement with the Australian Greens to secure their support in parliament for the Safeguard Mechanism reforms, which have been included in this brief.

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 package proposes:

- retention of the intensity baseline framework, allowing baselines to grow and fall with production.
- a hybrid approach regarding the setting of baselines for existing facilities, heavily weighted towards site-specific levels at scheme commencement – giving facilities time to transition to industry average benchmarks by 2030. New facilities will be expected to meet a new ‘best practice’ benchmark.
- tailored treatment for emissions-intensive, trade-exposed (EITE) facilities based on the principle of comparative impact, to ensure competitiveness and that emissions do not ‘leak’ overseas - noting that international competitiveness will increasingly depend on low emissions production.
- establishing a cap on emissions of 1,233 million tonnes of CO₂-e to 2030, or 100 million tonnes in 2030.
- increased transparency on the use of offsets by companies to meet their obligations under the mechanism, and improvements in the reporting of methane and nitrous oxide emissions.
- overall, these changes decline emissions baselines of Safeguard-covered facilities by 4.9 per cent each year to 2030.

Targets and baselines

Safeguard facilities will deliver a proportional share of 28.14 per cent of the national 2030 target. The reformed Safeguard Mechanism is expected to deliver an estimated 205 million tonnes of abatement by the end of the decade.

The Government is proposing to retain the existing production-adjusted (intensity) baseline framework, which allows baselines to grow and fall with production.

Baselines for existing facilities would be set using a hybrid model initially weighted towards the use of site-specific emissions intensity values, and transitioning to industry average emissions intensity values by 2030.

New facility baselines would be based on international best practice emissions-intensity benchmarks, adapted for Australian circumstances. International best practice would also apply at existing Safeguard Mechanism facilities if they begin producing new products.

The overall baseline decline rate is proposed to be 4.9 per cent each year to 2029-30. This would apply to all Safeguard facilities, including existing and new facilities, unless a differential trade exposed baseline adjusted facility rate has been approved for a facility.

Improvements to the reporting of methane and nitrous oxide emissions are included in the design of the Safeguard Mechanism. This includes a requirement for these emissions to be publicly reported, and having the Climate Change Authority to look at updating methane measurement, verification and reporting and implement any improvements by 1 July 2024 where practicable.

Crediting, Trading, ACCUs and International Offsets

All Safeguard Mechanism facilities with emissions below their baseline would be able to generate credits, except landfills and facilities accessing multi-year monitoring periods, borrowing arrangements, and deemed surrender provisions.

The banking of Safeguard Mechanism Credits (SMCs) will be unlimited to 2030.

Safeguard Mechanism facilities would be able to continue surrendering domestic offsets—in the form of ACCUs—to meet their compliance obligations.

While safeguard facilities would be able to access abatement outside of the scheme, including ACCUs, to avoid double counting and integrity issues, Safeguard facilities would no longer generate ACCUs, subject to transitional arrangements that allow existing Emissions Reduction Fund (ERF) projects to continue to generate and sell ACCUs for their existing crediting period.

Government-held ACCUs would become available at \$75 per tonne of CO₂-e in 2023-24, increasing with the CPI plus 2 per cent.



Where companies are using over 30% offsets to meet their requirements, they'll explain to the regulator their choice for doing that (e.g., cost, technology availability etc.).

Under the proposed design, landfills would not be eligible to generate Safeguard Mechanism Credits from 2023-24 to 2025-26.

International offsets do not form part of the initial proposal. The inclusion of high integrity international offsets will be consulted on in 2023.

The Government has also committed to the implementation of the recommendations of the Chubb Review.

Emissions-intensive, trade-exposed (EITE) businesses

Two categories of facilities would be given access to tailored treatment to manage competitiveness and carbon leakage (the increase in greenhouse gas emissions in one country due to the emissions reduction another):

- *Trade Exposed facilities*, which will include all facilities undertaking a trade exposed activity;
- *Trade Exposed Baseline Adjusted facilities*, which are a subset of trade-exposed facilities facing an elevated risk of carbon leakage.

Both categories will have access to an initial, dedicated \$600 million Safeguard Transformation Stream of the Powering the Regions Fund (PRF); and all Safeguard Mechanism facilities will have preferential treatment for access to other PRF streams, where they are eligible, such as through additional weighting in the criteria for assessment.

Trade Exposed Baseline Adjusted facilities would be eligible to apply to the Clean Energy Regulator for a discounted decline rate set based on a scheme impact metric. The minimum decline rate would be one per cent each year.

Following feedback from industry, the Government will undertake a review commencing in 2023 to explore further policy options to address carbon leakage. A *carbon border adjustment mechanism (CBAM)* will be considered as part of the review, with consultation to date showing strong stakeholder interest in an Australian CBAM. CBAMs work by imposing an import tariff and/or export rebate on trade with countries without an equivalent carbon constraint. The review will give particular consideration to a CBAM for the steel and cement sectors (including clinker and lime production).



Powering the Regions Fund

In addition to the previously announced \$600 million in funding from the Powering the Regions Fund for trade-exposed Safeguard facilities, the Albanese Government will provide \$400m for industries providing critical inputs to clean energy industries (incl. steel, cement/lime, aluminium/alumina).

The Government has also agreed to ensure that public funding through the Powering the Regions Fund is not directed to the expansion of fossil fuels, focusing on decarbonisation.

The PRF will provide funding to help in the transition towards net zero emissions by focusing on four key areas:

1. Decarbonising Existing Industries
2. Developing New Clean Energy Industries
3. Workforce Development
4. Purchasing Carbon Credits

Further information

For more information, please contact Hawker Britton's Managing Director Simon Banks on +61 419 648 587.

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