

Explainer: Safeguard Mechanism

The Australian Federal Government is currently looking at amending the Safeguard Mechanism to help industry reduce emissions in line with Australia's legislated climate targets.

The Department of Climate Change, Energy, the Environment and Water released a consultation paper in August 2022 on potential reforms to the mechanism.

What is the Safeguard Mechanism?

- In place since 2016, the Safeguard Mechanism provides a legislated framework that limits the emissions of large industrial facilities that emit more than 100,000 tonnes of Scope 1 (direct) CO₂-e emissions each year.
- Together, Safeguard Mechanism facilities contributed 28 per cent of national emissions in 2020-21.

What does the Safeguard Mechanism do?

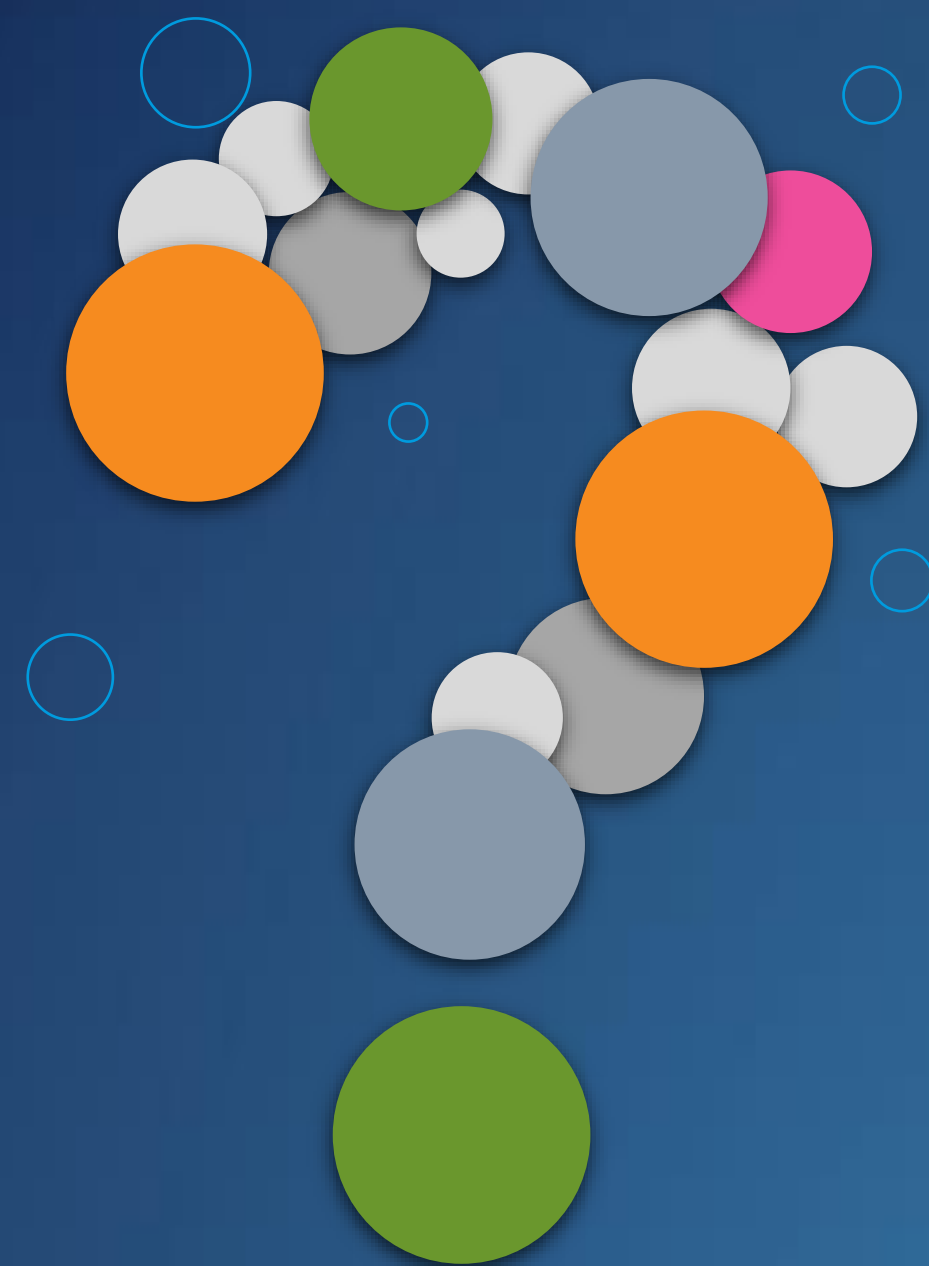
- The mechanism places a limit, or baseline, on the amount of greenhouse gases (GHG) covered facilities can emit each year.
- Covered facilities must show that their emissions for that year are below their baseline.
- Any facility that exceeds their baseline has to implement measures to reduce emissions: either taking direct actions to reduce emissions, or purchasing and retiring Australian Carbon Credit Units (ACCUs).

What does the reform process cover?

- The Government is seeking options and input for setting and reducing baselines that align with the updated 2030 target and associated trajectory to net-zero in 2050.
- The Government is also proposing new flexible compliance mechanisms, including crediting and trading, to facilitate low-cost abatement, both within the scheme as well as sectors outside of the scheme

Who does the mechanism cover?

- Presently, the mechanism covers around 215 large industrial facilities, including entities in the mining, manufacturing, transport, oil, gas and waste sectors.



The Safeguard Mechanism's role in Australia's climate policy framework:

- The mechanism is the central policy that constrains GHG emissions from Australia's largest emitters.
- Any design reforms will need to reflect that the mechanism will be the main driver for emission reductions from these emitters.
- A cost-efficient and robust policy mechanism will be crucial for Australia to meet our 2030 emission reduction target.

Baseline setting and reduction trajectories:

- A key reform as part of post-2023 design will be setting the baselines and emission trajectories, both program-wide as well as for individual industries.
 - To meet Australia's 2030 target, an open question is whether our largest emitters should deliver more, less, or the same as the economy-wide emissions trajectory.
 - Considerations include the cost and efficacy of direct emission reductions available at an industry-level, and in some cases facility-level.
 - In parallel, additional policies and policy reforms will be needed in other sectors to help deliver the abatement required to meet our 2030 target (e.g. in the transportation sector).
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KEY ISSUES**COVERAGE THRESHOLD**

- The consultation paper states that the current 100,000 tonne threshold will not change.
- This parameter constrains the overall scope and ambition of potential reforms to the mechanism: without the ability to adjust (lower) the emissions threshold, coverage will remain broadly limited to the current industrial facilities, and ~30% of Australia's total emissions.

BASELINE CONFIGURATION

- Currently an emissions intensity per unit of production, but an option to apply an absolute emissions framework.
- Application of site-specific vs. industry-average baselines.

MARKET FUNDAMENTALS

- Issues include trading, banking and borrowing, supply of domestic offsets, access to international units, offset quality, and compliance periods.