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Australia's Safeguard Mechanism

Seonghee Kim¹

Manager, Energy Efficiency Group, Climate Change and Energy Efficiency Unit
The Institute of Energy Economics, Japan

1. Climate change policy outline

In Australia, the course of climate change policy changes frequently as a result of changes in the administration. The Australian Labor Party, which regained power for the first time in eight years as a result of a general election in May 2022, is proactive about climate change policy and has increased the country's 2030 greenhouse gas emissions reduction target to a 43% reduction below 2005 levels, from 26-28% previously. Additionally, in September 2022 it enacted the Climate Change Act 2022, Australia's first climate change legislation.²

Up to now, Australia's main climate change policy was the Emissions Reduction Fund (ERF), a system that started in 2015 whereby the government buys up reductions from energy conservation and greenhouse gas reduction projects. In 2012 a fixed price emissions trading scheme that set the price of emission rights at AUD23 (AUD1=JPY96.6) was introduced, but following a change in government from the Labor Party to a conservative coalition in 2013, the fixed price emissions trading scheme was scrapped by (former) Prime Minister Tony Abbott, who adopted a dismissive stance on carbon pricing, and in its place his government introduced the ERF scheme as the country's main climate change policy. The ERF offers incentives to companies to reduce emissions. However, participation in the ERF scheme is voluntary, and because participation was not mandatory, concerns³ emerged about carbon leakage and the possibility that relying on the scheme alone would not make it possible to ensure Australia's national reduction target is achieved. These concerns led in July 2016 to the introduction of the Safeguard Mechanism as a separate measure for curbing increases in

¹ [songhee\(@\)tky.ieej.or.jp](mailto:songhee(@)tky.ieej.or.jp)

² The Climate Change Act sets forth greenhouse gas reduction targets of "reducing Australia's net greenhouse gas emissions to 43% below 2005 levels by 2030" and "reducing Australia's net greenhouse gas emissions to zero by 2050." Additionally, it makes it mandatory for a Cabinet minister to announce an annual climate change statement in Parliament, strengthens the Climate Change Authority's public consultation powers and also provides for the holding of regular progress reviews etc.

³ For example, it is conceivable that emission leakage problems could occur, such as when a certain company's plant takes part in the ERF scheme and has the government buy up its reductions on the one hand, with the company meanwhile increasing production at another plant it owns.

companies' emissions.

The Safeguard Mechanism is a scheme under which the government sets permissible emissions values (or “caps”) for greenhouse gas emitting facilities whose annual emissions exceed a certain amount, and controls their adherence to those caps. However, not only does the Safeguard Mechanism set the level of the permissible emission values as “the highest level of reported emissions during a baseline period,” but it also permits companies to comply by using average figures spread across several years. In this and other ways, the reduction levels demanded of the companies covered are not strict, and it has been becoming a framework focused on “managing companies’ emissions to ensure they do not exceed business as usual (BAU) levels.” In light of that, the Labor Government engaged in amending the existing Safeguard Mechanism in a way that would strengthen it. The related amendment bill, the Safeguard Mechanism (Crediting) Amendment Bill 2023, made it through Parliament in March 2023 and entered into force on July 1, 2023. This paper gives an overview of the details of the amended scheme for the Safeguard Mechanism, which will form the main axis of Australia’s climate change policy going forward.

2. The Safeguard Mechanism’s Scheme Design

2.1. Overview of the Scheme

The Safeguard Mechanism is a system that sets permissible emissions values for facilities with direct annual emissions of 100,000 t-CO₂e or more, and legally obligates the companies to adhere to them. It allows for companies to utilize offset credits to offset their emissions in cases where their emissions exceed the permissible values. The Safeguard Mechanism covers approximately 215 companies in the mining, petroleum, gas, manufacturing, waste and transport sectors, and accounted for around 28% of Australia’s total emissions in fiscal 2020. (Figure 1)

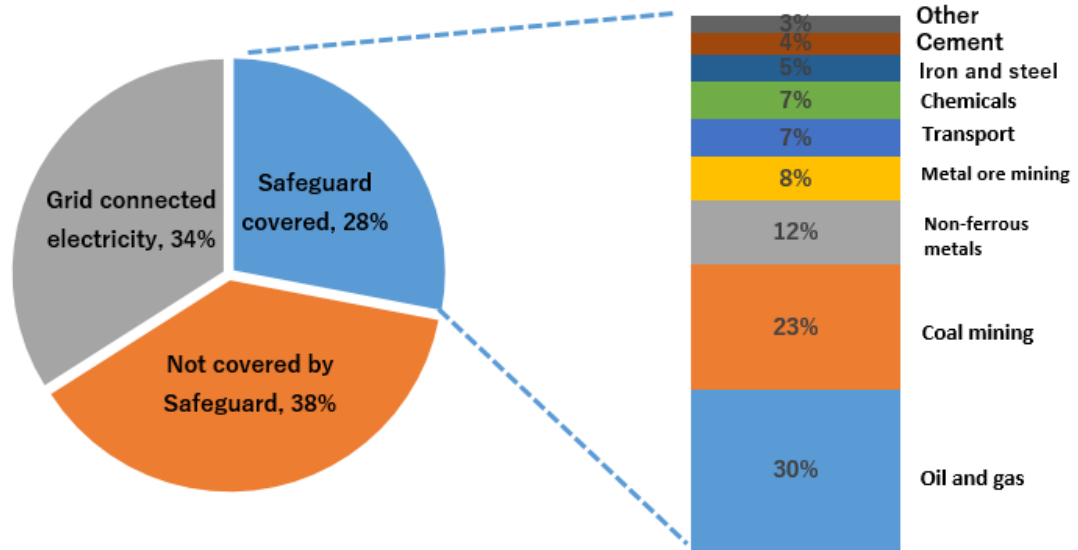


Figure 1 Australia's National Emissions and Safeguard Mechanism

(Source) Carbon Leakage Review Consultation Paper, DCCEEW (2023)⁴

Under the previous Safeguard Mechanism, no emissions cap was set for the scheme as a whole, but in the 2023 amendment, an emissions cap was established that is linked to the national reduction target. Figure 2 shows the Safeguard Mechanism's emission reduction targets. The Safeguard Mechanism's 2030 emissions target of 100 million tons represents a reduction of approximately 27% compared to 2020.⁵

⁴ https://storage.googleapis.com/files-au-climate/climate-au/p/prj2a056033efffb0b89f5fe/public_assets/Carbon%20leakage%20review%20-%20Consultation%20paper%201%20webinar%20slides.pdf

⁵ The Australian government's national target for 2030 (a 43% reduction compared to 2005) corresponds to a reduction of approximately 28.9% compared to 2020, and so in pursuing a reduction matched to the national reduction target, a target of 99 million tons (a reduction level of around 28%) had been proposed. However, on the basis of industry views and other standpoints, this was eased slightly, to 100 million tons.

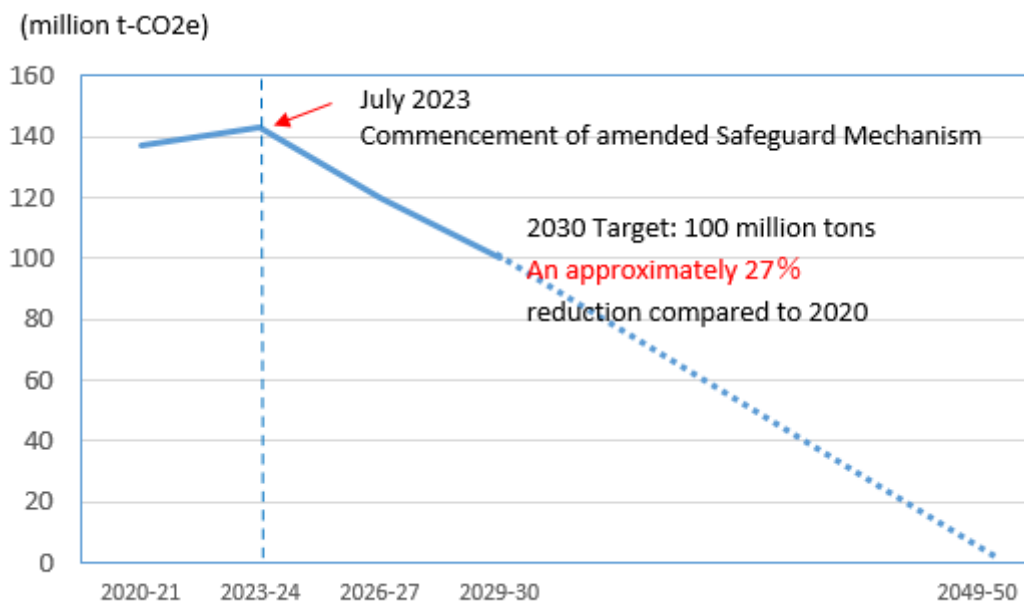


Figure 2 The Safeguard Mechanism’s emissions reduction pathways toward 2050

(Source) Safeguard Mechanism Reforms Position Paper, DCCEE (January 2023)

2.2. Approaches to Setting Target and Baseline

(1) Baseline setting

A production-adjusted (intensity) baseline setting framework is used to calculate the permissible emissions values (caps) for greenhouse gas emitting facilities covered by the Safeguard Mechanism. The production-adjusted (intensity) baseline (hereinafter abbreviated to “baseline”) is calculated by multiplying the quantity of activity, such as the quantity of key products produced, with the emissions intensity value (formula 1), and so as production volume increases or declines, so too does the baseline.

$$\text{Production-adjusted (intensity) baseline} = \text{effective production} \times \text{emissions intensity value} \times \text{decline rate} \quad (\text{Formula 1})$$

However, the emissions intensity values utilized in calculating the baseline differ for existing facilities and new facilities. In the case of existing facilities, up until 2030 it will be possible to use intensity values that combine the industry average intensity values with site-specific emissions intensity values (Table 1), but this will gradually shift from site-specific emissions intensity values to industry average intensity values. Furthermore, a decline rate of 4.9% per year applies to the baselines to 2030. This decline rate will be applied across the board to all facilities covered by the regulations, with no distinction

made between new and existing facilities.⁶ The decline rate from 2030 will be set every five years, and the decline rate up to 2035 is scheduled to be decided in July 2027.

On the other hand, in the case of new facilities,⁷ “international best practice levels” will be applied as the intensity values to be used in calculating baselines. The Australian Government had begun exploring international best practice levels,⁸ but in order to prevent distortions developing on the competition front between new and old, in cases where existing facilities manufacture new products it has decided to treat them as new facilities and apply international best practice levels.

Table 1 Ratios reflecting intensity values when calculating baselines of existing facilities

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Industry average :	10 : 90	20 : 80	30 : 70	40 : 60	60 : 40	80 : 20	100 : 00
Site-specific							

(Source) Safeguard Mechanism Reforms Factsheet, DCCEEW (2023)⁹

(2) Treatment of new gas fields

In calculating emissions targets for new facilities, international best practice levels will be used as the emissions intensity values. In particular, where new gas fields are concerned, because it is possible to utilize carbon capture and storage (CCS) the international best practice level will be set at “net zero.” In June 2023, the Japanese government requested that the Barossa gas project be exempt due to uncertainty over whether it will be possible to supply the offset credits needed to offset the project’s emissions, as well as concerns about the possibility of implementing CCS.¹⁰ The Barossa gas field (ownership: JERA (12.5%), Santos (50%), SK E&S (37.5%)) is located in the waters off the Northern Territory. The plan calls for it to be connected to the Darwin LNG facility via a pipeline, with production commencing around 2025, CCS commencing from around 2027 and full-scale CCS implementation occurring in around 2030. According to analysis by Piers Verstegen and Rod Campbell (May 2023), the Barossa gas project is likely to incur carbon offset costs of between AUD500 million and AUD987 million, equivalent to around 20% of the project’s capital cost (AUD5.2 billion).¹¹

⁶ The decline rate is eased for globally competitive companies.

⁷ Facilities that became covered by the scheme from July 1, 2021.

⁸ Public comment on international best practice benchmark guidelines was carried out in July-August 2023, with the development of benchmarks for key production items scheduled to begin at the end of 2023.

⁹ <https://www.dcceew.gov.au/sites/default/files/documents/safeguard-mechanism-reforms-factsheet-2023.pdf>

¹⁰ S & P Global (June 29, 2023) “Japan calls on Australia to exempt Barossa gas project from Safeguard Mechanism” <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/lng/062923-japan-calls-on-australia-to-exempt-barossa-gas-project-from-safeguard-mechanism>

¹¹ The New Safeguard Mechanism and the Santos Barossa Gas Project, The Australia Institute; Piers Verstegen, Rod

(3) Treatment of the electricity sector

Where the electricity sector is concerned, a “sector baseline” is set as an emissions target for the sector as a whole, without emissions targets being set for individual electricity generating facilities. However, this will switch to regulations covering individual electricity generating facilities in cases where the overall electricity sector’s emissions exceed this sector baseline. The emissions target for the electricity sector is set at 198 million t-CO₂e, which corresponds to the sector’s maximum emissions from FY2009 to FY2013. The electricity sector’s emissions have been declining from a peak reached in 2009, and as a result of growth in renewable energies in 2020, the sector’s emissions were 172 million t-CO₂e, declining by around 20% compared to the 2005 level (Figure 3). According to the Australian government’s national emissions forecast for 2030, the electricity sector’s emissions will continue to decline, and are forecasted to fall to around 79 million t-CO₂e in 2030, a decline of around 60% compared to the 2005 level.¹² Because the electricity sector is already making progress with decarbonization in this way, the Safeguard Mechanism is not being employed to impose additional regulations on individual power plants.

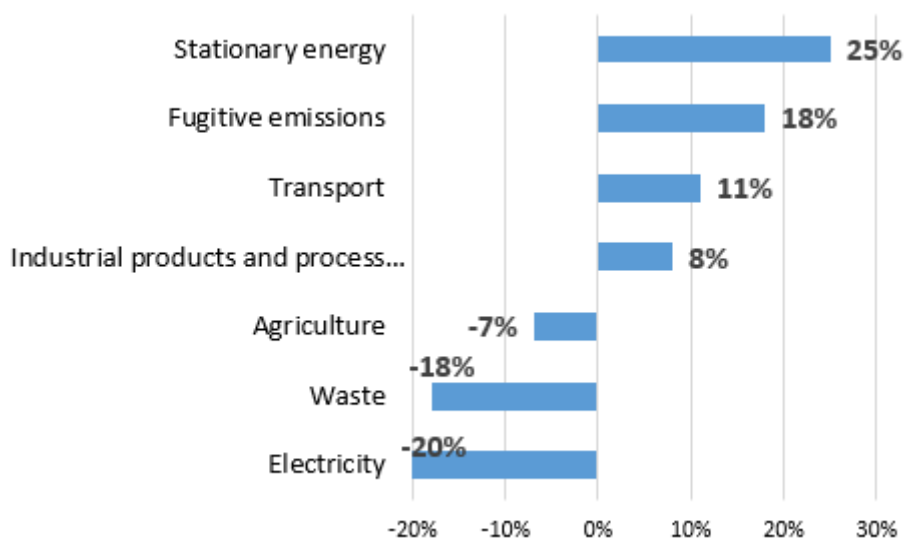


Figure 3 Changes in emissions covered by the Safeguard Mechanism (2005-2020)

(Source) Safeguard Mechanism Reforms Position Paper, DCCEEW (January 2023)

Campbell (May 2023)

<https://australiainstitute.org.au/wp-content/uploads/2023/05/P1392-Barossa-Costs-Under-Safeguard-Mechanism-WEB.pdf>

¹² DCCEEW (2022) Australia’s emissions projections 2022

<https://www.dcceew.gov.au/sites/default/files/documents/australias-emissions-projections-2022.pdf>

(4) Measures to address carbon leakage

The Safeguard Mechanism incorporates measures for providing financial assistance and easing the burden of reducing emissions with the goal of ensuring that the domestic companies covered by the scheme are not disadvantaged on the global competitiveness front and that carbon emissions do not “leak” overseas. The facilities eligible for support are emissions-intensive, trade-exposed (hereinafter referred to as EITE) facilities, and these are divided into two categories: Trade Exposed facilities and Trade Exposed Baseline Adjusted (TEBA) facilities. Table 2 presents outlines and eligibility standards for the respective categories.

Table 2 EITE facility categories

	Outline	Eligibility standard
Trade Exposed facilities	Facilities whose main production variable is trade exposed	Trade share is 10% or above
Trade Exposed Baseline Adjusted (TEBA) facilities	Trade exposed facilities facing an elevated risk of carbon leakage	Scheme impact metric is 3% or above

(Source) Safeguard Mechanism Reforms Factsheet, DCCEEW (2023)

Trade share is defined as the percentage of the trade value as a component of production value (Formula 2), and the scheme impact metric is defined as the percentage of the scheme cost as a component of revenue (Formula 3). Additionally, scheme cost is calculated by multiplying the excess emissions in the year in question by the default certificate price. The default certificate price (Formula 4) used for calculating the scheme cost will be published by regulatory authorities in June of each year.

$$\text{Trade share} = (\text{Import value} + \text{export value}) \div \text{domestic production value}$$

(Formula 2)

$$\text{Scheme impact metric} = \text{Scheme cost for a year} \div \text{revenue in that year}$$

(Formula 3)

$$\text{Scheme cost} = \text{Excess emissions} \times \text{default certificate price}$$

(Formula 4)

Both EITE facility categories will be provided with subsidies toward investing in reducing their emissions through low-emissions technologies. Those subsidies will be provided through the Safeguard Transformation Stream, a dedicated fund worth around AUD600 million that forms part of the Powering the Regions Fund, which is worth around AUD1.9 billion in total. Additionally, industries (steel, cement, lime, aluminum, alumina etc.) that supply critical inputs to clean energy industries will be supported via

the Critical Inputs Fund, which is worth around AUD400 million. However, coal and gas facility new builds and expansions fall outside the coverage of the Powering the Regions Fund.

The Safeguard Mechanism calls for an across-the-board decline of 4.9% per year from baseline emissions, but for TEBA facilities the burden of reducing emissions will be eased by applying a decline rate lower than 4.9%. The degree by which the decline rate is reduced will differ depending on factors such as the above-mentioned scheme impact metric, and whether the facility is in a manufacturing or non-manufacturing industry. In the case of the manufacturing industry, a decline rate lower than 4.9% will be applied in cases where the scheme impact metric is 3% or higher, and a minimal decline rate of 1% will be available at 10%. In cases where the scheme impact metric is between 3% or higher and does not exceed 10%, a graduated decline rate of between 1% and 4.9% will be applied. On the other hand, in the case of the non-manufacturing facilities, where the scheme impact metric is 3% or higher a decline rate of lower than 4.9% will be applied, and a minimum decline rate of 2% will be available at 8%. Incidentally, in cases where the scheme impact metric is between 3% and 8%, a graduated decline rate will be applied in line with the scheme impact metric. These measures ensure Australian industries remain on a fair competitive footing with industries overseas, but toward 2024 the Australian government was scheduled to consider whether leakage measures, such as a Carbon Border Adjustment Mechanism (CBAM), should be introduced in addition to the existing support policies.

2.3. Offset credits

Two credits can be utilized in the Safeguard Mechanism – Safeguard Mechanism Credits (hereinafter abbreviated as SMCs) and Australian Carbon Credit Units (hereinafter abbreviated as ACCUs).

SMCs are automatically issued when companies covered by the scheme generate fewer emissions than their facilities' reduction targets, and they can be used to comply with targets, or sold to other facilities, or banked. ACCUs are domestic offset credits issued for reductions arising from projects registered in the above-mentioned ERF. No limit is placed on offset credits when they are used to comply with targets, but if the quantity of ACCUs used exceeds 30% of a facility's baseline, the company must provide a statement explaining the reason why emissions were not reduced to the Clean Energy Regulator (hereinafter abbreviated as CER), the organization that implements and supervises the scheme. Incidentally, when both SMCs and ACCUs have been issued to Safeguard Mechanism-covered facilities participating in ERF projects, there is the potential for

double counting to occur, and in order to avoid this, issuing ACCUs to Safeguard-covered facilities is prohibited. In the case of ERF projects currently being implemented, credits will be issued during the crediting period, but it has become impossible to enter new contracts (for government purchase of ACCUs) or extend their crediting periods, and an amount equivalent to the issued ACCUs is to be recorded in the net emissions of the facility in question.

Figure 4 shows the quantity of ACCUs issued by project type. Approximately 84.3 million tons of ACCUs were issued between 2018 and the second quarter of 2023, and looked at by project in descending order, vegetation accounted for 55.7%, followed by waste (28.1%), savanna fire management (9.1%), energy conservation (2.9%), leakage from industry (2.0%), and transport (0.1%).¹³

Looking at the data from 2018 to 2021 the main source of demand for ACCUs was ERF procurement.¹⁴ ERF procurement refers to ACCUs bought up by the government from reduction projects that are selected in annual auctions held by the CER, based on the ERF's budget. Over the same period, demand arising from facilities covered by the Safeguard Mechanism regulations was around 1.4%. Other sources of demand include instances where ACCUs are purchased in order to make local and regional governments' independent programs compliant, and purchases and redemptions made voluntarily from an environmentally-oriented stance. (Figure 5).

Auctions were held by the ERF scheme a total of 15 times between April 2015 and March 2023, resulting in the selection of a total of 443 reduction projects. The total reduction anticipated from these reduction projects is 217.3 million t-CO₂e. The average contract price per ton of reduction in these reduction projects adopted as a result of the government's auctions is climbing, and is currently sitting at the AUD17 level. (Figure 6)

¹³ Clean Energy Regulator's Quarterly Carbon Market Reports from 2018 to 2023
<https://www.cleanenergyregulator.gov.au/Infohub/Markets/quarterly-carbon-market-reports>

¹⁴ Because ERF procurements and Safeguard Mechanism demand have not been disclosed since 2022, ACCU demand up to 2021 is shown.

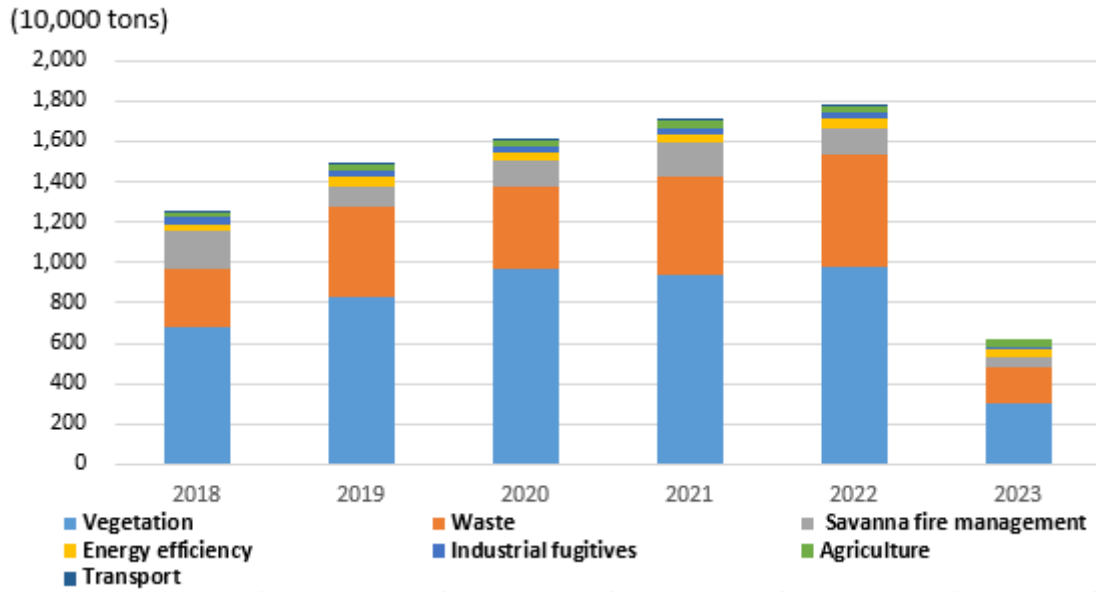


Figure 4 Quantity of ACCUs issued, by project type (2018-2023)

(Note) The 2023 figures are based on data up to the second quarter

(Source) Created using the Clean Energy Regulator’s Quarterly Carbon Market Reports from 2018 to 2023

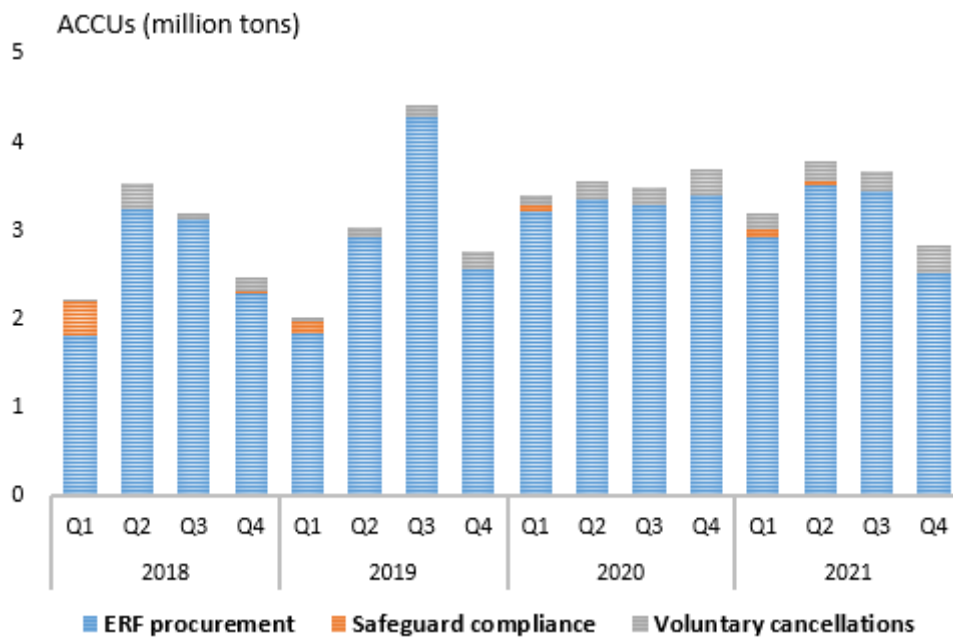


Figure 5 Breakdown and trends for ACCU demand (2018-2021)

(Note) ERF procurement indicates the procurement of ACCUs by the government from reduction projects selected in ERF auctions

(Source) Created using the Clean Energy Regulator’s Quarterly Carbon Market Reports from 2018 to 2021

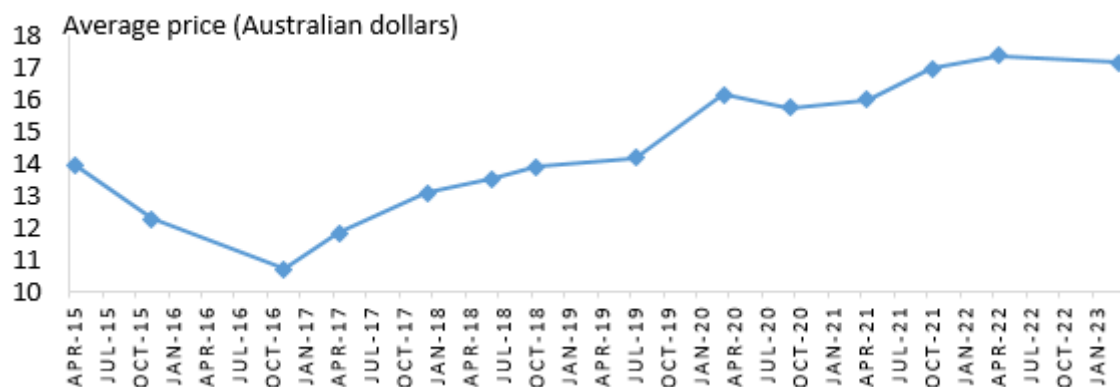


Figure 6 ACCU price trends in auctions (2018-2023)

(Source) Created using the Clean Energy Regulator’s auction results for 2015-2023¹⁵

Figure 7 shows who among carbon market participants owns ACCUs.¹⁶ Cumulatively, the quantity of ACCUs owned stood at around 27.6 million t-CO₂e in the second quarter of 2023, with ownership having increased by around 16.2 million t-CO₂e from 2022, when the bill to amend the Safeguard Mechanism was discussed, to 2023. By owner, brokers accounted for 35.3% of the ownership, followed by project participants (32.5%), companies (20.8%) and Safeguard-covered facilities (11.4%). Based on predictions that ACCU demand will grow in the future accompanying the amending of the Safeguard Mechanism, the quantity of ACCUs owned by brokers and companies and others outside the coverage of the Safeguard Mechanism is increasing. At the same time, up to 2020 the spot price of ACCUs had been sitting at the AUD16 level, but it climbed to AUD57.5 in January 2022 and hovered around the AUD30 level in 2023.

¹⁵ <https://www.cleanenergyregulator.gov.au/ERF/auctions-results>

¹⁶ 2018 data on ownership by market participation was not available, so the figures for 2019 and beyond were compiled.

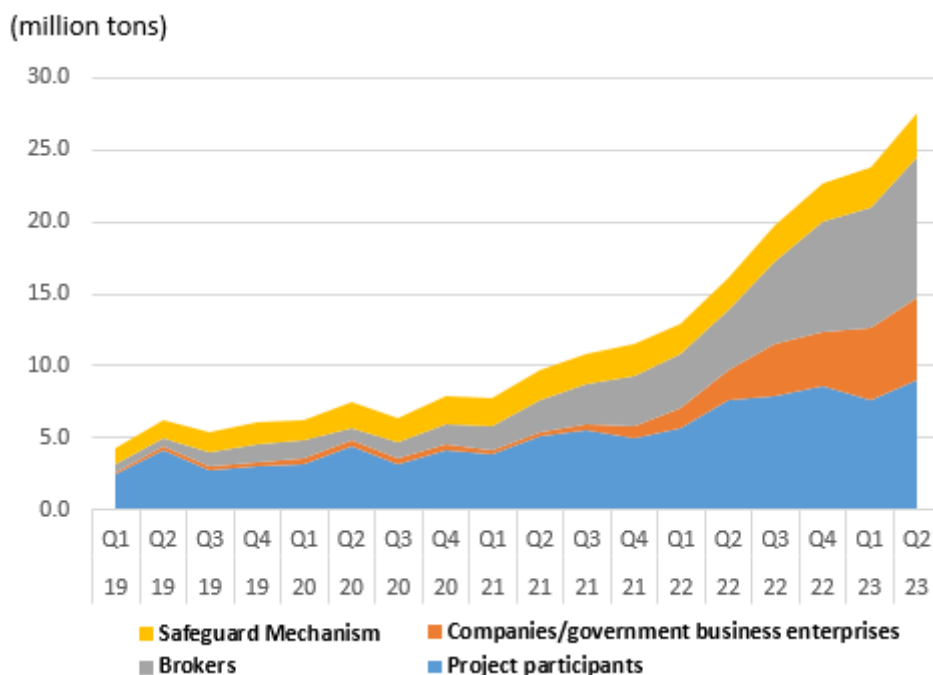


Figure 7 State of ACCU ownership (2019-2023)

(Source) Created using the Clean Energy Regulator’s auction results for 2019-2023

2.4. MRV of emissions

The calculation, verification and reporting to regulatory authorities of the emissions generated by companies covered by the regulations is carried out based on the provisions of the National Greenhouse and Energy Reporting (NGER) scheme. Table 3 presents an overview of the NGER scheme, while Table 4 presents the main schedule for the Safeguard Mechanism. Incidentally, the CER announces the results of Safeguard Mechanism companies’ compliance, and information such as companies’ emissions, baseline emissions, net emissions and offset credits used is made available to the public.

Table 3 Overview of the National Greenhouse and Energy Reporting scheme

Item	Outline
Law on which it is based	National Greenhouse and Energy Reporting Act 2007 (NGER Act)
Scheme outline	Makes it mandatory for companies to report their GHG emissions, energy production and energy consumption for a one-year period
Coverage (an entity is covered if even one of the criteria applies)	Facility standard: GHG emissions (scope 1 & scope 2) of 25,000 t-CO _{2e} or more, energy production of 100TJ or more, energy consumption of 100TJ or more Corporate group standard: GHG emissions (scope 1 & scope 2) of 50,000 t-CO _{2e} or more, energy production of 200TJ or more, energy consumption of 200TJ or more
Matters to be	Matters that are reported include emissions (scope 1, scope 2), energy production and

reported	energy consumption
Public disclosure of information	The information that is publicly disclosed includes companies’ total GHG emissions, energy used, electricity generated at each power station, emissions (total quantity, scope 1, scope 2), emissions intensity values, whether or not companies are connected to the grid, and primary fuel sources
Standard for disclosure	Companies that have overall GHG emissions (scope 1 + scope 2) of 50,000 t-CO ₂ e or more
Reporting deadlines	Companies report the relevant data by the end of October each year (see note), while the regulatory authority (the CER) makes the information publicly available at the end of February each year

(Note) Companies with emissions of one million t-CO₂e or more are required to submit an auditing report

(Source) Created by the author based on the Clean Energy Regulator (CER)’s website,¹⁷ National Greenhouse and Energy Reporting Act 2007 and other information

Table 4 Main schedule for the Safeguard Mechanism

Deadline	Content
June 30	Deadline for scheme compliance
October 31	Deadline for reporting (emissions, production) and EITE applications
November 15	Deadline for applying for multiyear monitoring
January 31	Issuance of SMCs
February 28	Deadline for borrowing applications
March 31	Deadline for submitting ACCUs and SMCs

(Source) Safeguard Mechanism Reforms Factsheet, DCCEE (2023)

2.5. Relationship with other policies

The Safeguard Mechanism, which makes it legally mandatory to hold emissions below permissible emissions values, was introduced as one part of the ERF scheme (designated the ACCU scheme from October 2023). The main constituent elements of the ERF scheme are the three safeguards of crediting, trading and emissions reduction. Initially, the purpose of the Safeguard Mechanism was to supplement the ERF scheme by ensuring that companies’ emissions did not exceed BAU levels, but it was reformed in a way that strengthened its links to Australia’s greenhouse gas reduction targets. Incidentally, the Safeguard Mechanism is executed and administered by the National Greenhouse and Energy Reporting (NGER) scheme, and the offset credits utilized in complying with the scheme conform to the Carbon Credits (Carbon Farming Initiative) Rule 2015 and the Australian National Registry of Emissions Units Regulations 2011.

¹⁷ “About the National Greenhouse and Energy Reporting scheme,” Clean Energy Regulator (CER) <https://www.cleanenergyregulator.gov.au/NGER/About-the-National-Greenhouse-and-Energy-Reporting-scheme>

3. Implications for the GX-ETS

The characteristic points of Australia's Safeguard Mechanism from a design perspective are: 1) there is no pre-allocation of emission allowances; 2) the permissible emissions values (caps) of facilities covered by the Safeguard Mechanism rise and fall in line with rises and falls in their production; 3) it is possible to opt for multiyear monitoring; 4) effectively, the electricity sector is not covered by the regulations; and 5) the standards for new facilities are extremely strict. 1) and 2) can be thought of as measures aimed at preventing (from a scheme design perspective) surplus emission quotas from emerging wherever possible. 3) is a measure that grants flexibility to companies, and 4) reflects the current state of the electricity sector, which is moving ahead with reducing emissions even without additional measures being imposed.

5) will be the measure that attracts attention in terms of its implementation going forward. International best practice levels will be demanded of new facilities, including a net zero requirement for new gas fields, and furthermore, annual reductions of 4.9% per year from international best practice levels are being sought. If the standards applied to new facilities are too strict, from a company's standpoint it will be necessary to be cautious about investing in new facilities, and conceivably one outcome of that could be that the lifespans of old, inefficient facilities end up being extended. The future of decisions on and management of international best practice levels, and how scheme design can prevent such concerns from 2030 and beyond, will be a major focus.

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Contact: report@tky.ieej.or.jp

Appendix Overview of Australia’s Safeguard Mechanism

Overview	Name	The Safeguard Mechanism
	Legal basis (names of laws)	<ul style="list-style-type: none"> • Safeguard Mechanism (Crediting) Amendment Act 2023 • National Greenhouse and Energy Reporting (Safeguard Mechanism) Amendment (Reforms) Rules 2023 • Carbon Credits (Carbon Farming Initiative) Amendment (No. 2) Rules 2023 • Australian National Registry of Emissions Units Rules 2023
	Overview	Domestic emissions trading scheme covering the mining, petroleum and gas production, manufacturing, transport and waste sectors
	Supervisory authority	Clean Energy Regulator
	Time when scheme commenced	From 2016 (amended scheme commenced from July 1, 2023, reviewed every five years)
Coverage	Unit	Facility unit
	Requirements of main parties covered	Facilities with scope 1 emissions of 100,000 t-CO ₂ e or more in a one-year period
	Gases covered	Six greenhouse gases (CO ₂ , CH ₄ , N ₂ O, HFCs, PFCs, SF ₆)
	Emission points (direct / indirect)	Direct emissions (scope 1 emissions)
	Coverage	Approximately 28% of national emissions (approximately 215 large-scale facilities)
Method for setting targets	Allocation method	<ul style="list-style-type: none"> • For existing facilities, baseline values will be calculated by multiplying intensity values (which combine their industry average intensity values with site-specific emissions intensity values) by production activity, and a decline rate of 4.9% per year will then be applied to those baselines • For new facilities, baseline values will be calculated by multiplying the emissions intensity values of international best practices with production activity, and a decline rate of 4.9% per year will then be applied to those baselines
Flexibility measures	Banking / Borrowing	<ul style="list-style-type: none"> • No limits on banking until 2030. Safeguard Mechanism Credits (SMCs) can be used for scheme compliance irrespective of the year they were issued. The decision on their use from 2030 will be decided when the scheme is reviewed in 2026-27 • Possible to borrow up to 10% of baselines until 2030 (once borrowed, interest of 10% per annum is incurred. However, the interest rate for the initial two years is 2%)
	Utilization of other credits	<ul style="list-style-type: none"> • In cases where facilities covered by the scheme generate fewer emissions than their baselines they are automatically issued with Safeguard Mechanism Credits (SMCs). SMCs can be redeemed for the purposes of scheme compliance, sold to other entities or banked. • Australian Carbon Credit Units (ACCUs) can be utilized. At the present point in time, it is not possible to use overseas credits.
	Pricing measures (setting of upper and lower price limits, market monitoring mechanism)	<ul style="list-style-type: none"> • Only those facilities whose emissions exceed their baselines are able to buy ACCUs from the government at a fixed price ⇒ AUD75 in 2023-24; the fixed price will be raised by the CPI plus 2% each year

	Measures for mitigating burden/leakage	<ul style="list-style-type: none"> Trade Exposed facilities will be supported with subsidies toward investing in emissions reduction via the Safeguard Transformation Stream, a dedicated fund worth around AUD600 million that forms part of the Powering the Regions Fund (PRF) The baseline decline rate will be eased for Trade Exposed Baseline Adjusted (TEBA) facilities
Market	Links with other schemes (under consideration)	–
	Register / MRV method	Based on Greenhouse and Energy Reporting (NGER) scheme
	Sequence of events to introduction (discussion leading up to introduction, explanation of differences between initial proposal and final scheme)	<ul style="list-style-type: none"> The Safeguard Mechanism scheme introduced in 2016 was amended accompanying the strengthening of Australia’s 2030 national reduction target, emissions targets for the scheme have been set, and companies’ caps are also being bolstered.
Penalties	Compliance costs	<ul style="list-style-type: none"> Compulsory fulfilment, infringement notification, suspension orders from the courts, fines etc. Originally, fines were based on the number of days of non-compliance rather than the size of the excess emissions, but this has been revised into a format that is connected to the size of the excess emissions [Concept underlying fines] Penalty = 1 penalty unit x number of tons of excess emissions The number of tons of excess emissions is the difference between a facility’s net emissions over a monitoring period (normally a period of one year) and its baseline emissions. One penalty unit is AUD275.

(Source) Created by the author from various documents