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Safeguard Mechanism reform consultation factsheet

Setting baselines under the Safeguard Mechanism

What is a baseline?

The Safeguard Mechanism places a limit on the amount of greenhouse gases Australia's largest industrial facilities can emit. These limits are called 'baselines'. Each industrial facility that the Safeguard Mechanism applies to has a baseline set by the Clean Energy Regulator.

Two types of baseline have been used under the scheme. These are:

- **Fixed** (or absolute) baselines place a total limit on the emissions a facility can produce. They can be expressed as a total number of tonnes of CO₂-e per year. A facility can meet a fixed baseline by either reducing their output or improving their emissions-intensity.
- **Production-adjusted** (or emissions-intensity) baselines place a limit on the amount of emissions a facility can emit on average to make their product or service. They are based on a total number of tonnes of CO₂-e per unit of output. A facility can only meet a production-adjusted baseline by improving the emissions-intensity of their production.

The Safeguard Mechanism transitioned to a production-adjusted framework over the period 2019 to 2021. Consultation on the reforms to the Safeguard Mechanism seek views on whether the reformed scheme should operate on a fixed or a production-adjusted basis.

How does the Safeguard Mechanism set baselines now?

The Safeguard Mechanism has applied baselines to facilities since it commenced in 2016. At the moment most facilities have production-adjusted baselines (or will move onto them soon).

The following variables are used to set production-adjusted baselines:

- **Production variables (PVs)** identify the product or service being delivered, for example, tonnes of alumina or passenger kilometres.
- **Emissions-intensity values (EIs)** specify the emissions-intensity of production, for example, emissions per tonne of alumina or emissions per passenger kilometre. To date, baselines have been set using a facility's own 'site-specific' emissions intensity value, or a Government-set benchmark emissions intensity value that represents the average emissions intensity of the sector.

Baselines are calculated by multiplying the quantity of 'production' by the 'emissions-intensity of production' for each relevant production variable for the facility.

Why do baselines need to change?

Baselines must be reduced for the Safeguard Mechanism to contribute its share of Australia's emissions reduction targets. How baselines are set will influence the costs and benefits faced by each facility on their path to net zero. The aim is to design the policy in a way that shares these impacts equitably.

The consultation paper on the reforms to the Safeguard Mechanism puts forward options for how baselines can be set, and seeks stakeholders' views.

The consultation paper also puts forward options to remove 'headroom' and for how baselines could be set for new facilities.

Headroom

Currently, the level of emissions allowed by baselines under the Safeguard Mechanism are higher than the actual emissions Safeguard facilities produce. The difference between the emissions and the baseline is referred to as 'headroom'.

Unless this headroom is removed, it will be several years before baselines fall far enough to produce any emission reductions.

Under the reformed scheme it is proposed that facilities that can beat their baselines be issued with Safeguard Mechanism Credits (SMCs). These credits could be sold to facilities that are above their baselines as a way for them to comply with the Mechanism. Unless headroom is removed, many facilities could receive credits while continuing to emit at high levels.

The consultation paper seeks views on two primary options for removing headroom by resetting baselines. These options determine the emissions-intensity value used to calculate a facility's baseline. They are:

- **Benchmark (industry average)** emissions-intensity values. Each facility's baseline would be reset by multiplying their quantity of production for each production variable by the industry average benchmark emissions intensity value for that production variable.
- **Site-specific** emissions-intensity values. Each facility's baseline would be reset by multiplying their quantity of production for each production variable by their own emissions intensity value—with that value set based on a specific year or set of years.

Under both options, the emissions intensity value would decline to help achieve Australia's international emissions reduction targets. Both of the approaches are capable of achieving Australia's emission goals, and would allow crediting and trading to start immediately. The main difference relates to how costs are distributed across facilities. Other options are also considered in the consultation paper, and stakeholder views are sought on all options.

New facilities

The Safeguard Mechanism will automatically apply to any new facilities that emit more than 100,000 tonnes of CO₂-e per year. These facilities will also be given baselines that fall over time so they reduce emissions to meet Australia's climate goals.

The consultation paper seeks views on two main baseline setting options for new facilities:

- **Best practice:** calculated as the average emissions intensity of the top 10 percent of Australian industry performance; or
- **Benchmark (industry average):** consistent with the current framework for existing facilities.

Other options are also considered in the consultation paper, and stakeholder views are sought on all options.

More information

Learn more about the Safeguard Mechanism reforms at <https://consult.industry.gov.au/safeguard-mechanism-reform-consultation-paper>

Acknowledgement of Country

We acknowledge the Traditional Custodians of Australia and their continuing connection to land and sea, waters, environment and community. We pay our respects to the Traditional Custodians of the lands we live and work on, their culture, and their Elders past and present.

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