



Safeguard Mechanism reform consultation - factsheet 7

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Flexibility mechanisms for meeting baselines

Flexibility mechanisms give businesses a variety of compliance options, helping reduce costs without jeopardising effectiveness—that is, while still ensuring the emissions target is met. Safeguard Mechanism reforms will include flexibility mechanisms to help facilities manage variability in their emissions, constraints on technology availability and price risks, as they transition to net zero.

Crediting and trading

Crediting and trading will be introduced to encourage abatement to occur where it is cheapest. Safeguard Mechanism Credits (SMCs) will be issued to facilities with emissions below their baseline. SMCs can be traded between Safeguard facilities to encourage those with low cost abatement to do more. Those with more expensive abatement can buy credits.

SMCs are not ‘offsets’ as they are generated and traded within an overall limit on Safeguard facility emissions and can only be used within that framework. Therefore, concepts like ‘additionality’ are not relevant.

Domestic offsets

Safeguard facilities can buy and surrender carbon offsets, known as Australian Carbon Credit Units (ACCUs). ACCUs represent measurable, verifiable abatement achieved by projects registered under the *Carbon Credits (Carbon Farming Initiative) Act 2011*. This abatement is additional, meaning it would not have happened as part of business-as-usual activities. Implementing the recommendations of the Independent Review of ACCUs will ensure its integrity.

ACCUs allow emissions reduction where it is cheapest and easiest, even if it is outside the operations of regulated entities. Allowing the use of ACCUs within the Safeguard also supports carbon farmers and other emission reduction efforts across the economy. To ensure emissions reductions are only counted once, projects that reduce covered emissions at Safeguard facilities will no longer be able to create ACCUs.

International units

International offsets are not proposed to be part of the initial reforms. The government will consult in 2023 on the possibility of establishing the legislative framework for international units. Any such units would have to be of high quality and contribute to Australia’s climate targets.

Banking and borrowing

Any SMCs issued can be banked—that is, held, surrendered or traded—up to 2030. Safeguard facilities can borrow up to 10% of their baseline each year, to be repaid the following year with 10% interest. Facilities cannot receive SMCs in the year they use borrowing or if they are on a multi-year monitoring period. Post-2030 arrangements will be part of the 2026–27 Safeguard review.

Multi-year monitoring periods

To smooth their transition, access to a 5-year multi-year monitoring period to 2030 will be available to facilities that do not have—and can show a lack of—technology to reduce emissions. These facilities will need to show a plan to reduce cumulative emissions before the period ends and will not be eligible for SMCs.

Cost containment measure

To manage compliance costs, the government will sell ACCUs at a fixed price, initially at \$75 per tonne of CO₂e in 2023–24, increasing with the CPI plus 2% each year. ACCUs can only be bought by liable entities to avoid excess emissions and will be automatically surrendered for compliance against a current or previous year. This will prevent excessive price volatility and upside price risk without impeding the development of the offset and SMC market.

More information

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