



Safeguard Mechanism reform consultation - factsheet 5

January 2023

Safeguard Mechanism Credits

What are Safeguard Mechanism Credits?

Safeguard Mechanism Credits (SMCs) will be a new type of unit created and used within the Safeguard Mechanism. The [Safeguard Mechanism Reforms \(Crediting\) Amendment Bill 2022](#), which is currently before Parliament, will establish the SMC framework.

An SMC will represent one tonne of carbon dioxide equivalent emissions, but an SMC is not a carbon offset. Carbon offsets are a different type of carbon unit. Offsets represent measurable, verifiable emissions reduction or sequestration achieved by projects registered under emissions offset schemes, such as the Australian Carbon Credit Units (ACCUs) issued under the *Carbon Credits (Carbon Farming Initiative) Act 2011*.

Offset projects include reforestation, sustainable agricultural practices and energy efficiency activities. A critical feature of offsets is that the abatement they represent 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 the integrity of this abatement.

Why is ‘additionality’ not a relevant consideration for SMCs?

SMCs are created within the regulated Safeguard emissions limit—that is, the sum of all baselines under the Safeguard Mechanism. The integrity of SMCs comes from the regulated emissions limit, which constrains the overall emissions of Safeguard participants. The limit ensures that Safeguard entities, in aggregate, stay within the overall emissions budget. If one facility emits less than its baseline, it can sell a credit to another that emits more than that facility’s baseline. It is not necessary to know how or why a facility has reduced emissions, or what its hypothetical business-as-usual emissions would have been.

How will SMCs be issued?

At the end of a compliance period, if a facility has performed better than its baseline (that is, actual emissions are less than its baseline), it will be issued with SMCs. The Clean Energy Regulator (CER) will calculate the quantity of SMCs to be issued once emissions reports have been verified and the baseline for the relevant compliance period has been calculated. The SMCs will then be issued automatically to the facility by the CER along with the facility’s position statement.

How can SMCs be used?

SMCs can be sold to other Safeguard facilities, surrendered to meet Safeguard compliance obligations or held by the facility for future use (that is, banked).

More information

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