



Safeguard Mechanism reform consultation - factsheet 1

January 2023

What is the Safeguard Mechanism?

Reforming the Safeguard Mechanism is the Australian Government's policy for maintaining competitiveness in a decarbonising global economy and reducing emissions at Australia's largest industrial facilities.

It does this by limiting the amount of greenhouse gases these facilities can emit. Each facility has a limit called a 'baseline' and needs to prove that its net emissions for each year are below that baseline.

Facilities that emit more greenhouse gases than allowed by their baseline must take action to reduce emissions. They can reduce their own emissions, buy emissions reductions from another Safeguard facility or buy Australian Carbon Credit Units (ACCUs). Each ACCU represents one tonne of carbon dioxide equivalent (CO₂-e) that has been stored or avoided.

Who does it apply to?

The Safeguard Mechanism applies to all facilities that emit more than 100,000 tonnes CO₂-e in a year. Around 215 large industrial facilities are covered by the Safeguard Mechanism. These include facilities in the mining, manufacturing, transport, oil and gas, and waste sectors. Each facility reports their emissions to the Clean Energy Regulator, which publishes the results on its website.

Only emissions produced on site at a facility ('Scope 1 emissions') count towards the facility's compliance. Emissions produced off site are not covered by the Safeguard Mechanism. These can include emissions from generating the electricity the facility buys from the grid ('Scope 2 emissions') or emissions the facility's customers produce when using its products ('Scope 3 emissions').

The Safeguard Mechanism applies to the electricity sector in a different way by applying a single 'sectoral' baseline across all electricity generators connected to one of Australia's main electricity grids. Individual grid-connected electricity generators are not covered as long as total emissions from grid-connected electricity generators do not exceed the sectoral baseline.

Individual electricity generators that are not connected to one of Australia's main electricity grids are covered by the Safeguard Mechanism in the same way as large industrial facilities.

How is the Safeguard Mechanism changing?

To maintain international competitiveness and help meet Australia's climate goals, the Safeguard Mechanism is being reformed so that baselines are gradually reduced over time. This means Australia's largest industrial facilities will be required to reduce net greenhouse gas emissions each year to put them on a path to net zero emissions by 2050. Facilities will also be able to earn "credits" if their emissions are below their baseline. These credits can be bought by facilities that are above their baseline to reduce their net emissions.

What is not changing?

The Safeguard Mechanism will continue to cover facilities that emit at least 100,000 tonnes of CO₂-e in a year, and this coverage threshold will not change. The 'sectoral' baseline that applies to electricity generators will also continue to apply in the same way, with electricity emissions addressed separately by policies such as Rewiring the Nation and the Capacity Investment Scheme.

More information

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