

Policy Brief: Priorities for the Australian Government's 2026-2027 Safeguard Mechanism Review

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Introduction

With the Australian Government's planned 2026-2027 Safeguard Mechanism Review (2026-27 Review), the design of the Safeguard Mechanism will come into public focus in terms of how it is meeting its policy objectives and ultimately supporting Australia's national emissions reduction targets for 2030 and 2035. This policy brief outlines key topics the Carbon Market Institute (**CMI**) consider should be prioritised for review and consultation. These priorities were developed in consultation with CMI's standing Safeguard Mechanism Taskforce and broader membership. The published scope for the 2026-27 Review is wide-reaching and appears to have expanded with the publication of the Net Zero Plan and the Carbon Leakage Review Final Report. Discussion on priorities would help to ensure the 2026-27 Review provides appropriate focus to deliver constructive and timely recommendations to inform Australian climate policy.

Strategic outlook

Against the backdrop of an increasingly uncertain geopolitical and economic environment, policy certainty and predictability will play a vital role in continuing to guide investment towards decarbonisation. In the medium term, the transformation of Australian industry will underpin Australia's economic resilience as the global economy transitions towards net zero emissions, but only if the transition is carefully managed to avoid carbon leakage and reduced sovereign manufacturing capability due to facility closures.

Market-based policy mechanisms will continue to play a central role in Australia's climate policy suite. Indeed, the potential to leverage the reformed Safeguard Mechanism – that underpins Australia's compliance carbon market – is recognised in the Australian Government's Net Zero Plan as well as four of the sector emissions reduction plans: Electricity and Energy, Resources, Industry and Transport. Strengthening Australia's reformed Safeguard Mechanism so that it enables on-site decarbonisation while also incentivising greater abatement efforts across the economy – will be critical to meeting the Australian Government's 2035 national emissions reduction target range of 62-70% below 2005 levels.

Compliance data show the Safeguard Mechanism reforms have so far delivered a modest reduction in net emissions, without triggering significant rises in the ACCU prices, which have remained in the \$30 to \$40 range since reforms to the Safeguard Mechanism were introduced in 2023. The cumulative impact of declining baselines and increasing liabilities is meant to incrementally sharpen the financial drivers for on-site decarbonisation investments and continued investment in the ACCU Scheme. As such, the Safeguard Mechanism's contribution to Australia's national climate targets requires continued growth in unit prices and time for investment decisions and implementation to be realised.



To date, emissions reduction investment in Safeguard Mechanism facilities have been driven primarily by complementary policies, government assistance, and low-cost abatement opportunities rather than the Safeguard reforms. For example, most on-site decarbonisation and energy efficiency projects at Safeguard covered facilities have relied on subsidies in the form of direct ACCU issuance and/or grants from the Commonwealth's Power the Regions Fund. Going forward, many of the larger on-site decarbonisation opportunities, appear to be either materially more capital-intensive, dependent on supporting infrastructure beyond the facility boundary, and/or dependent on the continuing cost reduction of emerging technologies. Thus, realising these next opportunities and maintaining momentum in emissions reductions may require an additional focus beyond just letting the current market work.

While the reformed Safeguard Mechanism appears to be on track to achieve its net emission carbon budget and 2030 targets, its early performance highlights some trends that need review to ensure the scheme's continued effectiveness and viability over the next decade. These trends include:

- An increasing number of facilities utilising trade-exposed baseline-adjusted arrangements (TEBA);
- An increasing number of facilities using a rising number of ACCUs for compliance;
- Modest progress in absolute emission reductions; and
- Changes to assumptions regarding technology readiness of significant decarbonisation technologies.

Although less obvious from reported data, it appears uncertainty about future costs and liabilities attributable to Safeguard Mechanism is delaying some capital-intensive investment in large on-site emission reduction projects. Reasons cited for delaying investment in higher-cost projects include uncertainty about:

- Longevity of the Safeguard Mechanism;
- Baseline decline rate and associated liability calculations, beyond 2030;
- Continued facility operations beyond an emission reduction project's payback period;
- Interactions with the Cost Containment Mechanism (sometimes treated as a 'price ceiling'); and
- Whether ACCU offsets will continue to remain low cost, socially acceptable, and widely available.

Other items worthy of consideration in the review include:

- The potential for increases in gross emission resulting from new resources projects;
- The impact of facilities falling below the compliance threshold;
- The dependency of many decarbonisation solutions on the supply of low-cost renewable electricity and
- The effect of any carbon cost impost on international competitiveness.

Recent global supply-chain disruptions have highlighted the importance of sovereign manufacturing capability for materials critical to Australia's economy, particularly inputs for the resources, agriculture and energy sectors. Safeguard Mechanism settings should be calibrated to support the viability of critical industries, recognising that offshoring production could result in carbon leakage and diminishing supply chain security.

In preparation for the 2026-27 Review, CMI established its Safeguard Mechanism Taskforce in October 2025, with a view to leveraging the breadth and depth of expertise within CMI's membership, including industrial entities covered by the Safeguard Mechanism and their advisers and financing institutions.



Reflecting on the important role of the Safeguard Mechanism in Australia's net zero transition, the taskforce prioritised the following **three goals** for the 2026-2027 Review:

1. Support policy stability and certainty for investment

Australia is highly dependent on attracting foreign capital for investments of the scale necessary to achieve our national emissions reduction commitments. Concerns regarding climate policy durability, future compliance settings and the associated long-term liability create unnecessary extra costs and financing barriers to decarbonisation investments. Due consideration should also be given to interdependency with the ACCU Scheme which facilitates investment in a broad range of abatement activities to support the Safeguard Mechanism.

2. Broaden and deepen the Safeguard Mechanism

The Safeguard Mechanism can be readily adapted to a broader range of emitters avoiding the need to develop parallel mechanisms for sectors with similar decarbonisation challenges. This would provide more certainty and consistency across Australian sectors that are partially covered by the Safeguard Mechanism.

3. Better enabling on-site emissions reduction whilst preserving compliance flexibility.

To address the policy goal of decarbonising the Australian economy, further incentives for on-site, or direct, emission reduction should be considered, while preserving flexibility mechanisms for compliance where on-site abatement is not yet a viable option. The Safeguard Mechanism is designed to underpin Australia's industrial and resource sector transition by providing a consistent long-term trajectory aligned to Australia's emission targets.

Having regard to these overarching goals and their potential for progression, CMI's Safeguard Mechanism Taskforce has carefully considered the design of the reformed Safeguard Mechanism and the existing scope to develop the following **4 priorities** for further investigation and consultation as part of the 2026-27 Review:

1. Consider lowering the current covered emissions threshold for facilities below 100,000 t CO2-e per annum.

Lowering the compliance threshold could provide an efficient pathway to increase the Safeguard Mechanism's reach and establish accountability for industrial facilities already covered by the National Greenhouse and Energy Reporting (NGER) scheme. At the same time, lowering the threshold is anticipated to reduce annual average costs of abatement and help to address competitive market distortions within partially covered sectors. A decision to change the emissions threshold for facilities should be informed by assessing: the extent to which additional coverage would deliver meaningful emissions abatement; the inflationary impact of further Safeguard coverage, and administrative burden impacts on competitiveness.

2. Identify opportunities to better enable on-site abatement through design settings, while preserving compliance pathways.

There may be opportunities to re-calibrate existing flexibility measures to enable additional on-site abatement, including with respect to the regulation of multi-year monitoring periods, borrowing adjustments, Safeguard Mechanism Credit (SMC) generation and use, Australian Carbon Credit Unit (ACCU) use and the Cost Containment Measure. Re-calibration should support on-site abatement and recognise the non-linear nature of decarbonisation and associated capital investment. Consideration should also be given to the role of international carbon credit units as



one potential means of maintaining compliance market flexibility as domestic supply tightens, while not diluting investment signals towards domestic abatement. This may require additional governance and integrity safeguards, quantitative and qualitative restrictions and appropriate sequencing of any policy change. The 2026-27 Review presents an opportunity to signal a timetable towards Australia's linkage with international carbon markets, providing additional investment confidence on the long-term market outlook.

3. Clarify policy measures to mitigate the risk of carbon leakage within the Safeguard Mechanism and through complementary policies

Australia's Carbon Leakage Review final recommendations, published in February 2026, provides a strong evidence base to inform a clear carbon leakage roadmap that appropriately manages the risk of carbon leakage to the Australian economy while supporting the international competitiveness of Australian industry. A future Australian CBAM-style mechanism could complement or partially replace baseline adjustments for selected commodities. The evolution of TEBA will therefore be central to ensuring policy coherence and avoiding overlapping or contradictory carbon leakage measures. However, until a more comprehensive arrangement for mitigating carbon leakage is established, TEBA settings will need to be appropriately adapted to facilitate its medium-term role.

4. Clarify the post 2030 baseline decline rate, for covered facilities to support continued investment certainty for industry.

The baseline decline rate is a central design feature in the Safeguard Mechanism that communicates expectations on the pace of decarbonisation for covered facilities. This expectation can then be efficiently translated into investment decisions cycles for capital allocation and strategic carbon market engagement. Certainty also requires mechanism settings that are politically and economically sustainable and designed to support Australian manufacturing. Therefore, it is critical that the approach considers the viability of sectoral transition pathways and the need to support continued economic growth and development alongside the ambition contained in Australia's 2035 target.

Additional policy measures

Several additional reform options may warrant further investigation, though it may be appropriate for these to be addressed beyond the scope of the 2026-27 Review:

- A. In accordance with the Government's proposed ACCU Scheme legislative amendments, the government's ACCU purchasing strategy could be repurposed towards underwriting investment in new and emerging methods and those that deliver material environmental and social benefits. This may for example contemplate funding towards technologies which are further up the cost curve, like engineered removals or novel carbon dioxide removal (CDR), to better support the government's priority towards carbon removals. Targeted ACCU purchasing with optional delivery to the Cost Containment Mechanism could act as a form of insurance.
- B. The government's purchasing strategy and Cost Containment Mechanism could also be repurposed to underwrite investment in on-site abatement through guaranteed purchase of future SMCs at the Cost Containment Mechanism price or a carbon contract for difference model.



- C. The Safeguard Mechanism could be adjusted to allow low emissions, below coverage threshold facilities from already covered industries to opt-into the Safeguard Mechanism, enabling them to benefit from SMCs. Changing the Safeguard Mechanism to allow low emitting facilities to opt in could bring forward green industry investment and provide a much-needed new source of low-cost carbon credits in the form of SMCs.
- D. Government should signal when the next comprehensive review of the Safeguard Mechanism will be scheduled to consider further reform that might be required to address:
 - facility definition;
 - emissions intensity settings;
 - consideration of leakage between sectors such as road and rail transport; and
 - inclusion of sectors not yet covered including the merits of applying the Safeguard Mechanism to grid-connected electricity.

Key priorities for the 2026-27 Review

CMI's Safeguard Taskforce would welcome the opportunity to engage further with government and industry in navigating the following key priorities in the 2026-27 Review:

1. Consider lowering the current covered emissions threshold for Designated Large Facilities below 100,000 t CO₂-e. Items to be considered include the:

- a) Appropriateness of the current 100,000 t CO₂-e coverage threshold, having regard to effect on carbon leakage, emissions-intensive trade-exposure (EITE) and abatement-viability. The current minimum baseline is linked to certain sectors, notably metal ore mining, pointing towards the opportunity to establish stronger incentives for these facilities. On the other hand, some sectors may require more nuanced treatment given the complexity in their decarbonisation pathways, notable landfill gas facilities that require a more holistic supply chain approach.
- b) Overall business impact on smaller facilities including administrative burden and resourcing
- c) and relative cost-effectiveness capturing a greater number of facilities under the mechanism compared with strengthening abatement support for existing covered facilities.
- d) Impact of the efficiency gained by increasing the facilities captured by the mechanism compared with the scale-back of less efficient initiatives applicable to discrete sectors or industries.
- e) Extent to which the number of industries with incomplete coverage is reduced, resulting in removal of competitive difference within industries.
- f) Access to new and increased opportunities for abatement at smaller facilities. Smaller facilities within covered sectors may have more, lower cost opportunities to implement emissions reduction activities in the near-term.
- g) Potential to create more direct incentives for continued decarbonisation as facilities are covered by the SGM for longer.

Need for sequencing and pre-conditions including what the threshold should be lowered to, when this might occur and whether other design considerations should be addressed first.

2. Identify opportunities to better enable on-site abatement through design settings, without removing compliance pathways. Consideration should be given to:

- a) Improving the design of Multi-Year Monitoring Periods. Though conceptually valuable its current design may be limiting practical utility.



- b) Clarifying the role of borrowing adjustments. Borrowing adjustments appear to be operating primarily as a last-resort liability management tool rather than as an active planning mechanism.
- c) Sharpening requirements for SMC generation and improving transparency. This could include consideration of a differentiated baseline for SMC crediting that is more ambitious than the declining baseline that establishes the minimum level of emissions accountability. The current settings raise several issues:
 - (i) it is not clear how much of the SMC generation to date reflects new abatement investment as opposed to pre-existing headroom or operational variability;
 - (ii) the asymmetry created by the exclusion of SMCs from the ACCU disclosure threshold;
 - (iii) availability of SMC for TEBA facilities and
 - (iv) uncertainty around post-2030 eligibility.
- d) Maintaining access to ACCUs as an important compliance flexibility where on-site abatement is not yet commercially viable. Restricting ACCU access risks raising compliance costs without decarbonising Australian industry or reducing on-site emissions.
- e) The appropriate treatment and transparency of banked units beyond 2030, having regard to the risk of banked credits deferring more substantial capital investment decisions alongside the potential for banking to support early investment in some circumstances.
- f) Assessing the current transparency expectations on carbon credit usage including review of Rule 72C to test whether it is producing meaningful disclosure, the threshold is appropriate and whether SMCs should be included.
- g) Clarifying the role of the Cost-Containment Measure as a last resort compliance pathway and mitigating the risk of it operating an effective price cap on the market. At present there is doubt about whether the amount of ACCUs the CCM contains is able to sustain the Safeguard through a credit crunch, and hesitation by business to approve their own emissions reduction investments with an abatement cost higher \$75 per tonne resulting the potential for organisations to under estimate the investment needed for compliance into the future.
- h) Signalling the role for international units, and more broadly a longer-term opportunity for Australia to link with international compliance markets, to ensure Safeguard Mechanism facilities have reliable access to a compliance pathway. High-integrity international units could support the compliance market as domestic supply tightens. Poorly designed access to international credits could undermine domestic decarbonisation efforts by distorting price signals and raise integrity concerns. Well-designed access to high-integrity international units provides an important compliance pathway and would help mitigate the risk in the event the cost containment reserve is unavailable.

3. Clarify policy measures to mitigate the risk of carbon leakage within the Safeguard Mechanism and through complementary policies, including:

- a) Reviewing the role of TEBA in reducing the compliance burden for facilities who meet the threshold but are not trade exposed.
- b) Reviewing the effectiveness and accessibility of TEBA as an interim medium term policy measure until the introduction of a potential Australian CBAM.
- c) Reviewing the current facility-level profitability test. The current test can both deny TEBA support to lower-margin production lines that are co-located with higher-margin activities within a single facility and create an administrative burden in facilities associated with larger organisations where earnings before interest, taxes, depreciation, and amortisation (EBITDA) is not calculated at a facility level.



- d) Articulate a roadmap for the introduction of a CBAM in Australia that focuses on import-driven leakage and elaborate sequencing and priority industry to support long-term planning, with priority consideration of high-risk commodities and explicit consideration of treatment for products where a CBAM could impose upward pressure on cost of living.
- e) Clarifying the interaction between TEBA and a potential Australian CBAM
- f) Reviewing complementary policy measures to support industrial transformation for trade exposed industries, including technology-agnostic abatement funding and continued grant programs for high-cost industrial decarbonisation projects.

4. Clarify the post 2030 baseline decline rate for covered facilities to support continued investment certainty for industry, having regard to:

- a) The relative level of ambition to be embedded into the Safeguard's post 2030 baseline decline rate and how this relates to Australia's National Determined Contributions.
- b) A consistent logic for setting baseline decline rates that that can be repeated during future baseline decline rates setting exercises.
- c) Potential for industries to meet the decline rate with on-site decarbonisation using technologically and commercially viable decarbonisation projects.
- d) Impact on fostering new industry, and investment by applying the same baseline decline rates to new facilities.
- e) Impact on sovereign manufacturing capability.
- f) Potential for future review of emissions intensity industry default and best practice values such that they continue align with the current state of technology and commercial readiness.
- g) Role of adjacent policies and programs that provide support for on-site decarbonisation to meet compliance obligations.

About the Carbon Market Institute and the Safeguard Mechanism Taskforce

The Carbon Market Institute (CMI) is a member-based institute accelerating the transition towards a negative emission, nature positive world. It champions best practice in carbon markets and climate policy, and its over 130+ members include primary producers, carbon project developers, Indigenous organisations, legal, technology and advisory services, insurers, banks, investors, corporate entities and emission intensive industries. The positions put forward constitute CMI's independent view and do not purport to represent any CMI individual, member company, or industry sector.

CMI's Safeguard Mechanism Taskforce is a key focal point for industry to test policy and market design concepts as part of CMI's advocacy and engagement on the 2026-27 Review. The Taskforce is open to CMI member organisations that are covered entities under the Safeguard Mechanism as well as their advisers and financial institutions that are active in the demand side of Australia's carbon market. This composition is intended to leverage the experience of covered industrial entities as well as the expertise of CMI's membership on industrial decarbonisation and net zero transition.

