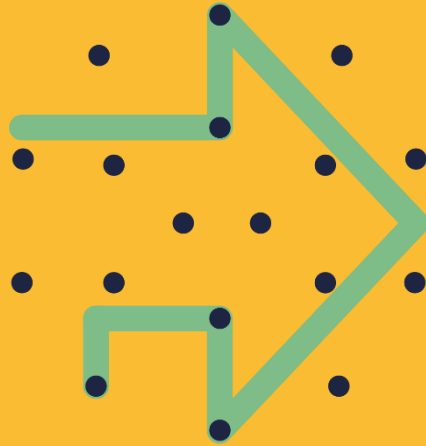




Department of Climate  
Change, Energy, Environment  
and Water Safeguard  
Mechanism Review  
Consultation  
submission

September 2026





# DCCEEW: Safeguard Mechanism Review 2026

## submission

---

The Carbon Market Institute (**CMI**) welcomes the opportunity to contribute to the Department of Climate Change, Energy, the Environment and Water's (**DCCEEW**) Safeguard Mechanism Review (**Review**), which opened for consultation on 7 August 2026.

CMI is an independent, member-based institute that promotes market-based solutions to support best practice in decarbonisation. Our 130+ members span primary producers, carbon service providers, First Nations organisations, legal and financial institutions, technology firms and emissions-intensive companies across Australia and Asia Pacific. CMI's Board updates our Policy Positions regularly, informed by, but independent of members. CMI established the Australian Carbon Industry Code of Conduct in 2018; it is now administered independently by the Australian Carbon Industry Code of Conduct Administrator Limited (CodeCo), launched in July 2025 to strengthen governance and oversight.

Additionally, CMI convenes a Safeguard Mechanism Taskforce which consists of CMI members who represent Safeguard covered facilities, their advisors and financiers. CMI worked with its Safeguard Mechanism Taskforce to identify key priorities and goals for the 2026-27 Review, published in June 2026. The positions put forward in this submission are informed by the Taskforce and broader membership but remain CMI's view and do not represent any individual, member company or industry sector.

## Strategic Outlook

The Reformed Safeguard Mechanism (**the Mechanism**) is broadly operating as intended and its core architecture should be retained. Two years of post-reform data provide a useful checkpoint but remain insufficient to support broad-ranging conclusions about the long-term delivery of the Mechanism's outcomes. The priority for this Review should therefore be to ensure the architecture established in 2023 provides a durable investment framework as Australia looks to meet its 2035 Nationally Determined Contribution (NDC) and 2050 Net Zero targets.

As an integral part of the Australian Government's Net Zero Plan, the Mechanism plays an increasingly important role in Australia's climate policy architecture. It sets a long-term emissions constraint on Australia's largest industrial emitters, creates demand for abatement within and beyond covered facilities, and underpins Australia's compliance carbon market.

As low-cost abatement opportunities at industrial facilities are exhausted, future reductions will increasingly depend on technology, enabling infrastructure and regulatory approvals. The Mechanism cannot address all of these barriers on its own. This means that a comprehensive, cohesive policy suite must work in conjunction with the Mechanism to support industrial decarbonisation. Compliance flexibility and the domestic carbon market will continue to play a central role in supporting an orderly transition. They provide facilities with a means of managing differences in technology readiness, asset life and investment cycles while maintaining an economy-wide incentive to reduce emissions.

Declining baselines and exhaustion of cheaper on-site decarbonisation opportunities may also result in a material tightening of Australian Carbon Credit Unit (ACCU) supply. The period between 2030 and 2035 is widely considered to be an inflection point in the market where an ACCU shortfall could occur. There are,



however, differing views about the future ACCU supply-demand balance due to concerns that some assumptions underpinning current projections may be materially optimistic regarding future supply. That uncertainty is in itself material to investment and policy decisions. Policy settings that depend on future ACCU availability should not rely on a single central forecast or assumptions that may prove optimistic. Clearer visibility of both ACCU and Safeguard Mechanism Credits (SMC) supply would enable facilities, investors and policymakers to better assess market resilience and the implications of different policy settings.

The Climate Change Authority's (CCA) 2026 review of the ACCU Scheme<sup>1</sup> reinforces the need to actively manage this uncertainty. While noting that current projections do not indicate near-term supply problems under existing policy settings, the CCA found that ACCU supply, demand and price outlooks are uncertain and contested, with future demand potentially higher, supply slower to materialise and existing holdings not necessarily available to the market. CMI and its membership echo these concerns regarding optimistic supply projections. Optimism in the projections stems from current ACCU forecasts not accounting for delays in method development, the use of a 3.28% decline rate in demand projections and overestimating the liquidity of holdings. CMI, with a membership base covering the supply and demand sides of the market, is embarking on a research project to provide this greater visibility.

Given the ACCU Scheme's importance to the effective operation of the Mechanism, Government should ensure that policy decisions relying on future ACCU supply and demand are informed by transparent assumptions, stress-tested against a reasonable range of plausible scenarios. As another form of credit approved for compliance purposes within the Mechanism, availability of SMCs into the future would also benefit from greater transparency. Clearer visibility of both ACCU and SMC supply would enable facilities, investors and policymakers to better assess market resilience and the implications of different policy settings.

These questions of market visibility and resilience sit within a broader challenge for the Review of how to preserve a stable and investable Safeguard framework while strengthening its contribution to industrial decarbonisation and expanding its reach.

CMI's Safeguard Mechanism Taskforce identified three overarching goals for the 2026-27 Review:

1. Support policy stability and certainty for investment.
2. Broaden and deepen the Safeguard Mechanism.
3. Better enabling on-site emissions reduction whilst preserving compliance flexibility.

Based on the issues presented in DCCEEW's consultation paper, CMI has translated the Taskforce goals into four mutually reinforcing principles to guide decisions on where policy reform is warranted and where restraint is appropriate.

The four principles are **stability, durability, flexibility and credible delivery**. Stability and durability support investment, flexibility enables on-site emissions reduction while preserving compliance pathways, and credible delivery focuses on ensuring the Mechanism makes a meaningful contribution to Australia's emissions targets, including through broader coverage and deeper cuts. The detail relating to the four principles is discussed below.

---

<sup>1</sup> CCA (2026) [ACCU Review](#)



## Stability

The starting point for this Review should be confidence in the Mechanism's fundamental architecture. The Mechanism has established a trajectory to net zero, a market for SMCs, access to ACCUs and a range of compliance flexibility measures. Early evidence shows net emissions declining as expected, with the scheme on track to meet its 2030 targets. Government has itself characterised the architecture as robust and confirmed the Review is not intended to fundamentally redesign the scheme.

This matters because climate policy only influences major capital investment where businesses believe the signal will remain in place long enough to support project economics. Many industrial decarbonisation projects involve large capital commitments, long development and approval periods, dependencies on external infrastructure, and maturing technologies. Continually reopening fundamental design principles risks weakening that signal.

The Review should protect the core architecture, making only targeted, evidence-based changes with a clear statement of the problem being addressed and how the change will improve emissions, investment or fairness outcomes rather than pursuing fundamental redesign. This extends to Australia's compliance carbon market as defined by the Mechanism and ACCU Scheme.

The Mechanism and ACCU Scheme are increasingly interdependent, with stability in one supporting confidence in the other. To make a genuinely evidence-based assessment possible, both now and in future reviews, a shared evidence base combining Clean Energy Regulator (CER), Treasury, DCCEEW and CCA data should be built so settings can be tested against actual barriers to on-site abatement rather than assumed from emissions data alone. The objective should be to let the market framework established by Government mature and perform as intended, intervening only where evidence demonstrates a specific setting is preventing the Mechanism from achieving its objectives.

## Durability

Where stability describes how the mechanism should operate, durability asks whether businesses, investors and the wider economy can reasonably expect the framework to endure. Australia's experience shows climate policy is particularly exposed to changes in government. A signal extending to 2035 and 2050 has limited investment value if businesses assign a material probability to it being substantially altered sooner. CMI has previously identified the Safeguard's longevity and uncertain future compliance settings as barriers to investment which should be addressed in the Review.

Durability requires settings that are ambitious enough to meet Australia's emissions goals, but credible, investable and sustainable enough to endure. A reform that appears strong in the short term but materially increases the likelihood of future reversal may produce a weaker long-term outcome. Competitiveness and carbon leakage sit at the centre of this test. A framework that progressively weakens Australian production, forces closures or shifts emissions to jurisdictions with weaker climate constraints will be difficult to sustain economically, politically and socially, and risks Australia's sovereign manufacturing capability and public support for the transition. This does not mean shielding industry indefinitely but rather ensuring the pricing signal drives decarbonisation while recognising that international competitors are decarbonising at different rates from different starting points.

Durability also favours clear, repeatable, transparent design over complex or highly discretionary arrangements. The proportional-share approach to allocating the Safeguard's national contribution is a good



example, benefitting from visibility beyond individual five-year periods. This longer-term visibility is important because major decarbonisation investments often extend well beyond current policy and compliance settings.

## Flexibility

Flexibility is a strength of the Mechanism and should be retained and improved to support industrial decarbonisation. Facilities span different industries, emissions sources, asset lives, technology pathways and investment cycles. While some industries have commercially available abatement options today, others depend on emerging technology, new infrastructure or approvals outside the facility boundary. On-site decarbonisation is inherently non-linear, so the Mechanism should sustain a strong incentive to reduce emissions while allowing facilities to manage these differences in technology readiness and project timing.

The Mechanism's flexibility arrangements allow facilities to manage this mismatch while retaining the long-term incentive to reduce on-site emissions. Banking can reward early action. Borrowing can bridge short-term timing gaps and multi-year monitoring periods can better align compliance with major project development and commissioning timelines. Further, access to SMCs and ACCUs provides a compliance pathway where on-site abatement is not yet technically or commercially viable. Greater certainty over the availability of these mechanisms beyond 2030 would strengthen their ability to support investment decisions.

CMI encourages examining how these mechanisms could work better to support on-site decarbonisation by creating settings which better match real project development and investment cycles. The appropriate test for any change, however, is whether it would bring forward additional on-site abatement.

Flexibility should operate as a bridge to decarbonisation rather than becoming a substitute for viable on-site abatement. However, restricting compliance pathways does not in itself create an alternative one. In particular, CMI does not support arbitrary limits or restrictions on ACCU use as a substitute for addressing the barriers to on-site abatement. Limiting, discounting or otherwise restricting ACCU use may strengthen the relative price signal, but will not overcome technology, infrastructure or other constraints. Restricting ACCU use would simply raise compliance costs, increase the risk of non-compliance and risk the loss of sovereign manufacturing capability.

ACCU use and on-site decarbonisation should be seen as complementary rather than competing compliance pathways, with both necessary to meet Australia's long-term targets. Purchasing ACCUs to meet compliance obligations lets facilities finance abatement elsewhere while buying time for higher-cost or longer-lead-time projects to mature, consistent with the Mechanism's market-based, least-cost design. Government should first identify the barrier preventing investment and target intervention at its source, rather than assuming that reducing access to flexibility will itself accelerate industrial decarbonisation.

## Credible Delivery

Credible delivery requires the Mechanism's design settings to be calibrated to deliver its intended contribution to Australia's NDC, while retaining sufficient flexibility and ambition to support stronger outcomes within the target range. Calibration should account for reasonable variations in production, new entrants and changes to facility coverage and be aligned with the higher end of the 2035 NDC. Design settings should be derived using a clear, repeatable methodology which supports any future changes without reopening the Mechanism's core architecture.



CMI supports broadening the Safeguard's coverage by lowering the compliance threshold where a material emissions benefit is demonstrated and administrative burden, competitiveness and sequencing are appropriately managed. This extends an established, market-based framework to a larger share of emissions already reported under the National Greenhouse and Energy Reporting (NGER) scheme and spreads the task of decarbonisation across a wider pool of facilities.

Credible delivery equally means driving real industrial transformation, beyond declaring a more stringent domestic trajectory through higher decline rates. The decline rate should be developed alongside appropriate treatment of Trade-Exposed Baseline-Adjusted (TEBA), coverage, NDC targets, and complementary support for high-cost industrial transformation.

The Safeguard price signal cannot address every barrier facing industrial decarbonisation. Technology maturity, enabling infrastructure, access to renewable electricity and low-emissions fuels, project lead times, approvals, capital allocation and complementary government support will all influence whether the next generation of industrial decarbonisation projects proceed. Some complementary policy reforms are underway but must be delivered in a timely manner to enable abatement opportunities to accelerate. Support for the transformation remains uneven across sectors. Government should map these dependencies against expected sectoral decarbonisation pathways and available funding to identify policy gaps that may be preventing the Safeguard price signal from translating into investment.

## Looking forward

Together, these four principles provide the framework for the next phase of the Mechanism. CMI's detailed recommendations were developed with these principles in mind, with the final test for each being whether it strengthens the long-term investment signal, improves the Mechanism's capacity to deliver genuine emissions reductions, preserves effective compliance and carbon-market functionality, maintains Australia's industrial competitiveness, and leaves a reliable framework for businesses, investors, communities and future governments.

CMI offers high-level recommendations and answers to specific questions posed by the DCCEEW in the 2026 Safeguard Mechanism Consultation Paper. Answers to specific questions posed by DCCEEW are contained in Appendix A. CMI has responded only to questions where CMI has significant experience or member concerns.

## Recommendations

At a high level, in response to the consultation CMI makes the following recommendations:

### 1. **Protect the core architecture of the Safeguard Mechanism to provide investment certainty.**

Retain the core architecture of the reformed Mechanism and allow it to mature. Early evidence indicates the Mechanism is broadly on track to meet its 2030 net emissions target. Two years of post-reform data remain insufficient to justify fundamental redesign. The Review should therefore focus on targeted improvement to clearly identified problems, with any design changes supported by strong evidence that they will improve emissions, investment, competitiveness or market-functioning outcomes.



## 2. Incentivise on-site decarbonisation by directly addressing barriers to investment.

Develop a stronger evidence base to identify the barriers, indicators and plans for on-site industrial decarbonisation, while protecting commercially sensitive information. Government should distinguish between price, non-price and policy-certainty barriers. Where barriers are related to technology readiness, enabling infrastructure or finance, intervene directly through complementary policy. Additionally, review the Mechanism's design settings, existing complementary policy and public funding programs against these barriers to address gaps and ensure they support the next tranche of decarbonisation projects. Policy interventions could include grant redesign to ensure that funding criteria align with practical development of decarbonisation projects, concessional finance or contracts for difference for capital-intensive projects.

## 3. Retain current design settings regarding ACCU use for compliance.

Maintain current arrangements for ACCU use to provide compliance flexibility. CMI does not support introducing quantitative limits, discounting or qualitative constraints on ACCU use for compliance. Flexible compliance pathways are a fundamental tenet of the Mechanism's market-based design, allowing facilities to manage the cost of the transition by financing abatement elsewhere while on-site decarbonisation opportunities mature. Restrictions on ACCU use would increase compliance pressure, but none provides a sufficiently direct or reliable pathway to additional on-site decarbonisation.

*Quantitative limits:* These are blunt instruments that do not distinguish between industries facing genuine price barriers to on-site investment and those facing non-price constraints, risking competitiveness and sovereign manufacturing capacity. Quantitative limits also constrain Safeguard-driven demand for abatement elsewhere in the economy, weakening an important investment signal for the ACCU market.

*Qualitative limits (including vintage limits):* These have a weaker link than quantitative limits for incentivising on-site decarbonisation because changing which ACCUs may be surrendered does not address the underlying barriers preventing facility abatement. Such restrictions risk market stratification, where ACCUs subject to the limit reduce in value over time, resulting in reduced liquidity where fewer suitable ACCUs are available for compliance. Such measures also add complexity and increase uncertainty for compliance buyers and project developers.

*Discounting ACCU Value:* Discounting procedures would require more than one ACCU to be surrendered for each tonne of excess emissions. This could materially increase demand for ACCUs, resulting in further tightening of domestic supply. Discounting the value of ACCUs could additionally:

- increase compliance costs,
- potentially impact the value of existing ACCU holdings, and
- place a greater share of the national abatement task on Safeguard facilities.

Requiring facilities to surrender more than one tonne of credited abatement for each tonne of Safeguard liability is also misaligned with the Mechanism's core principle that each tonne of abatement is equal.

Maintaining ACCU compliance flexibility supports a stable and durable Safeguard framework while preserving the flexibility needed for facilities with different decarbonisation pathways and investment cycles. It also supports credible delivery of Australia's broader emission reduction task by maintaining



demand for abatement beyond Safeguard facilities. Restrictions should therefore only be considered where clear evidence emerges that credit access, and not technology, infrastructure or capital, is the actual barrier to on-site decarbonisation.

**4. Investigate circumstances under which international units could support the Australian compliance carbon market.**

Domestic abatement, with an appropriately supported ACCU pipeline, should remain the primary offset pathway for Safeguard compliance. However, as Safeguard baselines decline and the domestic abatement task becomes more capital intensive, CMI recognises that ACCU supply could tighten significantly, increasing compliance costs. A rising ACCU price is an important part of the investment signal and should not, in itself, be treated as a policy failure. The objective should be to ensure that price signals strengthen over time while maintaining a sufficiently deep and reliable supply pipeline and continued access to compliance units.

However, if there were a material shift in ACCU and SMC supply or pricing dynamics, future use of international units may become a relevant policy option. Providing clarity on the circumstances in which Government might consider this option could support market stability while avoiding unnecessary disruption to the investment signal for domestic ACCU supply. Government should therefore investigate and provide transparency on the specific conditions that could trigger consideration of international units, for example, depletion of the Cost Containment Measure (CCM) reserve, sustained tightening of ACCU/SMC supply, or persistent ACCU price shocks. Any such change would require significant policy development and market preparation. Undertaking this preparatory work now would allow sufficient time to resolve integrity, accounting and implementation issues and ensure that any future change is signalled to industry well in advance. If introduced, access should be government-controlled via procurement into the CCM reserve under strict integrity criteria and limited to Internationally Transferred Mitigation Outcomes (ITMOs) eligible under Australia's NDC, with corresponding adjustments. Opening linkages to international markets through considered use in the Mechanism could create opportunities to strengthen Australia's connection to international markets in the future.

The overarching purpose behind considering the introduction of international credits would be to protect the credibility and functioning of the Australian compliance market in circumstances of genuine supply constraint, not to suppress the ACCU price signal or substitute for investment in domestic abatement.

**5. Provide settings beyond 2030 over a longer time horizon to support policy certainty and investor confidence.**

Provide transparency on the Mechanism's design settings beyond 2030, including decline rates and flexibility measures, over a timeframe materially greater than five years. Longer-term visibility of the Mechanism's settings provides businesses with a clear view on future carbon liabilities and strengthens the investment signal for on-site decarbonisation.

Where settings remain subject to future review, Government should provide a clear methodology and decision framework for how those settings will be determined, rather than creating the expectation of repeated fundamental policy resets.



**6. Enhance intertemporal flexibility by improving banking and borrowing design settings and extending multi-year monitoring periods beyond 2030.**

SMC banking, borrowing and multi-year monitoring periods are all useful tools for managing the inherently non-linear timing of industrial decarbonisation. These mechanisms should be retained, and where necessary, recalibrated so that they operate as bridges to decarbonisation investment rather than mechanisms for delaying action. CMI recommends:

- SMC Banking: Preserve unrestricted SMC banking unless evidence establishes a material integrity concern because banking rewards early action and provides facilities with greater flexibility to manage the timing of emissions reduction.
- Borrowing: Retain borrowing as a short-term bridging mechanism while reviewing whether its interest rate and consecutive-use arrangements remain appropriately calibrated.
- Multi-year monitoring periods: Remove the 2030 cut-off for MYMPs and allow for periods longer than five years, to better reflect major industrial investment cycles. Strengthen the framework by a milestone/progress-assessment mechanism so the flexibility allowance is linked to delivery of decarbonisation outcomes.

Greater certainty over the availability and design of these mechanisms beyond 2030 would strengthen the investment signal while flexibility remains linked to genuine emission reductions.

**7. Clarify the role of the Cost Containment Measure and ensure it supports, rather than caps, decarbonisation investment.**

Clarify the role of the CCM reserve, including how it would perform under sustained market shortage of offsets and how it would be replenished. Price, indexation and reserve arrangements should be reviewed to ensure the CCM does not become a de facto ceiling on future compliance costs and weaken investment in higher-cost on-site abatement or new ACCU supply.

**8. Transition the TEBA test to apply at a product level based on a production variable rather than at the sector or facility level to reduce inequity amongst facilities and prepare for a possible future import Border Carbon Adjustment (BCA).**

Applying the existing TEBA test at a facility level can create equity concerns within an industry, particularly apparent at multi-product facilities. Altering just the TEBA test, to apply at a product level, could alleviate these concerns while still providing compliance cost relief and start to prepare facilities for the possible introduction of a mature BCA Mechanism. The definition of products would be linked to the production variables defined in the NGER scheme. TEBA accommodations and compliance would still be applied at a facility level.



**9. Lower the compliance threshold progressively to 25,000 tonnes CO<sub>2</sub>-e.**

Establish a predictable, phased pathway to broaden the Mechanism's coverage where a material emissions benefit can be demonstrated, commencing from 2030. The compliance threshold could be lowered to 50,000 tonnes CO<sub>2</sub>-e in 2030 with further reductions taking place in 2035. Sequencing would need to avoid creating new distortions within an industry. The Government should establish the pathway sufficiently early to allow affected facilities to understand future obligations and incorporate them into investment and emissions-reduction planning.

**10. Maintain the proportionate share contribution of Safeguard Mechanism facilities.**

Retain a transparent proportional-share approach to the Safeguard's contribution to the national emissions budget, with the 2031-2035 target, reserve and decline rate calibrated as an integrated package. The proportionate share should not be set in isolation but instead include consideration of other changes, including coverage, compliance threshold, and decarbonisation of other sectors of the economy.

Should you wish to discuss CMI's submission in more detail, please contact Kelly Smith ([kelly.smith@carbonmarketinstitute.org](mailto:kelly.smith@carbonmarketinstitute.org)).

Yours sincerely,

Sasha Courville

CEO



## Appendix A: CMI responses to questions raised in DCCEEW's Safeguard Mechanism Consultation Paper (September 2026)

### Section 2: Tracking Progress Towards 2030

Question 1: Initial results indicate that reformed policy settings are working as intended and the Safeguard is on track to deliver its 2030 emissions targets. The review is interested in feedback on any perceived risks for the Safeguard Mechanism and whether it is on track to deliver its legislated outcomes.

CMI agrees that early evidence indicates the Mechanism is broadly operating as intended and is on track to meet its legislated 2030 net emissions target. This provides confidence in the fundamental architecture of the Mechanism and supports avoiding further fundamental redesign after only two years of post-reform data.

It is, however, too early to conclude that all Safeguard outcomes are being achieved over the longer term. Slower reductions in gross emissions and increasing reliance on compliance flexibility in the early years warrant continued monitoring. These trends reinforce the need to assess whether the Mechanism is creating a material and durable incentive for on-site abatement while maintaining industry competitiveness.

CMI considers that several forward-looking risks warrant continued monitoring:

- **Insufficient visibility of future industrial decarbonisation.** Historical emissions and unit surrender data are lagging indicators. Greater visibility of project pipelines, final investment decisions, capital expenditure, technology readiness and enabling infrastructure would provide a stronger indication of whether the Mechanism is translating into future on-site decarbonisation. CMI has previously supported expanding CCA's Evidence Platform to incorporate facility-level decarbonisation activity alongside emissions and carbon market data, with appropriate protections for commercially sensitive information.
- **Policy certainty and durability.** Uncertainty regarding post-2030 decline rates, future treatment of SMCs and ACCUs, the role and availability of units via the Cost Containment Measure (CCM), and longer-term carbon leakage arrangements can weaken investment signals. More fundamentally, long-lived industrial investment depends on businesses having confidence that the Safeguard framework itself will endure across investment and political cycles.
- **The trajectory of gross emissions and on-site abatement.** Increasing ACCU use alongside relatively modest gross emissions reductions is not, in itself, evidence that the Mechanism is failing to drive on-site abatement. Compliance flexibility is an intentional feature of the scheme because major industrial abatement is often lumpy and takes time, potentially up to 10 years even for mature technologies, to develop. The industrial sector also includes some of the hardest-to-abate processes. However, Government should monitor whether flexibility is operating as a bridge to future abatement rather than becoming a long-term substitute where commercially and technologically viable on-site opportunities exist.
- **Compliance market resilience.** The ACCU market is currently well supplied, but this position should not be assumed to persist as baselines decline and compliance demand increases. CMI's Taskforce on the Mechanism has discussed plausible scenarios in which commercially available domestic credit holdings could become materially constrained before the next scheduled Safeguard review. The CCA through its recent ACCU Review findings has called for a forward method-development roadmap and



improved efficiency, capacity and predictability of method development. The adequacy of future ACCU supply and the CCM should therefore be monitored as an important risk to the continuing effective operation of the Mechanism.

- **Competitiveness and carbon leakage.** As liabilities increase, inadequately calibrated trade-exposure arrangements could constrain investment in Australian production or ultimately shift production and emissions offshore. The increasing use of TEBA arrangements reinforces the need for a durable and coherent approach to competitiveness and carbon leakage as Safeguard obligations strengthen.

The appropriate response to these risks is not fundamental redesign of a mechanism that is presently on track to meet its 2030 targets. Rather, the Review should protect the architecture, improve evidence available to assess performance, provide greater certainty over post-2030 settings and make targeted adjustments where evidence demonstrates that a particular setting is preventing the Mechanism from achieving its outcomes.

## Section 3: Review of Current Settings

### Section 3.1: Flexible Compliance

Question 2: Are Safeguard policy settings and Government support mechanisms suitable for developing and deploying emissions reduction technologies for the industrial sectors? Are there any remaining barriers to undertaking on-site abatement, including sector-specific barriers?

CMI supports the objective to prioritise on-site abatement and considers that the Mechanism and existing Government support mechanisms provide a broadly suitable foundation for industrial decarbonisation. The Safeguard establishes a declining emissions constraint and creates a financial incentive for emissions reduction through declining baselines and SMC generation, while maintaining flexibility where on-site abatement is not yet technically or commercially viable. Government funding and financing programs play an important complementary role in supporting technology development and deployment.

There is some early evidence that the Mechanism settings are influencing behaviour. CMI member feedback indicates that the Safeguard has contributed to consideration or implementation of energy efficiency, electrification, process optimisation and targeted emissions reduction technologies. Major industrial decarbonisation projects can take many years to develop and commission. Some reductions observed today also reflect investment decisions made before the Reformed Safeguard commenced.

The more important issue for this Review is therefore whether the current framework is capable of bringing forward the next tranche of industrial abatement. Many remaining opportunities are materially more expensive, more capital-intensive or dependent on emerging technologies and infrastructure outside the facility boundary. Industrial decarbonisation is also inherently non-linear: relatively modest improvements can be followed by large, lumpy investments requiring long development, approval and construction periods.

CMI's work to date identifies a number of barriers that can determine whether and when on-site projects proceed:

- **Project economics and competition for capital.** Remaining opportunities may have relatively high abatement costs and must compete for capital against projects with stronger conventional commercial returns. Payback periods can also extend well beyond normal corporate investment horizons or, for some facilities, their remaining operating life.
- **Policy certainty and investment horizons.** Major projects require confidence in future compliance costs and the value attributable to emissions reduction over their investment life. Uncertainty



regarding post-2030 decline rates, SMC treatment and other Safeguard settings can reduce the extent to which future carbon value is recognised in investment decisions. CMI has consistently heard that five years of visibility on Safeguard settings is insufficient for many major industrial investments, and that ten years would align better with investment decisions.

- **Technology maturity and performance risk.** CMI's early evidence collection identifies that some industrial emissions sources do not yet have commercially mature abatement solutions at the required scale, while others depend on further reductions in technology cost or demonstration of reliability before investment can proceed.
- **Enabling infrastructure and energy availability.** CMI's early evidence collection identifies that access to grid capacity, affordable renewable electricity, hydrogen, CO<sub>2</sub> transport and storage and other enabling infrastructure can determine whether an otherwise viable project is deliverable. These constraints often sit outside the control of an individual Safeguard facility.
- **Project delivery and operational constraints.** CMI's early evidence collection identifies that feasibility studies, engineering, shutdown windows, international supply constraints, and integration with existing plant can materially affect project timing.
- **Facility and sector circumstances.** Remaining asset life, expectations regarding continued operations and sector outlook affect the ability to recover major investments. For trade-exposed facilities, project economics must also be considered alongside international competitiveness and carbon leakage risk.

These barriers manifest differently across industries and facilities. Therefore, a single scheme-wide tightening is unlikely to be an efficient response to all cases. In some cases, carbon price and project economics may be the binding constraint, meaning a stronger and sufficiently durable value for emissions reduction could change the investment decision. In other cases, even a substantially higher carbon price would not bring a project forward because the binding constraint is technology readiness, enabling infrastructure, approvals, operational requirements or the commercial outlook for the facility. CMI's decarbonisation evidence collection program is specifically testing this distinction.

This is important when considering whether the Safeguard itself requires adjustment. The appropriate policy response should depend on the source of the barrier. Where a Safeguard setting is materially preventing an otherwise viable project from proceeding, there may be a case for targeted recalibration. Where the constraint lies elsewhere, increasing compliance pressure or restricting flexibility will not necessarily create additional on-site abatement and may instead increase compliance costs, push facilities into non-compliance or result in facility closures before the end of their asset life. Detailed consideration of ACCU use, SMCs, banking, borrowing, multi-year monitoring periods and the CCM is addressed in subsequent questions. This is consistent with CMI's priority of better enabling on-site emissions reduction while preserving compliance pathways where on-site abatement is not yet viable.

CMI therefore considers the central task is to **diagnose the barriers and intervene at their source**, rather than assume there is a single Safeguard setting that will unlock industrial decarbonisation across most facilities. The adequacy of complementary Government policy and areas where current programs do not address those barriers are considered separately in response to Question 3.

### Question 3: Are there any important areas that are not covered by government policy or programs?

As discussed in Question 2, the barriers to on-site decarbonisation differ materially between facilities. Australia has a substantial suite of industrial decarbonisation programs, but CMI considers gaps remain in the design, coordination and continuity of support across the investment lifecycle.



In particular, existing grant arrangements should be reviewed to ensure that funding criteria align with the practical development of industrial decarbonisation projects. Technology eligibility restrictions, blanket co-investment requirements and relatively short delivery periods can limit access for emerging technologies, new or capital-constrained facilities and projects with long development timelines. There is also a role for support earlier in the project lifecycle, including feasibility, engineering and demonstration activities, where this is necessary to move potential abatement towards investment readiness. CMI has previously recommended reviewing the adequacy of the Future Made in Australia package, Safeguard Transformation Stream and other Powering the Regions Fund grants against these considerations.

Some CMI participants have identified a gap where decarbonisation depends on shared infrastructure beyond an individual facility boundary. These include energy, transport or storage infrastructure. In these circumstances facility-level incentives may not be sufficient because the enabling investment cannot be delivered by a single Safeguard participant. Government's analysis should identify infrastructure dependencies alongside technology and financing gaps.

There is also a gap between short-term grant funding and reliance on future Safeguard compliance costs and carbon-market price signals alone. For capital-intensive projects where the binding constraint is long-term project economics or revenue certainty, Government should consider whether concessional finance, underwriting, green product mandates or carbon contracts for difference (CfDs) could provide a more bankable investment signal. CfDs may be particularly useful where they can support the cost differential between conventional and lower-emissions production without requiring Government to intervene directly in the carbon-credit market.

Renewable gas and low-carbon liquid fuels are required for on-site decarbonisation for a range of Safeguard facilities. The Government is currently giving attention to these key policy areas. Successful, timely development and implementation of policies to enable these are important for decarbonisation expectations.

The Government could undertake a regular industrial decarbonisation policy and funding gap analysis, building on the Net Zero Plan and supporting Sector Plans, to identify where the Mechanism is creating an incentive to reduce emissions, but no corresponding technology, infrastructure or financing pathway exists. This would help ensure complementary policy is directed at the source of the barrier, rather than relying on changes to Safeguard compliance settings to address constraints they cannot resolve.

#### Question 4: Are new policy measures for ACCU use needed to accelerate industrial decarbonisation?

**CMI does not support new restrictions on ACCU use** as the first policy response to accelerate industrial decarbonisation. CMI believes that there is insufficient evidence to indicate the price of ACCUs is the dominant barrier to on-site abatement across all Safeguard facilities.

The Safeguard cohort is highly diverse, with facilities facing very different decarbonisation challenges – including technology readiness, infrastructure requirements, investment cycles and commercial constraints. Increasing the relative cost of ACCUs may strengthen the price signal where price is the binding barrier, but it will not resolve other constraints. Before introducing new restrictions on ACCU use, Government should first strengthen the signals for on-site decarbonisation by improving existing provisions for on-site abatement within the scheme and complementary policy rather than reducing facilities' compliance pathways and introducing new risks by placing limits on ACCU surrender.



As outlined in Questions 9-12, this includes providing certainty for post-2030 SMC banking, improving the usefulness of borrowing, extending and improving multi-year monitoring periods to better align with the major project timelines, and ensuring that the CCM does not weaken the forward carbon price signal. These measures, alongside complementary and targeted policy interventions discussed in Question 3, should be implemented and allowed to operate before making significant interventions like restricting ACCU use for compliance. Abatement from ACCU purchase and on-site decarbonisation may be better viewed as necessary and complementary compliance options rather than competing activities, particularly given neither is unlimited.

The Mechanism was designed as a market-based mechanism in which declining baselines create an increasing emissions constraint, while ACCUs and SMCs provide flexibility for facilities to manage the timing and cost of compliance. ACCU surrender also represents credited abatement elsewhere in the Australian economy and supports demand for investment in the ACCU market. While on-site decarbonisation is recognised in the Safeguard outcomes, the design of the Mechanism does not transfer this outcome to a facility level and favours a lowest-cost compliance construct, which under current economic conditions promotes the use of ACCUs and SMCs.

The key question is not simply whether ACCU use is increasing, but whether making ACCUs less available or more expensive would cause otherwise viable on-site abatement projects to proceed earlier. Previous changes to Government contracting and ACCU supply arrangements have demonstrated how quickly policy intervention can affect market expectations, prices and investment confidence. This experience reinforces the need for caution before introducing new restrictions or other measures that materially alter ACCU demand or value.

ACCU flexibility can perform different functions across Safeguard facilities. For some, it provides a pathway where there are no economically viable on-site abatement options. For others, it acts as a temporary stopgap while a project is developed and commissioned. In some cases, it meets a genuine compliance gap where no technically viable on-site option exists.

Responses to each of the options presented in the consultation paper are provided below.

**Quantitative limits:** Could be useful where a viable on-site option exists, by strengthening the incentive to undertake those projects. It may also increase the demand for SMCs. However, CMI sees this as a blunt instrument that does not distinguish a facility choosing ACCUs instead of an available project, from those where no technically or commercially viable alternative exists. In addition, it is unclear how a limit would be determined and applied fairly across a diverse cohort of facilities.

**Qualitative restrictions, including method and ACCU vintage:** Although these types of restrictions could incentivise new abatement, and provide greater temporal alignment between emissions liability and credited abatement, CMI does not support these restrictions for the following reasons. The connection between these restrictions and additional on-site abatement is weak. Changing the type or vintage of ACCU that a facility can surrender does not address the actual barriers preventing facility decarbonisation. Additionally, they do not address technology readiness, infrastructure constraints or make decarbonisation more viable. Moreover, restrictions stratify the ACCU market, reduce fungibility and liquidity and potentially create scarcity premiums. Such restrictions would also disadvantage entities that purchased ACCUs in good faith under existing settings. Other risks include stranding existing holdings and disrupting compliance planning. It should also be considered how such a proposal would interact with ACCUs currently held and those that continue to be delivered to the CCM. Ultimately, placing qualitative restrictions adds further uncertainty for investors on both the demand and supply side.



**Discounting ACCUs:** The advantage of this proposal is that it retains access to ACCUs rather than imposing a limit and increases the relative cost of offsetting. This could have an impact where economics is the binding constraint. However, it still may not drive additional on-site abatement. Where a facility cannot respond through on-site abatement, discounting only increases the number of offsets surrendered. It could materially increase ACCU demand while at the same time domestic supply is expected to tighten. It departs from the principle, fundamental to the ACCU Scheme's design, that each tonne of abatement is treated equivalently. The result flows into other aspects of the Mechanism, with the potential to increase TEBA concessions as costs increase for marginally profitable facilities. This in turn might result in increased risks to competitiveness and of carbon leakage. It would also place a disproportionate share of the national abatement task on Safeguard facilities relative to the rest of the economy and complicate the relationship between SMCs and ACCUs. In addition, for landfills, where ACCUs are earned for methane abatement, careful consideration would need to be given to ACCU 'addback' to avoid any unintended accounting issues. Following substantial reforms to strengthen the integrity of and confidence in the ACCU Scheme, CMI is concerned that policy changes that alter the compliance value of an ACCU could create confusion about the distinction between the integrity of the underlying unit and the separate policy objective of strengthening incentives for on-site abatement. Before considering such a fundamental shift to the design of the Mechanism, Government should also consider whether such a policy shift would remain durable over the next decade, and whether it would create investment certainty or uncertainty.

None of the options presented establishes a sufficiently direct or reliable pathway to accelerating on-site decarbonisation. Each could strengthen the relative price signal in some circumstances, but also risks imposing additional compliance costs, and potentially increasing uncertainty for long-term investors.

CMI supports the Government's objective to incentivise on-site decarbonisation, but the review should look to the existing Mechanism architecture to accomplish this objective. ACCU restrictions should be a last, rather than first, intervention. Government should only revisit this in the future if evidence demonstrates that access to ACCUs is materially delaying on-site abatement.

Question 5: If policy measures are needed, what would be the best way to reduce reliance on ACCU use without unduly disrupting the carbon market and when should any such measures start?

On-site abatement could be incentivised with the redesign of some of the Mechanism's existing features and the introduction of policy measures to overcome barriers faced by Safeguard facilities as well as provide more incentives to decarbonise.

A detailed discussion on barriers is contained in Question 2, but to design policy interventions, the barriers faced by Safeguard facilities can be broadly characterised as:

1. **Price barriers:** where the cost of on-site abatement is materially higher than alternatives
2. **Non-price barriers:** where there are barriers other than cost, including availability of technology, age of site and existence of enabling infrastructure
3. **Uncertainty barriers:** political or policy barriers where organisations are not clear of the longevity of policy or political signals.



Existing design elements within the Mechanism that could be altered to better promote on-site decarbonisation, include:

- **Clarifying treatment of SMCs post-2030:** Improving clarity of SMC use after 2030 is potentially the simplest option to encourage on-site decarbonisation projects. Eligibility and bankability of SMCs post-2030 are unclear to a number of Safeguard covered organisations, which combined with uncertainty regarding decline rates and longevity of the policy act to delay decarbonisation decisions.
- **Multi-year monitoring periods (MYMPs):** MYMPs, though conceptually valuable as a way to access on-site decarbonisation from near-term initiatives and projects, design of MYMPs may currently be limiting their practical utility. Low uptake of MYMPs could result from governance requirements, administrative burden or inadequate time horizon.
- **Borrowing adjustments:** Borrowing could encourage on-site decarbonisation but appears to be operating primarily as a last-resort liability management tool rather than as an active planning mechanism to match decarbonisation obligations and emissions reduction activities. Low uptake of borrowing adjustments may be due to the risk of higher carbon credit prices in the following years, interest on borrowing and a narrow use case. Limiting how many consecutive years a company can borrow will encourage borrowing to be used as a planning tool rather than abatement deferral.
- **Decline rate settings:** Setting the decline rate for a period aligned with decarbonisation project investment cases allows businesses greater certainty and greater impact, avoiding technology lock-in and investment delay.
- **Clarification of the role of the cost containment measure** including whether the mechanism represents a guaranteed maximum cost of abatement on a per tonne basis or represents access to a limited amount of abatement would assist organisations in assessing their long-term abatement options.

Industry requires support beyond the measures currently available through the Safeguard Mechanism to secure investment of the scale needed for the next tranche of available on-site decarbonisation projects. SMCs alone are not always a sufficient incentive to overcome the barriers to investment. Investment support could be provided using complementary policy such as:

- **Revision of funding programs for on-site decarbonisation projects.** Existing grants such as the Safeguard Transformation Stream have been somewhat successful in supporting on-site decarbonisation projects but may not be large enough to support the next tranche of high-cost on-site projects, may extend beyond the boundaries of single facilities and be dependent on other supporting infrastructure. Blanket requirements for capital matching and limits to particular technologies also reduce their overall ability to move the dial for Safeguard facilities.
- **Introduce a guaranteed future minimum price for SMCs.** Introducing a Government-guaranteed floor price for SMCs could further incentivise on-site decarbonisation projects as it allows the creation of business cases aligned with decarbonisation investment timelines.

Overall, financial support for on-site decarbonisation would benefit from a coordinated approach which consolidates existing disparate funding apportioned to particular technologies and regions. A gap analysis and mapping exercise to apportion funding to overcome identified barriers and promote opportunities, in the style of AEMO's Statement of Opportunities, could be a worthy complement to the Net Zero and Sector plans. This gap analysis could be extended to look for policy in other parts of the economy which may act contrary to the Mechanism.



Question 6: Are requirements to submit carbon abatement plans needed to improve transparency and help inform future supply and demand for ACCUs and SMCs? How would any such requirements complement or duplicate corporate climate disclosure requirements?

CMI supports greater forward-looking transparency on industrial decarbonisation, but a new, stand-alone carbon abatement plan requirement should not be the starting point.

Significant information is already collected through mandatory climate reporting, NGER and Safeguard reporting, while further information is available through corporate transition plans and sustainability reporting and emerging State climate change licensee expectations. Those using offsetting for more than 30% of their Safeguard Mechanism obligations must also produce additional reports. CMI has previously recommended bringing these sources together through the CCA's proposed Evidence Platform to create a more comprehensive and consistent evidence base without unnecessarily increasing administrative burden.

The principal gap is not necessarily the absence of plans, but limited visibility of the **forward pipeline of facility-level decarbonisation activity, barriers and hurdles to their implementation**. Historical emissions and unit surrender data alone do not show whether facilities have viable projects under development, when those projects may be commissioned, or why projects have not proceeded. As discussed in Question 1, greater visibility of project pipelines, final investment decisions, capital committed, expected emissions reductions and material barriers would provide a stronger basis for assessing whether the Safeguard is driving future on-site abatement.

Corporate climate disclosures can provide important forward-looking information on strategy, targets and transition planning, but facility-specific information may be needed where these do not provide sufficient facility-level detail.

CMI therefore recommends Government first map the information already available through AASB S2 climate disclosures, NGER and Safeguard reporting, CER market data and existing corporate disclosures, and identify material gaps before imposing additional reporting requirements. Where gaps remain, targeted disclosure could capture material facility-level abatement projects, expected timing and emissions impact, project status and key barriers, and anticipated implications for ACCU demand and SMC generation. This information should feed into a consolidated national evidence platform and, where possible, published in aggregated form to protect commercially sensitive information. Consideration should be given to data which is commercially sensitive.

There is also scope to strengthen existing Safeguard transparency arrangements rather than create a separate reporting regime. Rule 72C already seeks explanations from facilities with high ACCU reliance, but its effectiveness is unclear and it does not capture SMC surrender. CMI considers that reviewing the quality of these disclosures and potentially incorporating any forward-looking abatement information provided as part of mandatory climate reporting would be preferable to creating duplicative obligations.



Question 7: Is there any ongoing interest in using international offsets for Safeguard Mechanism compliance in the future and what is the rationale for this?

Currently, ACCUs and SMCs are the only units eligible for compliance under the Mechanism. The Australian Government's current policy is to prioritise domestic emission reduction and not provide access to Internationally Transferred Mitigation Outcomes (ITMOs) for Safeguard compliance<sup>2</sup>. This approach is consistent with the CCA advice that Australia should be able to meet its 2035 NDC through domestic action. However, the Authority has also recognised that, in unforeseen circumstances where Australia falls short of its target domestically, ITMOs could provide an additional source of abatement and serve an important risk-management role<sup>3</sup>.

CMI supports ACCUs remaining the primary domestic compliance unit for the Mechanism. Government should maintain clear visibility of the ACCU supply-demand balance and support development of the domestic project pipeline, including through timely method development. However, CMI considers that creating a contingency framework for the potential future use of international units would be prudent. This framework should identify the criteria for 'unforeseen circumstances' in advance, as well as considerations for integrity, accounting and market stability. This will ensure that a future response has been adequately considered and has not been developed reactively.

As part of this work, Government should stress-test the assumptions underpinning the current position that international units will not be required. This should include assumptions regarding post-2030 baseline decline rates, future ACCU and SMC supply, carbon prices, the pace of industrial decarbonisation and the liquidity of existing ACCU holdings. Developing this framework does not imply a decision to introduce international units; rather, it provides a transparent and orderly pathway should domestic supply prove insufficient.

Question 8: How would the market need to develop before inclusion in the Safeguard Mechanism could be considered at future review points and what considerations should be given regarding interoperability, recognition and integrity?

Before investigating how the market would need to develop to accommodate international units, the conditions under which they could support Australia's compliance carbon market would first need to be investigated. Only then could the market developments required before introducing international units be determined. Investigation of the conditions under which international units could support the market, and how the market would need to develop, would be a significant undertaking. Undertaking this preparatory work affords Australia a credible and well-governed contingency option if domestic supply becomes materially constrained or the compliance market experiences sustained and disorderly supply or liquidity pressures. Timing of preparatory work is important because any future use of international units would require clear integrity, eligibility and governance arrangements, as well as appropriate accounting under Australia's NDC. Findings should be published and any proposed changes subject to a consultation process. Sufficient lead time for any changes would provide confidence to market participants.

If international units were ultimately made available, CMI considers that access should be tightly controlled by Government and subject to robust integrity criteria. Government purchasing of international units into the CCM, limited to high-integrity ITMOs that are eligible to contribute to Australia's NDC and accompanied by corresponding adjustments to avoid double counting in accordance with UNFCCC Article 6 rules, could act to

<sup>2</sup> DCCEEW (2025) [2035 Targets Advice](#)

<sup>3</sup> CCA (2025) [2035 Targets Advice](#)



support the market without significantly affecting on-site decarbonisation drivers or the ACCU Scheme. The ITMO market is still scaling but has now been operational for more than three years, with more than 100 bilateral agreements signed and over 80 projects with Letters of Authorisation.<sup>4</sup>

Government purchase of international units into the CCM in the event of adverse market conditions supports:

- **Market efficiency:** Government procurement into the CCM may improve liquidity during periods of supply shortages. As international units would only enter the market through the CCM, the Safeguard Mechanism would largely maintain the ACCU and SMC pricing signals.
- **Cost effectiveness:** This option may help contain compliance costs in scenarios where domestic supply shortages drive ACCU or SMC prices above the indexed CCM price ceiling. Government procurement of international units could provide an additional supply buffer to manage extreme price scenarios.
- **Political feasibility:** Likely to be more politically feasible than allowing unrestricted purchasing of international units as Government retains strict control over the timing, amount and eligibility of international units entering the market.
- **Integrity risk (including risk of corresponding adjustment and double counting):** Integrity risks could be managed through government procurement criteria, including restrictions on eligible unit types, recognised standards (e.g. CCP-labelled or Article 6), geographical preferences (e.g. Pacific projects) and confirmation of corresponding adjustments.
- **Impact on abatement:** Limited amounts of government-controlled international units released through the CCM may help reduce excessive compliance costs in rare shortage scenarios while preserving strong incentives for domestic abatement.
- **Policy certainty and market stability:** Centralised control over procurement and release of international units may provide a policy lever to stabilise prices during periods of high market stress. As international units would only be released under predefined conditions through the CCM, the domestic ACCU and SMC markets would largely continue to function normally outside of extreme price scenarios.

In this way, international units could provide a contingency mechanism to protect market confidence and compliance availability, while maintaining domestic abatement and ACCU supply as the primary pathway for meeting obligations under the Mechanism. Creating linkages to international markets through purchasing into the CCM could create opportunities for greater cooperation with international markets in the future.

### Section 3.2: Intertemporal Flexibility and the Cost Containment Measure

Question 9: Is banking working to encourage businesses to reduce their emissions ahead of schedule? Are there any strong reasons why banking should not extend beyond 2030?

CMI supports continuing SMC banking beyond 2030. Banking is an important part of the Mechanism's flexibility architecture because it preserves the future value of emissions reductions achieved ahead of the baseline trajectory. This can strengthen the incentive for facilities to outperform their baseline where opportunities are available, rather than timing abatement only to meet annual compliance requirements. Providing clarity over the eligibility and bankability of SMCs after 2030 is a direct way of strengthening the investment proposition for on-site decarbonisation. CMI has member feedback detailing instances where

<sup>4</sup> IETA (2026), <https://www.ieta.org/article-6-project-directory>



emissions abatement projects were being brought forward into an earlier maintenance window because emissions reductions via SMCs could be banked.

CMI does not consider there to be a strong case for banking to cease at 2030. Removing the ability to bank units could have several unintended consequences, including:

- Reducing the value of SMCs generated through early over-performance, weakening rather than strengthening the incentive for early action;
- Creating uncertainty for facilities that have generated, purchased or incorporated future SMC value into investment and compliance decisions; and
- Encouraging SMC holders to surrender or sell units ahead of 2030 simply because of regulatory uncertainty, potentially distorting prices and investment signals.

These considerations are particularly important given the long investment horizons of industrial decarbonisation projects. CMI's engagement with members identifies SMC eligibility and banking uncertainty post-2030 as a barrier to investment.

Concerns that large volumes of early-vintage SMCs, some of which resulted from the design of the Mechanism rather than on-site decarbonisation activity, could be carried into a period of tighter baselines and reduce the incentive for additional post-2030 abatement could be investigated further to understand the potential impact.

Question 10: Are current borrowing arrangements working to help businesses manage short-term exceedance? Should borrowing continue beyond 2030?

CMI supports retaining borrowing beyond 2030, but considers there is insufficient evidence to conclude that the current settings are working optimally.

Borrowing provides useful flexibility by allowing facilities to:

- Manage temporary operational or production-related variations in emissions;
- Bridge a short timing gap before an abatement project or other compliance pathway becomes available;
- Reduce exposure to shorter-term ACCU or SMC supply and price volatility; and
- Shift, rather than remove the compliance obligation, with the borrowed amount repaid with interest in the following year.

The borrowing function remains relevant beyond 2030 as baselines tighten, industrial decarbonisation remains non-linear and production varies. Removing borrowing at an arbitrary date would reduce flexibility and be inconsistent with the broader objective of providing stable, durable settings through the transition.

If there were strong evidence that borrowing was delaying abatement investment, the Government could move to restrict borrowing in consecutive years. Currently there is no restriction on how many years in a row a facility may access the borrowing mechanism. Borrowing would only weaken abatement signals if it is used as a routine roll-forward mechanism rather than a genuine bridging tool. Potential solutions to such a situation could include limiting the maximum consecutive years of borrowing, or enhancing disclosure of borrowing to explain why greater on-site abatement has not occurred and what steps are being taken to avoid future borrowing.



In addition, if borrowing is legitimately used for short-term bridging, it may be worth testing whether the 10% interest rate is appropriately calibrated or if it creates too high a barrier for use.

Question 11: Should the current policy that prevents multi-year monitoring periods from extending beyond 2030 be retained? Are there circumstances that could benefit from access to multi-year monitoring after 2030?

CMI supports removing the 2030 restriction on multi-year monitoring periods (MYMPs). MYMPs should continue beyond 2030 and be recalibrated to better align with genuine industrial decarbonisation project timelines.

The current design settings for MYMPs present the following challenges:

- The 2030 cut-off progressively reduces the useful duration of MYMPs. As 2030 approaches, the available period becomes increasingly disconnected from the timeframes required to develop and commission major abatement projects.
- Annual compliance does not always align with industrial decarbonisation timelines. Major projects may require several years of feasibility, approvals, infrastructure development, construction and commissioning before delivering a material reduction in emissions.
- The current five-year maximum monitoring period may also be too short for some investments, particularly capital-intensive projects with long development cycles.

MYMPs would be most successful when designed to operate as a bridge to material on-site abatement, rather than as a means to defer compliance. This would preserve accountability while recognising the inherent non-linear nature of industrial decarbonisation. Therefore, the utility of MYMPs could be improved by:

- Allowing MYMPs to extend beyond, and straddle, 2030 into future target years;
- Considering periods longer than five years, where justified by credible project development and commissioning timelines;
- Introducing a milestone-based assessment during the MYMP to demonstrate progress and allow appropriate adjustments to the approved abatement plan;
- Maintaining appropriate annual or point-in-time emissions accounting so MYMPs do not obscure progress against Safeguard and national emissions targets.

Question 12: Is the current design of the cost containment measure sufficient to allow businesses to manage upside price risks? Could the current cost containment measure price deter investments in emissions reduction activities?

The Cost Containment Measure (CCM) is intended to function as a last-resort source for compliance units, accessed only in exceptional circumstances, to protect businesses against very high compliance costs. After three years of operation, industry concerns regarding very high prices have not materialised, although this does not mean that protection from extreme price outcomes is unwarranted.

However, there is uncertainty about what protection the CCM currently offers. It is not clear whether the CCM can be treated as a guaranteed maximum compliance price, or whether it simply provides access to a limited pool of ACCUs at a set price on a first-come, first-served basis. This distinction matters for long-term investment and compliance planning. If the CCM operates as a guaranteed backstop, businesses can treat its price as an upper bound on future compliance costs. If access is limited by the size of the reserve, it may not



offer any price protection in the event of rising ACCU prices, which could affect decision-making regarding on-site decarbonisation.

The CCM price itself can also influence investment decisions before the measure is ever accessed. A fixed-price CCM which is too low introduces uncertainty by inserting a price barrier between a facility's individual emissions accountability and the actual marginal cost of abatement needed to meet Australia's targets.

Member feedback has been mixed. Some members consider that the current CCM price is eroding the economics of longer-payback capital investments, weakening incentives to commercialise emerging decarbonisation technologies and reducing the incentive to proactively invest in on-site emissions reductions beyond minimum compliance. Others have noted that, with the reserve representing less than a year's potential ACCU supply, it is difficult to see how the measure could materially distort long-term emission reduction pathways. This divergence reinforces the need for greater clarity about the intended role and practical availability of the CCM, particularly relative to the credible compliance backstop originally envisaged for the measure.

Any distortionary effect is likely to increase as market prices approach the CCM price, as businesses may increasingly treat the CCM as an effective ceiling on future compliance costs. This reduces the value attributed to avoiding higher future carbon costs and weakens the investment case for higher-cost on-site abatement.

Where the CCM is perceived as a credible price ceiling, a price set below the cost of potentially viable emission reduction projects could limit the investment case for those projects, and by extension, influence what is considered 'commercially viable' for hard-to-abate industrial facilities. The same effect could reduce the commercial viability of higher-cost ACCU projects, discouraging the investment in new supply of abatement that must occur years ahead of when it is needed. These effects compound because the distortionary effect on investment decisions occurs well before the price ceiling itself becomes binding, because it is seen as protection against high ACCU prices.

Allowing continued ambiguity regarding the CCM's operation undermines the effectiveness of both the CCM and broader policy incentives for decarbonisation. DCCEEW should therefore review and communicate the intended operation of the CCM.

CMI supports retaining the CCM, or some form of it, to protect against exceptional circumstances, but recommends its design be reviewed. The review should include:

- Clarifying whether the CCM is a guaranteed price backstop or access to a limited reserve;
- Considering if the CCM price should be informed by on-site decarbonisation project markers rather than an ACCU market price;
- Providing more transparency on the size, expected availability and allocation of the reserve;
- Reviewing the CCM price indexation methodology, including whether the current anchoring to Consumer Price Index (CPI) remains appropriate as ACCU prices and abatement costs rise; and
- Disclosing the method by which additional ACCUs would be added to the reserve.



### Section 3.3: Trade-Exposed and Strategic Industries

Question 13: Do current arrangements that link TEBA eligibility to scheme cost impacts create equity concerns among competing facilities or discourage uptake of on-site abatement?

CMI considers current TEBA arrangements can create equity concerns between competing facilities but there is not yet sufficient evidence to conclude that TEBA generally discourages on-site abatement. While a reduced decline rate may weaken the compliance incentive, TEBA can also preserve production and investment in Australian manufacturing.

TEBA was intended to be a short-term guardrail against carbon leakage, but it has become more of a safety-net for competitiveness relied upon by a number of facilities to ameliorate compliance costs. While for many facilities this provides a necessary safety net, it has in some cases caused comparative disadvantage or equity concerns among competing facilities within Australia. Equity concerns arise due to the design of the TEBA test which allows facilities producing the same product to have different access to TEBA concessions. Inequitable outcomes can arise because the TEBA test:

- Is applied at the facility level and facilities may produce more than one product;
- Results in TEBA accommodations being awarded for three years regardless of other changes; and
- May create different outcomes depending on the facility's existing emissions intensity and prior decarbonisation progress.

The TEBA test currently assesses the cost of compliance based on the number of excess CO<sub>2</sub> emissions at a prescribed ACCU price as a percent of revenue or EBIT for a facility. This test by its nature will disadvantage multi-product facilities where higher-margin products subsidise compliance to lower-margin trade-exposed products. The design also provides baseline reduction relief for three years regardless of whether a facility would trigger a TEBA accommodation in a year following the initial assessment. The cyclical nature of some industries means a facility may qualify for TEBA one year but not the next – meaning a facility that delays application may not receive any support, while other facilities continue to receive baseline reductions even when the conditions of the test are not met for that particular year. Additionally, because TEBA eligibility is linked to the cost of excess emissions, facilities with higher existing emissions intensity may be more likely to qualify for a reduced decline rate. This combination of factors creates the potential for so-called 'domestic' leakage where facilities producing the same product could end up with a material advantage over other producers.

It could be argued current settings disincentivise on-site abatement due to a reduced compliance burden. This broad view does not consider a facility's decarbonisation potential or costs. The facility may be over baseline for the reporting period because on-site decarbonisation options are not technically or commercially viable. In this case TEBA is an important bridging tool, supporting continued manufacturing in Australia, and avoiding carbon leakage or facility closure while technology matures. As a result, TEBA facilities' on-site decarbonisation potential and sovereign manufacturing capability should be carefully considered before cessation of TEBA, even if a border carbon adjustment (BCA) is introduced. BCA design, in turn, needs to be cognisant of any TEBA accommodations.



Question 14: Would a sectoral approach to TEBA eligibility better target carbon leakage risks and help to address any equity concerns?

Altering only the TEBA test, to apply on a product basis (production variable) rather than at sector or facility level could help reduce inequities within industries, better target leakage risks and be an important first step in preparing Australia for a mature BCA. TEBA accommodations, compliance and all other Mechanism settings would still be applied at a facility level.

Application of the TEBA test at a product level should consider:

- Mandatory product-level emissions accounting rules for Safeguard facilities,
- Harmonisation with EU CBAM sectoral calculation methodologies,
- Standardised allocation rules for shared processes.

Fundamental to protecting against carbon leakage is being able to compare the carbon credentials of products in terms of emissions per tonne of product as well as the embedded cost of carbon. Applying the TEBA test at a facility level does not support this comparison. Early movement towards product-based accounting allows the creation of a system that is 'product and trade flow' credible and aligns with the Guarantee of Origin (GO) scheme.

Continuing to assess TEBA at a facility level may result in trade-exposed low-margin products being subsidised by more profitable, less exposed products at multi-product facilities. This places multi-product sites at a material competitive disadvantage. CMI acknowledges the complexity in implementing the TEBA test at a production variable or product level, while retaining all other settings at a facility level, but suggests it will still create an overall improvement and prepare Australian industry for any future BCA. Review of TEBA eligibility criteria to more closely align with leakage risk may be warranted as any future BCA is considered.

Question 15: Could a 'catch-up mechanism' be introduced for TEBA to better distribute the effort between TEBA recipients and other Safeguard facilities?

Imposing a catch-up mechanism for TEBA facilities creates added complexity and uncertainty as a specific emissions reduction contribution (ERC) would need to be calculated for each facility with a TEBA determination in their exit year. Additionally, it is difficult to ascertain the circumstances under which a facility would be able to catch-up. Catching up would require the facility to develop significant decarbonisation activities or projects after having been assessed as needing assistance with compliance costs, while employing what is currently the lowest-cost compliance method.

If the goal of the catch-up mechanism is to re-align facilities with a Net Zero pathway, then they could be assigned the default emission reduction contribution associated with the year they exit TEBA. While this requires a large increase in emissions reduction in one step, a known ERC provides the facilities with the certainty to plan investment and decarbonisation activity well in advance of their exit from TEBA.



Question 16: Feedback is sought on options for improving TEBA that would continue to effectively manage carbon leakage, and deliver Safeguard Mechanism objectives, including emissions targets and incentives for on-site abatement.

The Carbon Leakage Review Report found the Mechanism's settings are able to mitigate carbon leakage in the short to medium term, but lowered decline rates for TEBA facilities may dampen the overall impact of the Mechanism in Australia's emissions reduction efforts.<sup>5</sup> Noting that overall, the Government found the Mechanism is broadly working as per design and there are only two years of preliminary operational data, changes should only be made where there is a clear supporting evidence base. While in the longer term, a BCA for selected commodities would be the most effective way to manage carbon leakage, the role of TEBA in supporting continued manufacturing where decarbonisation options are limited should not be underestimated.

Areas for investigation include moving the TEBA test to a product or production-variable basis (See question 14) and award timing. Reduced decline rates are awarded to TEBA facilities for three years based on a test which considers only one year of data. While this is administratively efficient, reducing the need for re-application and audit, it does not account for differences in scheme costs year on year or support the investment time horizons needed for material investment in decarbonisation. It may be more effective to change the TEBA test to include more than one year of data when assessing the facilities' exposure. Baseline reductions could similarly be applied for more than three years. While allocating baseline reductions through TEBA for a longer period may have implications for delivering the Mechanism's objectives, using a larger data set for the assessment should see concessions given where they are most needed and better support future investment.

If TEBA is retained as an industry competitiveness measure beyond the introduction of more targeted carbon leakage measures, it could be redesigned such that cost relief or rebates are provided instead of reduced baseline decline rates. This could be based on actual compliance costs rather than an assumed contribution based on a prescribed carbon credit price. Basing support on actual costs could provide targeted relief without compromising the Mechanism's emission reduction objectives.

Question 17: Should a border carbon adjustment be introduced for cement and clinker?

CMI continues to support the phased introduction of a border carbon adjustment for imports, starting with the most trade-exposed products and industries, as detailed in its submission to phase 2 of the DCCEEW's carbon leakage review<sup>6</sup>. As outlined in the Carbon Leakage review, cement and clinker are subject to a material risk of carbon leakage and so warrant consideration for a further policy intervention. Any policy intervention should be signalled well in advance to support market confidence and stability. It should be noted that before a policy adjustment for carbon leakage is made, differences in carbon price exposure between facilities producing the same product should be addressed.

<sup>5</sup>DCCEEW (2025) [Australia's Carbon Leakage Review report - DCCEEW](#)

<sup>6</sup> Details can be found [FINAL CMI-Submission Carbon-Leakage-Review-second-consultation.pdf](#)



Question 18: If a BCA is implemented, what elements should be included in any process for considering and consulting on the inclusion of further commodities over time?

CMI recommends a transparent, time-bound roadmap for consideration of additional BCA commodities. To provide a level playing field for imported products a BCA would need to align with Australia's domestic emissions policy settings and be consistent with Australia's open, rules-based trading system and international trade law obligations.<sup>7</sup> Regional cooperation considerations should be integrated into Australia's diplomatic outreach and approach when considering the design of a BCA to ensure Australia supports the maturity and interoperability of carbon compliance markets across the region.

If a BCA for imported products were to be implemented, it would benefit from the creation of a time-bound roadmap which transparently outlines:

- the process undertaken to create the roadmap;
- relevant international standards consulted;
- products included;
- criteria the Government used to determine material carbon leakage risks;
- coordination between the BCA and TEBA settings; and
- implementation timing.

An international focus to the roadmap and consultation is required so any BCA created supports alignment and harmonisation with other border carbon adjustments while understanding where differences occur. Without alignment, the presence of multiple disparate BCAs (EU, UK, potential Australia) risks:

- double charging on carbon costs;
- inconsistent emissions calculations;
- higher compliance costs; and
- trade friction without better climate outcomes.

As well, when considering which commodities are included, any consultation process should consider:

- Emissions accounting principles (embedded emissions, boundaries, allocation rules);
- Credible evidence (e.g. verified emissions data, product certificates, guarantees of origin); and
- Carbon price equivalence logic (what counts as "carbon price paid" and how relief/free allocation is treated).

The Carbon Leakage<sup>8</sup> report remains a foundational document on the path to an Australian BCA, but a dedicated roadmap can offer the detail needed to provide industry certainty.

<sup>7</sup> DCCEEW (2025) [Australia's Carbon Leakage Review report - DCCEEW](#)

<sup>8</sup> DCCEEW (2025) [Australia's Carbon Leakage Review report - DCCEEW](#)



Question 19: Should TEBA provisions for a commodity be removed once a BCA is fully implemented for that commodity?

CMI broadly supports phasing out of TEBA concessions for a commodity once it is protected by a BCA. However, it should be noted TEBA is an important bridging tool, supporting continued manufacturing while technology matures. As a result, TEBA facilities' on-site decarbonisation potential and risk to sovereign manufacturing capability should be carefully considered before complete removal of TEBA accommodations.

If TEBA was retained as an industry competitiveness measure beyond the introduction of more targeted carbon leakage measures, it could be redesigned such that cost relief or rebates are provided instead of reduced baseline decline rates. This could be based on actual spend rather than an assumed contribution based on a prescribed carbon credit price. Redesign to address actual spend means organisations receive some cost relief without compromising the Mechanism's objectives.

Question 20: What would the appropriate timing and mechanics be for removing TEBA provisions for a commodity covered by a BCA?

Initially constructed as a method for reducing the risk of carbon leakage in the short to medium term, the reduced decline rate awarded under the TEBA test has for some facilities acted to support continued sovereign manufacturing. As a result, timing and mechanics for removing TEBA completely would need to be carefully considered. This may be best determined by using industry-specific, focused consultation once a preliminary design for the BCA has been agreed.

### Section 3.4: Sector-specific Issues

Question 25: Could removing optionality about state and territory versus national reporting for transport facilities help to improve land transport sector coverage?

Removing optionality regarding state and territory versus national reporting could reduce inequities in the transport sector, improve consistency and comparability, and increase covered emissions in the Mechanism. While lowering the compliance threshold may also reduce competitive differences by bringing more road transport facilities into the scheme, it would not address inconsistencies arising from different facility definitions and reporting boundaries. Capturing a greater proportion of road transport could also help create a natural demand for low-carbon liquid fuels and reduce carbon leakage related to cost differences that shift transport from rail to road.



### Section 3.5: Coverage

Question 29: Should the Safeguard Mechanism cover a larger portion of national emissions?

See response to question 30.

Question 30: Should the Safeguard Mechanism threshold be lowered and, if so, when?

CMI supports broadening and deepening the Mechanism, primarily through a progressive lowering of the existing facility coverage threshold, where this can deliver a material emissions benefit without disproportionate cost, complexity or the introduction of material competitive distortion.

The Safeguard provides an established market-based framework that can be extended to a broader range of emitters, rather than creating parallel mechanisms for facilities facing similar decarbonisation challenges.

Broadening coverage through the existing framework could reduce competitive distortions within sectors where otherwise similar facilities face different carbon obligations while providing a direct and durable incentive for smaller facilities to decarbonise. Although emissions data at a facility level are not available, the public NGER data indicate the combined emissions of this cohort of controlling corporations has remained broadly stable since 2021-22. Broadening coverage would bring these emissions within an established framework and provide a more durable incentive for continued abatement.

CMI recommends that Government establish the pathway well in advance, giving affected facilities sufficient time to incorporate future obligations into investment, operational and decarbonisation planning. A phased approach could support policy certainty while progressively increasing the Mechanism's reach. Sequencing could allow the Mechanism to broaden progressively while limiting disruption and providing time for facilities to establish administrative processes.

Expansion should also be informed by the emissions benefit achieved, administrative burden, competitiveness and carbon leakage implications, and the availability of viable abatement opportunities. Consideration of these factors should include the potential for carve-outs for facilities like landfills or wastewater facilities where they fulfil an essential community need, have few opportunities to reduce emissions, already undertake methane abatement and are subject to a mix of other regulations.

A possible approach could be:

**Phase 1:** From 2030 lower the facility threshold from 100,000 to 50,000 t CO<sub>2</sub>-e, to introduce a limited number of new facilities

**Phase 2:** From 2035 lower the threshold to 25,000 t CO<sub>2</sub>-e, to provide a carbon driver for the bulk of NGER reporters and retain a greater proportion of facilities in the scheme.

Looking further ahead, meeting Australia's 2035 target will require progressively stronger emissions reduction incentives across a wider share of the economy. Lowering the Safeguard threshold is an important first step, but Government should continue to consider gaps in the coverage of major emissions sources and whether the Safeguard, or complementary policy, is the most appropriate mechanism to address them.

An alternative approach to a numerical compliance threshold is to define the Mechanism's coverage by industry. In this approach all facilities within a particular industry would be included in the Mechanism at a particular date. This would remove the potential for facilities in the same industry to be subject to differing carbon price incentives which result in competitive disadvantage. Definition of industry would need to be



carefully considered to avoid ambiguity for multi-product facilities. As with any changes to compliance coverage, introduction would need to be well signposted with long lead times for compliance.

**Question 31: How should baselines be set for facilities that would enter the Safeguard Mechanism as a result of a lower threshold?**

CMI considers that facilities entering the Mechanism as a result of lowering facility thresholds should be brought into the existing baseline framework. This means they would be subject to production-adjusted baselines, related to an appropriate production variable and emissions-intensity factor as for other covered facilities. The point of difference for the new facilities centres on what ERC should be assigned.

Applying the published ERC for FY31 to newly covered facilities would require them to meet a baseline more than 30% below an undiscounted industry-average baseline from their first year in the Mechanism. This could create a significant and sudden compliance cost, particularly for smaller facilities that have had limited time and capacity to prepare.

Government should establish a transition that allows these facilities to enter the scheme gradually, while not placing additional burden on existing facilities. The staged implementation of the AASB S2 standards may provide insights on how to integrate smaller facilities, or what to avoid. A higher ERC could apply for the first year, so the abatement and investment signal begins immediately, and could then increase along a clear, predetermined pathway until it reaches the ERC applying to existing facilities.

The design and length of this ERC transition should be informed by the scale and distribution of costs, available and commercially viable abatement opportunities, the time needed to plan and implement emission reduction projects and administrative impacts on smaller facilities, among other considerations.

This approach would begin extending the Mechanism's decarbonisation signal immediately while managing cost shocks. Any transition should provide sufficient notice with a clear and transparent timeline for converging to the existing framework.

### Section 3.6: Administrative Issues

**Question 33: Feedback is sought regarding administrative aspects of the Safeguard Mechanism.**

The reforms to the Mechanism in 2023 were wide-ranging and provided a sound basis for Australia's carbon market while generating a pricing signal for carbon abatement. Currently, the Mechanism contains inconsistencies which could act to undermine this pricing signal and can create inequities within industries.

Matters identified are:

- SMC generation by TEBA facilities

Review of data released by the CER in April 2026 shows some Safeguard facilities received SMCs while receiving a lower baseline decline rate as a result of a TEBA accommodation. Awarding SMCs to facilities with TEBA adjustments appears to be inconsistent with meeting the Mechanism's outcomes.



- Awarding SMCs to facilities without the need to demonstrate decarbonisation activity

CMI supports the awarding of SMCs to facilities whose covered emissions are below baseline as an important incentive for on-site decarbonisation. To support transparency and confidence in the Mechanism, facilities generating material volumes of SMCs should provide information on the factors contributing to that generation, distinguishing deliberate abatement from changes in production, operations, facility structure or other site-specific factors. Where possible, this information should be drawn from existing mandatory climate, NGER and Safeguard reporting rather than requiring a new standalone report. This is not intended to equate to an ACCU-style additionality test but rather to create some transparency regarding activities which supported the emissions reduction.

### Section 4.1: Meeting the Target

Question 34: The Safeguard Mechanism will continue to do a proportional share of the national emissions reduction task.

CMI supports the principle that the Mechanism should contribute a proportionate share of Australia's emissions reduction task to 2035. The Mechanism's contribution to Australia's NDC and 2050 Net Zero targets is central to its design. Assigning the Mechanism a share of emissions reduction equivalent to its contribution to Australia's emissions inventory remains a pragmatic approach which supports policy certainty.

However, the proportionate share needs to reflect changes to covered emissions in the Safeguard Mechanism and policies guiding decarbonisation in other sectors. In particular, the definition of proportionate share needs to be cognisant of any change to the compliance threshold, inclusion of new sectors, potential new facilities, projected production changes and decarbonisation of other sectors of the economy. The methodology should also avoid creating a dynamic in which sectors that decarbonise faster are progressively required to do more simply because other sectors have decarbonised more slowly.

ACCUs generated through abatement or sequestration in sectors outside the Mechanism may be surrendered by Safeguard facilities and therefore contribute to the Mechanism's net emissions outcome, while the emission reductions are reflected in the sector in which they occur. As Government considers the relative contribution of different sectors to Australia's 2035 target, it will therefore be important to distinguish between where emissions reductions occur, and which sector is responsible for delivering or financing that abatement. Apparent outperformance by one sector may, in part, reflect abatement already being relied upon by Safeguard facilities to meet their proportionate share of the national task, and this interaction should be made transparent when future sectoral contributions and trajectories are assessed. ACCU discounting would amplify this interaction because Safeguard facilities would be required to finance more than one tonne of economy-wide abatement for each tonne of facility liability.

Question 35: Should the proportional share be updated from 28.1% to 29.8% to reflect data in the two years prior to the commencement of the reforms or is there an alternative method that would retain a proportional share?

CMI supports updating the proportional share reference where more accurate data are available, provided that the methodology remains transparent and repeatable, and does not detract from long-term policy stability or certainty. The benefit of using an average of the proportionate share indicated by the older data and the proportionate share using the new data is not clear. Government should clearly explain the choice of



reference period and establish a consistent methodology that can be applied for future target-setting exercises.

Question 36: What factors should be considered in setting the Safeguard Mechanism target for 2035? How should the reserve be set for 2035 to account for variation in production and new entrants?

CMI supports a credible 2031-2035 Safeguard emissions budget aligned with the upper end of the 2035 NDC target range, trajectory and point target that maintains the Mechanism's proportionate contribution to Australia's national emission reduction task. CMI supports retaining an appropriate reserve to manage uncertainty in production, new entrants and other factors affecting aggregate Safeguard baselines.

The methodology used to set the target and the reserve should be transparent and repeatable to support long-term policy certainty and durability.

In setting the target and reserve, Government should consider:

- **Changes in covered emissions**, including production growth, new entrants, changes to the compliance threshold and any extension to new sectors;
- **The expected contribution of other sectors of the economy**, recognising that the Safeguard should remain one part of an economy-wide emissions reduction framework;
- **The impact of TEBA and other concessions**, including whether different levels of uptake materially change the contribution required from non-TEBA facilities;
- **Uncertainty in future emissions**, with the target, reserve and subsequent decline rate calibrated as an integrated package and tested against a range of plausible scenarios; and
- **Abatement potential**, including what is technically and economically possible for the Mechanism cohort.

Government should also distinguish between where abatement physically occurs, and which sectors finance that abatement. ACCUs surrendered by Safeguard facilities contribute to the Mechanism's net emissions outcome while the underlying reduction occurs elsewhere in the economy. This interaction should be transparent when determining sectoral contributions towards the 2035 target.

## Section 4.2: Decline Rate after 2030

Question 38: What factors should be taken into account when determining an appropriate baseline decline rate to apply from 2030-31 to 2034-35, noting that it must be calibrated to meet the agreed target?

The baseline decline rate to apply from 2031 should provide a clear emissions reduction trajectory aligned with the agreed 2035 Safeguard target, providing sufficient certainty for long-term industrial investment. The methodology used to determine the rate should be transparent and repeatable so that the setting of future decline rates does not cause policy uncertainty. In addition, while the decline rate through this review is being set for a five-year period, Government should also provide indicative settings beyond 2035, so facilities have visibility over a materially longer investment horizon, in line with timeframes needed for transformational decarbonisation decisions.

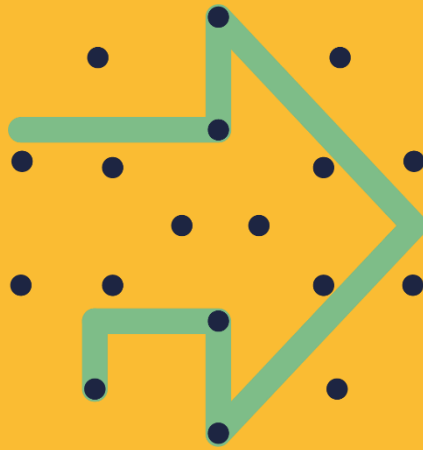


In calibrating the decline rate, Government should consider:

- **Investment and project timeframes.** Major industrial investments operate over longer horizons than five-year policy cycles. Earlier clarity on post-2030 settings will allow the decline rate to influence capital allocation now and avoid investment delay or technology lock-in.
- **New facilities and future investment.** New facilities will commence from best-practice emissions intensities that have declined as per ERC. They may have limited further low-cost abatement opportunities. Government should assess whether applying the same decline trajectory to these facilities could discourage investment in new, lower-emissions production, and ensure industry-average and best-practice emissions intensities remain aligned with technological and commercial developments.
- **Competitiveness and sovereign manufacturing capability.** The decline rate should be economically sustainable and considered alongside carbon leakage protections. TEBA settings, in particular, need to be considered with the default decline trajectory to ensure facilities can respond without shifting production offshore. Government should also assess how TEBA concessions affect the default decline rate applied to non-TEBA facilities. If greater TEBA uptake requires a materially higher default decline rate to preserve the aggregate target, the resulting distributional impacts should be transparent.
- **The role of complementary policy and flexibility.** The role of complementary policies to enable on-site decarbonisation should not be underestimated during this review. Where technology readiness, enabling infrastructure or high project costs constrain near-term abatement, these barriers may be better addressed through flexibility mechanisms and complementary government support.

The Government should also consider how the post-2030 decline rate will influence demand for ACCUs for compliance. Where the decline rate is calibrated without sufficient regard to the timing and availability of technically and commercially feasible on-site abatement, facilities may rely increasingly on ACCUs. The implication for future ACCU demand should therefore be considered alongside the proportional share methodology and broader calibration of the Safeguard target.

The post-2030 decline rate should therefore be ambitious but credible, providing a clear investment signal, while remaining grounded in realistic decarbonisation pathways and practical timeframes required for their delivery.



for more information, please contact

Kelly Smith

Net Zero Engagement Manager

[kelly.smith@carbonmarketinstitute.org](mailto:kelly.smith@carbonmarketinstitute.org)

The Carbon Market Institute is at the centre of climate change policy and business in Australia. Independent and non-partisan, we bring business, policymakers and thought leaders together to drive the evolution of carbon markets towards a significant and positive impact on climate change.

Engaging leaders, shaping policy and driving action, we're helping business to seize opportunities in the transition to a low carbon economy.

