## Australia’s Safeguard Mechanism

<table>
<thead>
<tr>
<th>Years in Operation</th>
<th>Since 1 July 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall cap and trajectory</td>
<td>Covered facilities must keep their emissions within an emissions intensity baseline, updated annually to reflect either actual production (production adjusted baseline) or forecast production (calculated baseline), rather than declining over time to meet a target. Other baselines continue to apply in special situations, such as default, sectoral, and benchmark baselines.</td>
</tr>
<tr>
<td>Target(s)</td>
<td>Australia’s national target is for a 43% reduction on 2005 levels by 2030 and net-zero by 2050.</td>
</tr>
<tr>
<td>Emissions reduced to date</td>
<td>By the end of the 2021-22 reporting year, emissions covered by the Safeguard Mechanism were 137.5 MtCO$_2$e, up by only 0.6 MtCO$_2$e when compared to the previous year.</td>
</tr>
</tbody>
</table>
| Sectors covered | Facilities with annual emissions in excess of 100,000t CO$_2$e in the following sectors:  
- electricity generation  
- oil and gas  
- mining  
- manufacturing  
- transport waste. |
| GHGs covered | All Scope 1 (ie, direct) emissions |
| Number of covered entities | 219 in the 2021-22 reporting period |
| Use of offsets and linking | Companies can use Australian carbon credit units (ACCUs) for emissions in excess of their baseline. |
| Other features | Firms can apply for a multi-year monitoring period, under which they can exceed their baseline in one year, enabling them to average emissions over a two- or three-year period to mitigate compliance liabilities. |
Major Developments

Two major developments have shaped the Australian carbon market in 2023:

1) The Chubb Review: The long-awaited report from an independent review into the integrity of the ACCU scheme (referred to as the ‘Chubb Review’) was handed to the Australian government in January. The review found that the scheme was fundamentally well-designed, instilling greater confidence in market participants.

In finding that the ACCU scheme was sound in delivering real carbon abatement, it offered 16 recommendations designed to further improve market transparency and integrity.

Recommendations included actions to increase the accessibility of project-level data, the early sunsetting of the Avoided Deforestation methodology and the establishing of a new Integrity Committee. All recommendations were accepted by the government in principle, with the implementation of associated actions continuing to occur.

2) The Safeguard Mechanism Bill: The new Safeguard Mechanism Bill passed through federal Parliament in March, forming the cornerstone of the government’s climate policy. The updated policy has set emissions baselines for eligible facilities, with the goal of setting Australia on a trajectory towards achieving a 43% reduction in greenhouse gas (GHG) emissions, compared with 2005 levels, by 2030.

Importantly, the policy allows Safeguard-covered facilities to retire ACCUs to meet their obligations. This is expected to significantly impact the supply-demand dynamics of the market in the short-to-medium term as reporting obligations under the reformed Safeguard Mechanism began on 1 July 2023.

Market Commentary

Compared to the price volatility experienced in 2022, the ACCU market in 2023 has remained relatively stable, with prices for generic ACCUs generally ranging between A$25-$40 per tonne.

Market stratification has continued to increase, with a significant price spread (A$25-75) being observed between different types of ACCUs. This has largely been driven by the sophistication of market participants and for the value they see in additional, non-carbon-related benefits, such as unique biodiversity benefits or Indigenous employment and cultural benefits via Indigenous-owned projects.

Various market analysts predict that increasing demand from Safeguard-affected entities, paired with limited supply due to tightened carbon project requirements, will lead to a structural market supply shortfall by 2025 and higher prices. This is projected to be further exacerbated by an increasing amount of organisations entering the market as they approach their voluntary net zero targets.

Following the injection of policy certainty early in 2023, the ACCU market has been relatively active, with approximately 1.6 million tonnes per month being transacted in the third quarter in the spot market alone.
As organisations with a fixed, long-term demand for carbon offsets look to manage their forward risk, there is an increasing amount of market participants engaging in direct carbon investment activities, locking in a future supply of high-integrity carbon units.

Compliance market buyers are also anticipating the government’s review of the use of international offsets for compliance obligations, which is set to take place in 2025/26. This is leading to some organisations positioning for longer-term investment into regional projects in anticipation of allowances being made for some level of international credit use. The fallback position for these organisations is often to use these international offsets for voluntary commitments.

![Price History Chart](https://accus.com.au/)

Source: Jarden (https://accus.com.au/)

**Useful Links**

- Clean Energy Regulator

**References**

- Reforms to the Safeguard Mechanism
- TEM Overview of the Chubb Review and what it means for buyers
- Safeguard facility reported emissions 2021-22

**Authors**

Katie Kouchakji, Communications Advisor & ANZO Coordinator, IETA
kouchakji@ieta.org

Nick Baker, Carbon Solutions Manager
Tasman Environmental Markets
info@tem.com.au