

Submission: Safeguard Mechanism Review

2026-27 Review of the Safeguard Mechanism

Department of Climate Change, Energy, the Environment and Water

Via [Consultation Hub](#) | safeguard.mechanism@dcceew.gov.au

Climate Capital Forum (CCF) welcomes the opportunity to contribute to the 2026-27 Review of the Safeguard Mechanism (SGM). We are a network of investors, climate finance experts, decarbonising companies and philanthropists who came together to provide advice on how Australia can lead the world in decarbonising renewable energy and cleantech innovation.

Summary

The SGM is shaping the long term decarbonisation trajectories and investment pipelines of the largest emitters in Australia. It is critical to have the right settings in place so the SGM supports genuine net zero transition while maintaining industrial competitiveness to deliver on a Future Made in Australia.

The current system however is failing to deliver sustained investment into genuine decarbonisation of our industrial emitters. Low ACCU prices and unrestrained use of the credits is resulting in major emitters buying their way to compliance rather than investing in the capital improvements that will deliver structural emissions reductions and underpin Australia's long term industrial competitiveness.

The core focus of the review should be on addressing this market failure and ensure that genuine onsite emissions reductions are preferenced. The root issue is that ACCU prices are structurally insufficient to incentivise on-site abatement. One pathway to achieving this is to require the preferential usage of Safeguard Mechanism Credits (SMCs) before ACCUs to incentivise industry to invest in genuine emissions reduction efforts, and reward industries that drive greater emissions reductions - creating an ongoing market driver for genuine emissions reductions and higher industrial emissions ambition.

Climate Capital Forum recognises this is one way of tackling the core issue, and regardless of the exact mechanism decided upon, we strongly encourage the government to actively change the Safeguard Mechanism to ensure that onsite abatement is incentivised and prioritised by eligible entities.

Recommendations

1. Activate the Safeguard Mechanism Credits through an on-site abatement premium for eligible activities. Require the preferential purchase of Safeguard Mechanism Credits over ACCUs to meet Safeguard compliance obligations. This ensures that the on-site abatement premiums are passed onto the carbon market, increasing carbon credit costs and disincentivising the long-term reliance on offsets alone.
2. Set a 2035 emissions reduction target share for the Safeguard Mechanism of 70% below 2005 levels. This will drive onsite emissions reductions and set industry up for a long term competitive future.
3. Improved transparency for the issuance of Safeguard Mechanism Credits and ensure that on-site abatement premiums are only awarded to genuine abatement and not variations in carbon accounting. Examples can include investment into facility electrification, energy performance upgrades and uptake of new feedstocks such as green hydrogen or biomethane.
4. Lower the Safeguard Mechanism threshold initially to 75kt CO₂-e and plan for a future reduction to 50kt CO₂-e

Carbon credits are too cheap, but the Safeguard Mechanism Credits can fix this

One major issue of the current settings of the SGM is that the Australian carbon credit unit (ACCU) prices are too cheap compared to the cost of abatement for the emissions-intensive facilities. Many of the marginal abatement costs for key technologies are over \$100/tonne [REF], significantly higher than the average spot price of ACCUs at \$37/tonne of CO₂ in 2025-26. As a result, purchasing ACCUs become preferable to investment in on-site abatement.

Placing a limit on the use of carbon credits for meeting SGM obligations, or discounting ACCUs so that additional ACCUs are required for every tonne of compliance obligations can help address some of these issues. Analysis by Springmount Advisory has identified that leveraging the inbuilt SMC system can deliver many of the same price signals through the carbon credits market but with the added advantage of rewarding facilities to invest in on-site abatement below their baseline. More on this below.

Safeguard Mechanism Credits can be both carrot and stick

Currently, SMCs have no real distinguishing features from ACCUs with their prices tracking closely since the start of the reformed SGM in 2023-24 [REF]. This neither creates a price signal for facilities to reduce emissions, nor rewards facilities investing in on-site abatement. It is a **major market failure** for SMCs - however it also presents an opportunity for policy action.

Climate Capital Forum proposes the government activate the SMC system through the provision of an on-site abatement premium. This would apply as an additional value over the SMC market price, set by the government based on the incentives required to help meet Australia's emission targets. This premium plays two roles:

- incentivise and reward facilities that decarbonise below their baseline through the generation of higher value credits for every tonne below their baseline.
- disincentivise the long-term reliance on offsets by passing on this premium to the cost of carbon credits purchased to meet Safeguard Mechanism obligations.

This on-site abatement premium directly incentivises investment towards on-site abatement from heavy emitting facilities and aligns well with the original policy intention of the SGM. Importantly, it works within the existing rules of the SGM and does not add to the government's fiscal burden with both 'carrot' and 'stick' being traded within the SGM ecosystem. To activate SMCs through this premium, we propose the following recommendations for policy design:

- **Activate the SMCs by through an on-site abatement premium for eligible activities:** The value of this premium will need to be set high enough to trigger investment into on-site abatement. The premium should also increase with time to scale the incentives with the progress needed to achieve Australia's emission targets. Potential options for setting the price of this on-site abatement premium include Treasury's economy-wide marginal abatement incentive [REF] or Infrastructure Australia's related analysis [REF], the cost containment measure price, or a multiplier of ACCU/SMC prices.
- **Require the preferential purchase of SMCs over ACCUs to meet Safeguard obligations:** this will ensure the SMCs with the on-site abatement premium (SMC+premium) are not undercut. One approach is to let supply of SMC on the market become exhausted before ACCUs can be accessed. Another approach is to aggregate total compliance demand at the end of the reporting period and distribute a share of the purchased carbon credits (SMC+premium vs other credits) based on the ratio of SMC+premium generated during that year.
- **Strengthen transparency around the creation of SMCs and only award the premium to genuine on-site abatement:** This will ensure that any on-site abatement premiums are awarded to SMCs generated as a result of investment into real abatement and not due to variations in baseline calibrations or production variables [REF, REF]. Eligible activities may include capital investment into decarbonisation technologies such as electrification, improvements in energy performance, uptake of renewable feedstocks such as green hydrogen or biomethane, switching from on-site fossil fuel electricity generation to renewables, and reductions in fugitive emissions such as Ventilation Air Methane (VAM) abatement.

Because there is currently a larger share of offsets required compared to the eligible generated, the activated SMC approach means that overall price per tonne impact to the carbon price is initially small (see table 1 below). This provides facilities time to deploy technologies without adding undue burden to businesses. However, as time passes, the cost pressure will ramp up, providing additional motivation for businesses to achieve their baseline targets and reduce reliance on offsets.

Table 1: Example impact of a potential SMC on-site abatement premium based on information from the 2024-25 Safeguard Mechanism data.

SMC with on-site abatement premium	Value/Quantity	Notes
Number of SMC credits eligible for the on-site abatement premium (SMC+premium)	1.8 million	Estimated using SMCs generated from non-fossil fuel related ANZSIC codes as a proxy, CER 2024-25 Safeguard data.
Value of the on-site abatement premium	\$83	Assigned based on Infrastructure Australia emission value estimates (1.5C limit, 2025), also similar to the cost containment measure (\$82.68)
Value of SMC+premium (per credit)	\$121	Value of SMC at \$38 from the Quarterly Carbon Market Report, June 2026
Total value of SMC+premium	\$217.8 million	Calculated
Number of offsets required for Safeguard compliance	13.4 million	From CER 2024-25 Safeguard Mechanism data insights, ACCUs + SMCs surrendered
Share of SMC+premium to be purchased as part of offsets	13.4%	Calculated, assuming offsets are purchased based on a distribution SMC+premium vs other credits
Total cost of offsets	\$647 million	Calculated, assuming all SMC+premium generated are traded and remaining offsets are met through the purchase of ACCUs/SMCs at a price of \$37/tonne
Average cost of offsets	\$48/tonne of CO ₂	Calculated

Activation of the Safeguard Mechanism Credits creates a multipurpose tool

The on-site abatement premium can be leveraged to tackle other issues raised in the SGM consultation paper. For example:

- **To ensure that incentives for decarbonisation are aligned with government priority sectors:** eligibility for generating on-site abatement premiums can be restricted to priority industries such as manufacturers, industries aligned with Future Made in Australia, and other strategic industries. To better align with global climate ambitions, there is the option to rule that fossil fuel related facilities will not be eligible for the on-site abatement premiums as their activities lead to the direct creation of additional global emissions.
- **To help reduce the number of facilities seeking TEBA status:** eligibility for awarding the on-site abatement premium can be restricted to non-TEBA (Trade-exposed baseline-adjusted) facilities, or are scaled according to TEBA status. For example, facilities at the minimum TEBA baseline decline rate receive little to no additional premium to the SMCs generated, even if due to on-site abatement investments.

- **To grow the number of facilities under the SGM but avoid placing additional pressure on businesses:** provide an opportunity for facilities below the 100k threshold to **opt-in** to the SGM. The opportunity for businesses to be awarded the on-site abatement premium provides an incentive to emitters below the 100k threshold. This rewards facilities taking proactive steps to decarbonise while also helping to raise awareness, grow key supply chains and build momentum for broader industrial decarbonisation. Optionality also avoids the risk of placing additional pressure to businesses which may not yet be ready or able to comply.

Leveraging the SMCs also helps to avoid driving up excessive demand for ACCUs which carry potential risks around supply and demand [\[REF\]](#). This will be an important consideration given the pressure on land use for existing agriculture and environmental use, as well as potential future land use for government priorities including low carbon liquid fuels and renewable gases. However we note that ACCU demand can also be an effective method to facilitate nature repair. We would recommend careful consideration around the balance between long term supply and demand when it comes to ACCUs.

Activation of the SMC system is an effective policy lever to help realign the Safeguard Mechanism to its original purpose. The use of the on-site abatement premium promotes on-site abatement while reducing long term reliance on offsets and can be further harnessed to help tackle other issues including alignment with government priorities, TEBA status and the coverage threshold. However, there will need to be careful considerations around policy design and implementation, including proper price setting of the on-site abatement premiums, mechanisms by which they are preferred and carbon market impacts. Climate Capital Forum will be keen to engage further with the government on these matters.

Climate Capital Forum thanks the Department for the opportunity to contribute to this consultation.

For further discussion, please get in touch:

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