

# CARBON MARKET BUSINESS BRIEF

## AUSTRALIA

### AUSTRALIA SAFEGUARD MECHANISM AT A GLANCE

Years in operation	Since 1 July 2016
Overall cap & trajectory	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 be applicable in special situations, such as default, sectoral, and benchmark baselines.
Target(s)	Australia's national 26-28% reduction target on 2005 levels by 2030 and a net-zero target by 2050 are not linked to the Safeguard Mechanism.
Emissions Reduced to date	<p>While the Safeguard Mechanism was established to ensure that all the abatement the government was purchasing via the A\$2.55 billion Emissions Reduction Fund (ERF) was not counteracted by rising emissions elsewhere in the economy, the current operation of the scheme builds on the National Greenhouse and Energy Reporting scheme's reporting and record keeping requirements to mitigate unexpected increases in emissions above business as usual, rather than to curb emission growth or reduce emissions.</p> <p>As of April 2022, the government had contracted to buy 217 million tCO<sub>2</sub>e under the ERF, although new optional delivery mechanisms make it unlikely all of this abatement will be delivered to the Regulator.</p> <p>By the end of the 2020/21 reporting year, emissions covered by the Safeguard Mechanism were up by 5.6 MtCO<sub>2</sub>e since its first year, to 136.9 MtCO<sub>2</sub>e – but down 5 MtCO<sub>2</sub>e from 2019/20.</p>
Sectors covered	<p>Facilities with annual emissions more than 100,000t CO<sub>2</sub>e in the following sectors:</p> <ul style="list-style-type: none"> <li>• Electricity generation</li> <li>• Oil &amp; gas</li> <li>• Mining</li> <li>• Manufacturing</li> <li>• Transport</li> <li>• Waste</li> </ul>
GHGs covered	All Scope 1 (i.e., direct) emissions
# of covered entities	212, as of the 2020/21 reporting period
Allocation method	N/A
Trading rules	N/A

Use of offsets and linking	Firms can use Australian carbon credit units (ACCUs) for emissions in excess of their baseline.  The government is also looking to create a crediting programme for firms which employ innovative low-carbon technology to beat their baseline, outside of the ERF.
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.
Penalties for non-compliance	N/A
Use of revenues	N/A

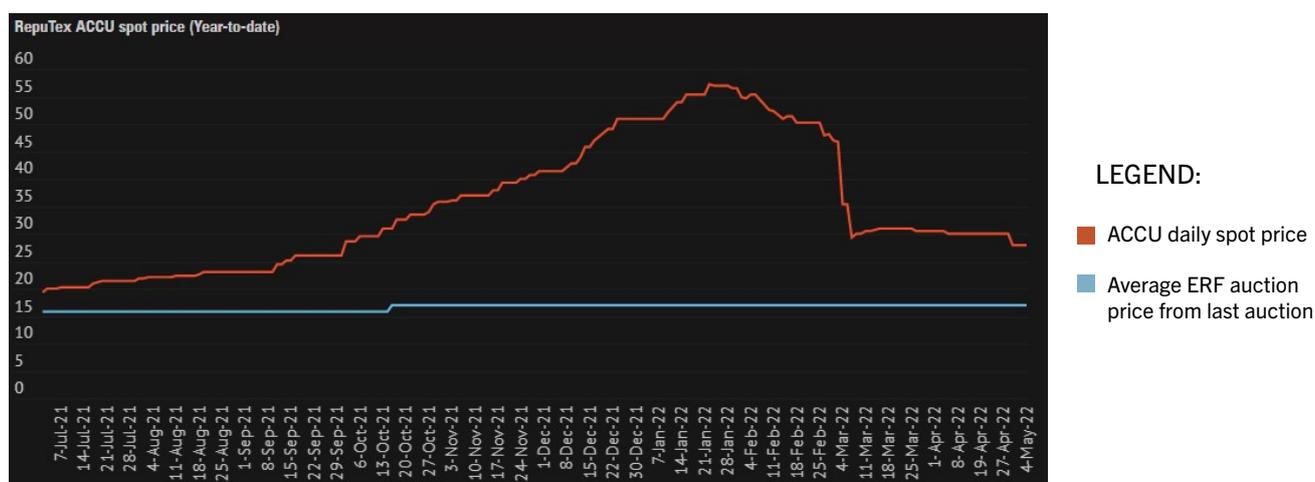
## MAJOR DEVELOPMENTS

At the Glasgow climate talks in November 2021, the government announced that it is developing a bilateral offset system, called the Indo-Pacific Carbon Offset Scheme, targeting the creation of emission reduction projects in its Pacific neighbours under Article 6 of the Paris Agreement. The A\$104 million scheme was announced to run for 10 years and will also support institutional capacity-building in partner countries, including developing national policy frameworks.

The future direction for Australia's climate policy was unclear at the time of writing, as the country's federal election was scheduled for 21 May 2022. The opposition Labor Party has pledged to change the Safeguard Mechanism's settings into a more traditional baseline-and-credit system to ensure covered facilities gradually become more accountable for their emissions, while neither party to the incumbent Liberal-National Coalition government has a similar policy in its election plans.

In early March 2022, the government announced a new process would be developed to allow contract holders scheduled to deliver ACCUs to the Regulator via the ERF to exit those contracts, effectively removing the largest source of firm ACCU demand from the market. Around the same time, renewed criticism of early projects developed under the ERF has alleged that a large share lack integrity, which the Clean Energy Regulator rejects, prompting calls for an independent investigation.

## MARKET COMMENTARY



**FIGURE 1**  
Australian carbon prices  
Source: RepuTex

While the ACCU market remains flat ahead of the federal election, a recent increase in swap transactions indicates the early stages of a 'flight to quality' offsets may be developing in Australia, with a premium being placed on projects of higher environmental integrity in response to demand from voluntary buyers, and the threat of regulatory risk associated with some project types. This trend is well established in the international voluntary market, where nature-based removal and sequestration activities currently trade at a significant premium over lower-quality industrial avoidance projects.

Looking ahead, the Federal Election continues to dominate the market, with the election outcome having a range of implications for the market development – be it the continuation of the current voluntary market setting, or the transition to a more robust compliance framework.

While the Labor Party's proposed changes to the safeguard mechanism will provide a transparent pathway for GHG abatement investment decisions by industry, any significant increase in demand for ACCUs is far from guaranteed, with compliance demand likely to be impacted by the introduction of new Safeguard Mechanism Credits (for performance below a facility's baseline), which are expected to be the marginal source of external abatement for Australian compliance entities. SMC creation, informed by industrial abatement costs and investment decision making, will therefore have considerable implications for forward Australian carbon offset price and market dynamics.

## USEFUL LINKS

[Clean Energy Regulator](#)

## REFERENCES

[The Safeguard Mechanism – Overview](#)

[Safeguard Facility Reported Emissions](#)

[Emissions Reduction Fund auction results](#)

[Indo-Pacific Carbon Offset Scheme](#)

[Reputex Long-term carbon price, supply and demand outlook \(March 2022\)](#)

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