Climateworks CENTRE

Level 8, 750 Collins Street,
Docklands VIC 3008
Wurundjeri Country

P: +61 3 9902 0741

info@climateworkscentre.org

climateworkscentre.org

18 September 2026

To the Department of Climate Change, Energy, the Environment and Water,

Climateworks Centre submission to the 2026–27 Review of the Safeguard Mechanism

Climateworks Centre welcomes the opportunity to provide a submission to the Department of Climate Change, Energy, the Environment and Water (DCCEEW) in response to the consultation paper informing the review of the Safeguard Mechanism.

Climateworks bridges the gap between research and climate action, operating as an independent not-for-profit within Monash University. We are climate transition specialists, working with decision-makers who have the power to reduce emissions at scale. Climateworks accelerates ambitious, evidence-based action for net zero in Australia and Southeast Asia.

Submission summary

Climateworks recommends that the Australian Government:

1. Align the Safeguard Mechanism with established government policy and Australia's international commitments by setting an aggregate baseline trajectory aligned with the upper end of Australia's 2035 target.
2. Bolster the competitiveness of Australian industry and more effectively reduce emissions by differentiating baseline decline rates between manufacturing and fossil fuel extraction and processing facilities.
3. Introduce a Reinvestment Contribution linked to the use of Australian Carbon Credit Units (ACCUs), to better incentivise on-site abatement and fund biodiversity restoration.
4. Coordinate the Safeguard Mechanism with Future Made in Australia, industrial finance schemes and place-based initiatives to support facility-level decarbonisation and create new economic opportunities.
5. Introduce a phased cap limiting ACCU use to 10 per cent of pre-decline baselines to better incentivise on-site emissions reductions, and redesign the Cost Containment Measure so that it does not undermine investment incentives.
6. Introduce a Carbon Border Adjustment Mechanism (or Border Carbon Adjustment) alongside the Safeguard Mechanism to address carbon leakage, support industrial competitiveness and enable stronger domestic emissions reductions.

Recommendations

Recommendation 1: Align the Safeguard Mechanism with established government policy and Australia's international commitments by setting an aggregate baseline trajectory aligned with the upper end of Australia's 2035 target.

Safeguard Mechanism baseline decline rates could be calibrated so that covered facilities make a proportionate contribution to the upper end of Australia's 2035 target range (i.e. 70 per cent below

2005 levels). Under current settings, most facilities' baselines decline by 4.9 per cent each year to 2030, and an indicative 3.285 per cent annual decline is set in the Safeguard Rules from 2030–31. Modelling can be used to calculate a decline rate that aligns with a 70 per cent national emissions reduction. Analysis indicates that an average decline rate of 6.8–7 per cent would be required to align with the top of the target range (Climate Council 2026; IGCC 2026; Climate Change Authority 2026).

Climateworks recommends that this aggregate trajectory be implemented through differentiated decline rates for manufacturing and fossil fuel extraction and processing facilities, as detailed in Recommendation 2 below. Steeper decline rates could also apply over defined periods (e.g. an average 7 per cent decline rate for 2031–2035, followed by 5 per cent from 2036 as proposed by the Investor Group on Climate Change [IGCC], based on EY modelling) and/or integrated with Trade Exposed Baseline Adjusted (TEBA) determinations and other Safeguard Mechanism settings to ensure the combination of settings is appropriately ambitious to meet Australia's decarbonisation goals (IGCC 2026).

Aiming for the top end of Australia's 2035 target is important because Safeguard-covered industrial and resources facilities account for around 30 per cent of Australia's national emissions, so rapidly decarbonising the sector represents a crucial part of meeting the country's decarbonisation commitments. It is also a key part of ensuring fairness across the economy; if Safeguard facilities do not decarbonise quickly or effectively enough, additional abatement must be found in other sectors, and the cost and responsibility of decarbonisation may be shifted onto households, smaller businesses, and the agricultural sector, which may not have the financial capacity or technological capability to decarbonise.

Alignment with the 70 per cent target would provide a clear and credible investment signal. Industrial decarbonisation projects often require long lead times and substantial capital investment. A strong, predictable emissions trajectory to 2035 would help facilities plan upgrades, electrification, fuel switching and deployment of emerging technologies. Conversely, embedding weaker decline rates now risks delaying investment and requiring much steeper and more disruptive emissions reductions later.

Showing ambitious, equity-focused climate leadership and commitment to responsibilities under the Paris Agreement is especially important following the International Court of Justice's Advisory Opinion on Climate Change, which specified that states hold legal responsibility for mitigating climate change, and as Australia takes on the role of President of Negotiations at COP31 (International Court of Justice 2025). At COP31, Australia's commitment to global climate action will be demonstrated to the world, and in particular to Australia's partners in the Pacific, who are the countries most severely impacted by climate change. Reforming Australia's chief industrial decarbonisation policy to align with the 70 per cent target is a clear way to demonstrate principled leadership and respect for international law.

Recommendation 2: Bolster the competitiveness of Australian industry and more effectively reduce emissions by differentiating baseline decline rates between manufacturing and fossil fuel extraction and processing facilities.

As noted above, the default Safeguard Mechanism baseline decline rate is broadly uniform across sectors, although adjustments and special arrangements apply to some facilities. While administratively straightforward, this approach does not adequately reflect the different abatement opportunities, transition constraints and long-term roles of covered sectors in a net zero economy.

Differentiated baseline decline rates would better align the Safeguard Mechanism with Australia's broader industrial transition. Manufacturing industries such as steel, alumina, aluminium, cement and chemicals will remain important in a net zero global economy. Australia has an economic and

strategic interest in helping these industries reduce emissions while maintaining their international competitiveness. Their transition will require a combination of effective Safeguard incentives and complementary policy support, including appropriately targeted public finance. Relevant decarbonisation options include electrification, energy and material efficiency, process innovation, fuel switching to renewable hydrogen and other low-emissions fuels, circular-economy approaches and, in a more limited range of applications, carbon capture and storage or utilisation. Differentiated decline rates could recognise the long investment cycles, technological constraints and carbon-leakage risks for each sector, without exempting them from the need to undertake sustained emissions reduction.

Fossil fuel extraction and processing industries face a different transition context. Demand for fossil fuels declines over time in pathways consistent with the Paris Agreement, creating structural risks for these industries as global markets decarbonise (International Energy Agency 2025). RepuTex modelling indicates that applying stronger decline rates to coal mining, oil and gas extraction and LNG facilities, while maintaining existing rates for other sectors, would materially reduce emissions covered by the Safeguard Mechanism (RepuTex Energy 2026). A faster rate for these facilities would therefore better reflect their position in least-cost decarbonisation pathways and reduce the risk that new or expanding fossil fuel production places additional pressure on the Safeguard emissions budget.

Fossil fuel facilities also have significant opportunities to reduce the emissions intensity of ongoing production, as demonstrated by Climateworks analysis of least-cost decarbonisation pathways (Climateworks Centre 2023). These include reducing fugitive methane, electrifying mining equipment and replacing fossil-fuelled on-site stationary energy. Stronger baseline decline rates for fossil fuel extraction and processing facilities (i.e. higher than 7 per cent to achieve an average of 7 per cent and align with the upper end of Australia's 2035 target, in line with Recommendation 1) would increase the incentive to pursue these opportunities. Although the Safeguard Mechanism does not directly regulate production volumes, it can ensure that the emissions consequences of production decisions are properly reflected within Australia's industrial emissions trajectory. Declining fossil fuel demand and rapid reductions in the emissions intensity of remaining production are both necessary elements of the wider economic transition (Climateworks Centre 2023).

Differentiated decline rates could be calculated by dynamic assessments of average emissions intensity across the relevant sector, informed by factors such as observed changes in industry performance, available and emerging technologies, expected technology costs and deployment timeframes, and announced public investment and enabling infrastructure. This will ensure that decline rates remain fit for purpose as facilities transition and new technologies come online.

Climateworks also recognises that this transition will affect workers and communities that currently depend on fossil fuel production. Stronger decline rates could therefore be accompanied by sustained, place-based investment in economic diversification, workforce development and the creation of secure, high-quality employment. The Net Zero Economy Authority has an important role in helping regions build industries that will remain competitive in a decarbonising global economy, including by supporting the decarbonisation of existing industries and the development of new products, services and sources of regional prosperity.

Recommendation 3: Introduce a Reinvestment Contribution linked to the use of ACCUs, to better incentivise on-site abatement and fund biodiversity restoration.

The Australian Government could consider introducing a mandatory Reinvestment Contribution linked to the use of ACCUs for Safeguard Mechanism compliance. Facilities surrendering ACCUs would pay an additional contribution for each unit used, with the revenue directed to a dedicated trust and either recycled back into the scheme to support on-site abatement or dedicated to biodiversity initiatives (EY 2026; Richards forthcoming 2026; Hatfield-Dodds and Jotzo forthcoming 2026).

A Reinvestment Contribution would be a small, non-punitive dollar amount collected on ACCU surrender. Rather than making ACCUs substantially more expensive, the contribution would create a stable, legislated pool of capital to support on-site abatement through concessional or blended finance, grants, accelerated depreciation and related measures. It could also fund enabling investments such as firmed renewable energy, feasibility studies and research and development (Richards forthcoming 2026; Hatfield-Dodds and Jotzo forthcoming 2026).

This approach would retain flexibility for facilities, including those with limited or high-cost abatement options. The contribution amount could be adjusted over time or differentiated between sectors. By addressing financing barriers and bringing forward investment, this approach could serve to reduce future ACCU demand and instead support and incentivise on-site abatement, and the use of Safeguard Mechanism Credits where necessary (Richards forthcoming 2026; Hatfield-Dodds and Jotzo forthcoming 2026).

Some revenue could also be dedicated to supporting biodiversity outcomes, contributing to the aims of Australia's Global Biodiversity Framework to halt and reverse nature loss by 2030 and achieve demonstrable recovery of nature by 2050. ACCUs currently reward verified carbon abatement or sequestration, but carbon value alone does not necessarily direct investment towards projects delivering the greatest ecological benefits. Current carbon-focused settings could drive substantial land-sector sequestration while delivering very little habitat restoration (EY 2026). This creates a case for complementary incentives.

Revenue directed to biodiversity could be allocated through, or aligned with, the Nature Repair Market, using Nature Repair Market methods and assessment frameworks to identify and verify eligible biodiversity outcomes. Projects operating across both the Nature Repair Market and the Safeguard Mechanism Reinvestment Contribution schemes could remain eligible to receive ACCUs and a biodiversity certificate where they independently satisfy the requirements of each scheme (EY Net Zero Centre 2023; EY 2026). The carbon and biodiversity outcomes could remain separately measured and clearly accounted for, to avoid any suggestion that an ACCU itself represents a biodiversity outcome.

The government could model the Reinvestment Contribution's impacts on ACCU supply, prices, Safeguard compliance costs, the price of Safeguard Mechanism Credits and on-site abatement before determining its rate and commencement date. The design could include a basic criterion for what the money can be spent on (Richards forthcoming 2026), as well as transparent governance, strong ecological criteria, appropriate First Nations participation and regular review. A phased introduction would allow the market to adjust and could be coordinated with limits on ACCU use.

Recommendation 4: Coordinate the Safeguard Mechanism with Future Made in Australia, industrial finance schemes and place-based initiatives to support facility-level decarbonisation and create new economic opportunities.

The Safeguard Mechanism could be implemented as part of a coherent industrial policy framework alongside the Future Made in Australia agenda. Future Made in Australia aims to capture the economic opportunities created by the global transition to net zero, attract private investment, strengthen economic security and establish Australia as a renewable-energy superpower. It prioritises industries including renewable hydrogen, critical minerals processing, green metals, low-carbon liquid fuels and clean-energy manufacturing. These objectives depend not only on supporting new industries, but also on establishing a credible and durable pathway for reducing emissions from Australia's existing industrial base.

The Safeguard Mechanism and Future Made in Australia could play complementary roles in achieving this transformation. Strong and predictable Safeguard settings can create demand for low-emissions

technologies and provide businesses with a clear incentive to invest in on-site abatement. Future Made in Australia measures, including concessional finance, production incentives, support for innovation and coordinated investment through public financing institutions, can help overcome the high upfront costs, technology risks and infrastructure constraints that may otherwise prevent facilities from responding to that signal. Together, these policies can leverage private capital while accelerating the commercial deployment of technologies such as industrial electrification, renewable hydrogen and low-emissions metals production.

This alignment could inform both the determination of baseline decline rates (see Recommendation 2) and the allocation of government support. Manufacturing facilities in sectors with a credible long-term role in a net zero economy could remain subject to sustained emissions-reduction requirements, but could receive regulatory and financial support where these are accompanied by firm decarbonisation plans and investment commitments. Access to FMIA-related assistance could be conditional on measurable emissions reductions, additional private investment and credible delivery milestones. This would ensure that decline rates facilitate industrial transformation rather than simply defer abatement or preserve emissions-intensive production.

Safeguard Mechanism data and facility-level decarbonisation plans could also help identify and sequence strategically important investments. This data could inform the targeting of support from institutions and programs such as ARENA, the Clean Energy Finance Corporation, the National Reconstruction Fund and relevant production incentives. This type of data and targeted support could also be used to support the establishment of Net Zero Industrial Precincts, where facilities are clustered to streamline access to clean energy and minimise impacts on nature, and additionally feed in to the development of Industrial Precinct Energy Plans, which will set out how to scale renewable energy for industrial facilities while maintaining affordability and investment certainty (Climateworks Centre 2025; Climateworks Centre forthcoming 2026).

Facilities receiving substantial public support could be expected to undertake additional on-site abatement and demonstrate progress beyond minimum compliance. Appropriate protective measures would be required to avoid paying facilities for emissions reductions that would have occurred in response to Safeguard obligations alone.

Greater coordination could also strengthen Australia’s clean industrial supply chains. Safeguard settings could reward genuine improvements in production emissions intensity and support the emergence of internationally competitive low-emissions products, including green iron and steel, low-emissions alumina and aluminium, renewable hydrogen and low-carbon fuels. These supply-side incentives could be complemented by demand-side measures, including government procurement, product standards and certification systems, to create reliable markets for cleaner Australian products. This would help translate emissions reductions into industrial growth, supply-chain resilience and export opportunities.

Finally, alignment with Future Made in Australia could extend to workers and communities. The Future Made in Australia community-benefit principles emphasise local supply chains, skills, diverse workforces and secure employment. Complementary Safeguard and Future Made in Australia policies could therefore support workforce development, regional infrastructure and economic diversification, particularly in regions currently dependent on emissions-intensive industries. This would help ensure that stronger Safeguard settings contribute not only to Australia’s climate targets, but also to secure, well-paid jobs and sustainable regional prosperity.

Recommendation 5: Introduce a phased cap limiting ACCU use to 10 per cent of pre-decline baselines to better incentivise on-site emissions reductions, and redesign the Cost Containment Measure so that it does not undermine investment incentives.

The Safeguard Mechanism could impose an annual cap on ACCU use, under which each facility may surrender ACCUs equivalent to 10 per cent of its pre-decline baseline. Access to ACCUs provides flexibility, contains compliance costs and supports abatement and carbon sequestration elsewhere in the economy. However, unlimited access means that the ACCU price can operate as an effective ceiling on the incentive for on-site investment: where purchasing an ACCU is cheaper than reducing emissions at a facility, the Safeguard Mechanism provides little direct incentive to undertake that reduction.

A cap would limit the extent to which the aggregate Safeguard compliance task can be met through offsets, strengthening demand for emissions reductions at covered facilities and for Safeguard Mechanism Credits generated by facilities that outperform their baselines. A cap could preserve greater access to ACCUs for industries facing genuinely constrained or high-cost abatement options, while facilities with more readily available opportunities undertake a greater share of direct emissions reduction. The cap could be phased in and progressively tightened to 2035, giving facilities time to incorporate decarbonisation into capital investment and maintenance cycles.

The rate of phase-in of the cap could be consistent with differentiated baseline decline rates, addressed in Recommendation 2 and supported by targeted assistance for facilities undertaking capital-intensive decarbonisation, in line with Recommendation 4.

Setting a cap on ACCU use at 10 per cent would accord with settings in comparable international jurisdictions. While there are differences in scheme design and the types of permissible offsets, Japan's emissions trading scheme caps offsets at 10 per cent, and South Africa's scheme limits offset use at 10 to 15 per cent (International Carbon Action Partnership 2026; World Bank Group 2026). Other schemes have stricter settings: for example, China's scheme allows offsets to be used for only 5 per cent of verified emissions (International Carbon Action Partnership 2026a). A limit of 10 per cent also aligns with recommendations from partner organisations; for example, the Climate Council has recommended a cap on offset use, including Safeguard Mechanism Credits, of 5-10 per cent of pre-decline baselines by 2035, with some limited exceptions (Climate Council 2026).

A quantitative cap would bring the Safeguard Mechanism more closely into line with international practice. California permits offsets to meet only a small proportion of regulated entities' obligations, while the EU Emissions Trading System (ETS) phased out the use of international credits after 2020 (California Air Resources Board n.d; European Commission 2026). Although these schemes differ from the Safeguard Mechanism, they demonstrate that carbon markets can retain flexibility without allowing external credits to substitute indefinitely for emissions reductions within regulated sectors.

The Cost Containment Measure could be reviewed alongside the introduction of the cap. Any ACCUs supplied through the measure can count within the scheme-wide limit; otherwise, it could provide an alternative source of units that circumvents the cap. More broadly, the measure currently gives eligible facilities access to government-held ACCUs at a predetermined price when cheaper units are unavailable. While this provides certainty about maximum compliance costs, the resulting price ceiling may weaken carbon price signals, discourage investment in additional ACCU supply and reduce incentives for on-site abatement above that price.

The government could consider replacing the fixed-price arrangement with a more responsive form of cost containment, such as a price floor combined with a rolling limit on annual price increases, or substantially tightening access to the existing reserve. Cost containment could protect facilities from sudden and exceptional price shocks without guaranteeing that offsetting remains cheaper than industrial decarbonisation. A coordinated package of an ACCU cap, stronger baseline trajectories and targeted transition support would provide a clearer and more durable incentive for investment in genuine emissions reduction.

To ensure these policy levers function effectively, Climateworks recommends the government should maintain the prohibition on international offsets, to avoid integrity, double-counting and labour-standard risks.

Recommendation 6: Introduce a Carbon Border Adjustment Mechanism (or Border Carbon Adjustment) alongside the Safeguard Mechanism to address carbon leakage, support industrial competitiveness and enable stronger domestic emissions reductions.

The Australian Government could introduce a Carbon Border Adjustment Mechanism (CBAM) alongside the Safeguard Mechanism to provide durable protection against carbon leakage and support stronger industrial decarbonisation. By applying a comparable carbon liability to the embedded emissions of imported goods, a CBAM would reduce competitive distortions between Australian facilities subject to declining Safeguard baselines and overseas producers facing weaker climate policies. This would provide greater investment certainty for low-emissions production in Australia and allow domestic carbon costs to be reflected more effectively in product prices.

A CBAM could be phased in, beginning with commodities that face material leakage risks and for which implementation is comparatively straightforward. Consistent with the federal Carbon Leakage Review, cement and clinker could be the initial priorities. Coverage could subsequently be extended to lime; hydrogen, ammonia and derivatives; steel and iron; and glass, subject to further assessment of emissions-accounting, supply-chain and Safeguard-coverage issues.

The introduction of a CBAM could also inform the future design of Trade-Exposed Baseline-Adjusted (TEBA) arrangements and other assistance for trade-exposed facilities. As border carbon adjustment becomes effective, the government could review whether concessions that reduce baseline decline rates remain necessary for covered sectors. Over time, a CBAM could enable stronger and more consistent Safeguard obligations while reducing reliance on ongoing public financial support. Any transition away from TEBA treatment could be phased carefully to avoid gaps in leakage protection and could preserve targeted support for capital investment in industrial decarbonisation. The Carbon Leakage Review finds that a border adjustment can enable greater domestic climate ambition with less fiscal outlay and allow low-emissions products to attract a market premium (DCCEEW 2025).

The design could draw on emerging international practice. The European Union's CBAM entered its definitive phase in 2026, while the United Kingdom will introduce its mechanism in 2027 (European Commission 2026; HM Revenue and Customs 2026). Australia could seek alignment with these and any future Asian border adjustment initiatives where appropriate, particularly on emissions measurement, reporting and verification, treatment of carbon prices paid overseas and product classifications. Greater methodological alignment would reduce administrative costs, facilitate trade in low-emissions products and help Australian producers compete in markets that increasingly distinguish goods according to their embedded emissions.

Thank you for taking the time to consider our submission. We would welcome an opportunity to further brief you on our work.

Katherine Quinn
Impact Manager - Industry Policy
katherine.quinn@climateworkscentre.org

REFERENCES

California Air Resources Board (n.d) *Compliance Offset Program*, California Air Resources Board, accessed 16 September 2026.

Climate Change Authority (2026) *2026 Annual Progress Advice: Consultation Paper*, Climate Change Authority, July 2026, accessed 17 September 2026.

Climate Council (2026) *Free Ride: How our biggest polluters are dodging their fair share*, Climate Council, accessed 16 September 2026.

Climateworks Centre (2023) *Climateworks Centre decarbonisation scenarios 2023: Australia can still meet the Paris Agreement*, Climateworks Centre 2023, accessed 29 July 2026.

Climateworks Centre (2025) *Seizing Gladstone's low-carbon opportunity*, Climateworks Centre, accessed 16 September 2026.

Climateworks Centre (forthcoming 2026) *Strengthening industrial prosperity through coordinated energy planning: a Gladstone case study,* Climateworks Centre.

DCCEW (2025) *Australia's Carbon Leakage Review Report*, Department of Climate Change, Energy, the Environment and Water, accessed 16 September 2026.

European Commission (2026) *CBAM Definitive Regime*, Director-General for Taxation and Customs Union, accessed 16 September 2026.

EY (2026) *A Time for Clarity and Confidence: Australian Carbon Market Outlook 2026*, accessed 16 September 2026.

EY Net Zero Centre (2023) *Creating a Nature-Positive Advantage: Assessing the Outlook for Australia in a Net Zero World*, EY, accessed 16 September 2026

Hatfield-Dodds, S. and Jotzo, F. (forthcoming 2026) *Assessment of Safeguard Mechanism options to motivate onsite abatement and support the transition to a competitive, resilient and sustainable low-carbon economy*, ANU.

HM Revenue and Customs (2026) *Carbon Border Adjustment (CBAM): Policy Summary*, UK Government, accessed 16 September 2026.

International Carbon Action Partnership (2026a) *China releases 2024–2025 allowance allocation plan for industrial sectors in National ETS*, International Carbon Action Partnership, accessed 17 September 2026.

International Carbon Action Partnership (2026) *Japan GX-ETS*, International Carbon Action Partnership, accessed 17 September 2026.

International Court of Justice (2025) *Obligations of States in respect of Climate Change*, Advisory Opinion, 23 July 2025, General List No, 187, accessed 16 September 2026.

International Energy Agency (2025) *World Energy Outlook 2025*, International Energy Agency, November 2025, accessed 16 September 2026.

IGCC (2026) *Safeguard Mechanism Reforms: How to Futureproof Industry*, Investor Group on Climate Change, accessed 16 September 2026.

RepuTex Energy (2026) *Modelling Results: Safeguard Mechanism Emissions Sensitivities and Baseline Impacts*. RepuTex Energy, March 2026, accessed 16 September 2026.

Richards, B (forthcoming 2026) *Concept Note on Reinvestment Contribution,* IGCC.