

# CARBON MARKET BUSINESS BRIEF

## AUSTRALIA

### AUSTRALIA SAFEGUARD MECHANISM AT A GLANCE

Years in operation	Began 1 July 2016
Overall cap & trajectory	<p>Participants must keep their emissions within an emissions intensity baseline that is generally updated annually to reflect actual production, rather than decline over time to meet a target. There are various means of setting the baseline, with varying criteria: default; reported, from historic emissions reports (although this approach ceases on 1 July 2021*); calculated; sectoral for grid-connected power generators; and production-adjusted.</p> <p>From 1 July 2021*, there will also be a benchmark approach for new and expanded facilities and a landfill-benchmark for those sites which surpass the coverage threshold.</p> <p>*These changes were originally expected to take effect on 1 July 2020, but have been delayed by one year in recognition of the disruption caused by the COVID-19 pandemic.</p>
Target(s)	<p>N/A</p> <p>Australia's national 26-28% reduction target on 2005 levels by 2030 is not linked to the Safeguard Mechanism.</p>
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 seeks to avoid significant increases in emissions above business as usual, rather than to curb emission growth or reduce emissions.</p> <p>As of April 2020, the government has contracted to buy 193 million tCO<sub>2</sub>e under the ERF.</p> <p>By the end of the 2018/19 reporting year, emissions covered by the Safeguard Mechanism had increased by 12.7 million tonnes CO<sub>2</sub>e since its commencement, to 144 million. The number of covered entities has also risen, from 203 to 211 to 210 in the most recent year for which data is available.</p>
Sectors covered	<p>Facilities with annual emissions in excess of 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>• Cement manufacturing</li> <li>• Steel &amp; metals manufacturing</li> <li>• Transport</li> <li>• Waste</li> </ul>

GHGs covered	All Scope 1 (ie, direct) emissions
# of covered entities	210, as of the 2018-19 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 Emissions Reduction Fund (ERF).
Other features	Firms can apply for a multi-year monitoring period, under which they can exceed their baseline in one year providing the average over a two- or three-year period would be below the baseline.
Penalties for non-compliance	N/A
Use of revenues	N/A

## MAJOR DEVELOPMENTS

A government reshuffle saw oversight of climate change policies shift to the newly-created Department of Industry, Science, Energy and Resources in early 2020, with the Clean Energy Regulator continuing to administer the programme.

Planned changes to baselines from 1 July 2020 have been pushed back by a year owing to the COVID-19 outbreak. As well as delaying the phase-out of baselines based on historical emissions, the regulatory changes also allows emitters to delay the expiration of multi-year baselines and calculated baselines.

In mid-May 2020, the government published its response to the so-called King review into additional sources of low-cost abatement. In its response, the government said it would look to create a mechanism to credit reductions by covered entities that outperform their baselines, in a bid to incentivise low-carbon technological innovations that are not covered by the Emissions Reduction Fund (ERF). It also committed to involving industry in the development of new project methodologies for the ERF, and has begun the initial work on a carbon capture and storage/carbon capture, use and storage method.

In February 2019, the government created the Climate Solutions Fund, which will channel a further A\$2 billion to the ERF/CSF framework and is designed to support an additional 100 million tCO<sub>2</sub>e of emissions reductions by 2030. As of May 2020, A\$2.3 billion of the original A\$2.55 billion ERF funding had been committed.

The Australian government is also developing a national Technology Investment Roadmap, to prioritise investments in new low-carbon technologies.

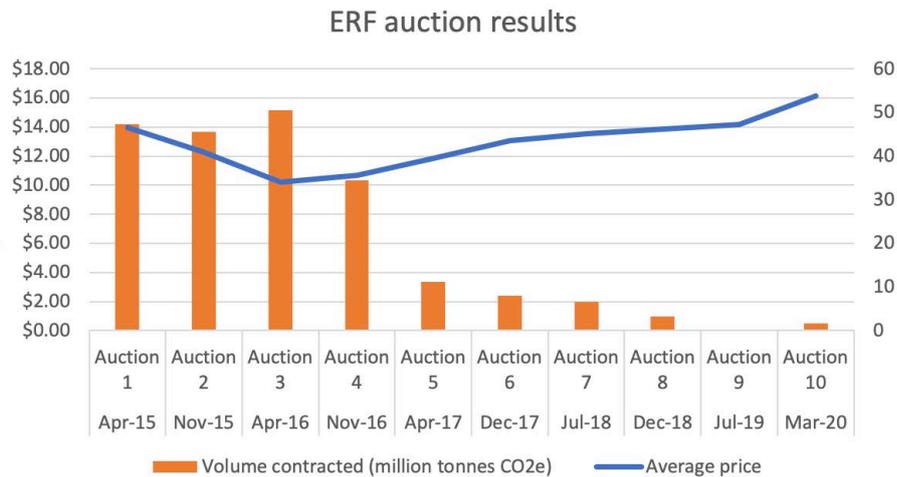
## MARKET COMMENTARY

Over the first three years of the Safeguard Mechanism, covered entities had surrendered nearly 0.9 million ACCUs – although the amount being surrendered has dropped each year. Covered emissions under the scheme have continued to increase due to the design of flexible baselines that are generally adjusted annually to reflect actual production, rather than decline to meet an emissions target.

While electricity emissions have fallen from 2005-19, Safeguard Mechanism covered industry emissions (excluding electricity) have risen to 60% above 2005 levels (the base year for Australia's national target) behind increases in the oil and gas (621% increase), road transport (122%), aviation (54%) and mining (41%) sectors. Under this trajectory, the industrial

sector is projected to surpass electricity as Australia’s largest emitting segment in 2023-24, growing to 110% above 2005 levels by 2030, with no requirement to reduce or offset emissions growth, according to Reputex research.

Prices at the government auctions for ERF contracts have trended up since the April 2016 sale; however, contracted volumes at recent auctions remain below initial auction levels. At the most recent sale, in March 2020, the government contracted to buy 1.7 million ACCUs at an average price of A\$16.14/t. This is down from average contracting volumes of 44 million over auctions 1-4. Cumulatively, the government had committed to buy 193 million tCO2e at an average price of A\$12.06 per unit following the March 2020 auction.



**FIGURE 1**  
ERF Auction Results  
Source: Clean Energy Regulator website

## USEFUL LINKS

[Clean Energy Regulator](#)

## REFERENCES

[The Safeguard Mechanism – Overview](#)

[Government response to ‘King review’](#)

[Safeguard Facility Reported Emissions](#)

[Emissions Reduction Fund auction results](#)

[Reputex Long-term carbon price, supply and demand outlook \(Q3 FY 19-20\)](#)

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