

## **IETA Response to the Climate Change Authority Consultation – 2026 Annual Progress Advice and Safeguard Mechanism Review**

### **Introduction**

IETA welcomes the opportunity to provide input to the Climate Change Authority's 2026 Annual Progress Advice and its contribution to the Government's review of the Safeguard Mechanism.

Australia has established a credible and increasingly sophisticated framework for industrial decarbonisation through the Safeguard Mechanism and the ACCU market. As Australia moves toward its 2035 climate target, reforms should continue building on and strengthening the existing framework, supporting environmental integrity, economic efficiency, technology neutrality and flexibility - rather than introducing new criteria and amendments that risk hampering investment certainty and green competitiveness.

**To support the continued evolution of the Safeguard Mechanism, IETA's submission covers the following key recommendations:**

1. Strengthening long-term policy certainty by providing clarity on the Safeguard Mechanism targets beyond 2030 towards Australia's NDC 3.0.
2. Maintaining technology- and sector-neutral baseline decline rates aligned with principles of least-cost abatement.
3. Progressively expanding the Scheme to increase coverage and support economy-wide, least-cost emissions reductions.
4. Enhancing compliance flexibility, including longer multi-year monitoring periods and continued support for TEBA facilities, whilst in the longer-term transitioning towards a border carbon adjustment mechanism to safeguard industrial competitiveness.
5. Strengthening confidence in the ACCU scheme by increasing project-level transparency and avoiding arbitrary limits or discounting of credits.
6. Considering the use of high-integrity Article 6 credits (ITMOs) to complement domestic abatement and support the achievement of Australia's 2035 NDC targets.

We are especially concerned about some of the proposals explored in the CCA consultation paper, with regard to questions around sectoral differentiation, and quantitative limits or discounting of ACCUs for compliance use. The Safeguard Mechanism, alongside the ACCU scheme, is already demonstrating that market-based approaches can deliver emissions reductions and removals while supporting industrial competitiveness in Australia. Together, these must be strengthened to provide policy & investment certainty for market participants

beyond 2030. Alongside this, the exploration of an Australian CBAM, and future international linkages through Article 6 of the Paris Agreement, will be critical to support Australia's longer-term decarbonisation efforts, industrial competitiveness and 2035 NDC achievement.

**We look forward to working closely with the CCA and the Government to advance these conversations.**

### **1. Policy Certainty, Targets and Proportionality (Question 6)**

IETA supports maintaining the proportional-share approach to setting the Safeguard Mechanism baseline decline rate beyond 2030, as it provides a transparent and predictable framework that aligns the scheme with Australia's national emissions reduction objectives. Long-term policy certainty is essential for businesses making capital-intensive investments in emissions reduction technologies and planning compliance strategies over multi-decade investment horizons.

Extending the proportional-share approach to Australia's 2035 emissions reduction target would provide further continuity and reduce regulatory uncertainty, unlocking investments in emissions intensive sectors. Considering the emissions trajectory and the key role of Safeguard-covered sectors in delivering on Australia's decarbonisation targets, baseline decline rates should align with the higher end of the 62-70% range by 2035 – whilst expanding the necessary flexibility measures and support for TEBA-facilities to strengthen competitiveness.

As early as practical, the Government should clarify the post-2030 baseline decline trajectory for Safeguard entities to support investment decisions and ensure covered facilities have sufficient time to plan for future compliance obligations.

The Safeguard Mechanism should continue to be underpinned by the principles of technology and sector neutrality. A uniform baseline decline rate, combined with flexible compliance options, enables market participants to identify and implement the lowest-cost emissions reduction opportunities available to them, regardless of the technology or pathway adopted. This promotes innovation, encourages efficient capital allocation, and delivers emissions reductions at the lowest overall economic cost. However, this does not preclude complementary policies to address barriers in specific sectors.

Other targeted interventions and policy instruments, including support for emerging low-emissions technologies in hard-to-abate sectors, carbon removals, infrastructure investments, industrial transformation, and measures to maintain energy security are critical, but these

complementary measures should work alongside, rather than replace or undermine, the overall market framework provided by the Safeguard Mechanism.

Separately, consideration should also be given to progressively expanding the coverage and scope of the Safeguard Mechanism. This would both strengthen the Mechanism's contribution to national emissions reduction targets, improve market efficiency and unlock further decarbonisation opportunities. Lowering the Safeguard Mechanism threshold could build on the existing NGER reporting framework, reducing implementation costs and administrative complexity, as these facilities already have established emissions monitoring and reporting systems in place. Still, any decision to lower the threshold should be supported by a robust assessment of the emissions reduction potential, administrative and compliance costs, as well as impacts on competitiveness, and broader economic effects. Appropriate transition arrangements should also be provided to ensure newly covered facilities can adapt efficiently to the scheme.

## **2. Competitiveness and Sectoral Differentiation (Question 7)**

IETA does not support further differentiation of baseline decline rates beyond the existing arrangements for Trade-Exposed Baseline-Adjusted (TEBA) facilities. A uniform baseline decline rate provides a transparent and predictable framework that promotes competitive neutrality, simplifies scheme administration, and supports least-cost emissions reductions by allowing facilities to determine the most efficient compliance pathway through operational improvements, technology deployment, and the use of market-based flexibility mechanisms.

Further differentiation between sectors or individual facilities risks increasing regulatory complexity, reducing investment certainty, and weakening the market signal underpinning the Safeguard Mechanism. Facilities within the same sector can face significantly different technical, operational and infrastructure constraints, making it difficult to develop objective and durable criteria for differentiated treatment. Such an approach would also likely require commercially sensitive facility-level information and lead to frequent reassessments as technologies and abatement costs evolve over time.

Rather than differentiated baseline decline rates, IETA supports strengthening the existing flexibility mechanisms available under the Safeguard Mechanism. Continued access to Australian Carbon Credit Units (ACCUs), Safeguard Mechanism Credits (SMCs), banking and borrowing arrangements are important features that allow facilities to manage compliance efficiently while preserving the environmental integrity of the scheme.

In particular, IETA recommends extending the current three-year multi-year monitoring period. The existing timeframe is often insufficient for facilities undertaking major decarbonisation

investments, particularly where projects involve long development and construction timelines, such as electrification, fuel switching, carbon capture, or other industrial transformation projects. Greater flexibility, such as via a longer monitoring period would better align compliance obligations with investment cycles, improve regulatory flexibility, and support timely deployment of emissions reduction technologies without weakening overall emissions outcomes.

In the longer term, as carbon costs are expected to increase alongside the strengthening of the Safeguard Mechanism to support 2035 target achievement, Australia should articulate a clear roadmap towards implementing a Carbon Border Adjustment Mechanism (CBAM) or equivalent border carbon measure, building on the final report of the [Carbon Leakage Review](#). As Australia's climate ambition increases and major trading partners adopt similar policies, a well-designed CBAM, initially focused on sectors with demonstrated leakage risks and expanded only following further evidence and consultation, would provide a more targeted and durable response than increasing sector-specific differentiation within the Safeguard Mechanism.

The Government should provide early clarity on the sequencing, design principles and priority sectors for any future CBAM to support long-term investment planning and policy certainty.

### **3. Assessment of the Scheme's Effectiveness & Onsite Abatement (Question 8)**

The effectiveness of the Safeguard Mechanism in driving onsite abatement should be assessed using a combination of quantitative and qualitative indicators rather than relying solely on annual facility-level emissions outcomes. A broader assessment framework will provide a more complete understanding of how the Mechanism is influencing investment decisions, technology deployment, R&D and long-term decarbonisation efforts for which quantifiable emission reductions may take years to materialize.

Assessment should recognise that changes in production levels, facility utilisation, product mix and operational conditions can significantly influence emissions independently of abatement activities. Evaluating emissions intensity alongside absolute emissions can help distinguish genuine improvements in emissions performance from variability in output. Most importantly, assessments should recognise that the objective of the Safeguard Mechanism is to deliver emissions reductions at least cost across the economy, rather than maximising onsite abatement at every facility. Safeguard entities should retain the flexibility to determine the most cost-effective compliance pathway, whether through onsite emissions reductions, operational improvements, investment in new technologies, or the use of ACCUs and Safeguard Mechanism Credits. The use of market-based flexibility mechanisms should not be interpreted as evidence that the Mechanism is failing to drive decarbonisation, but rather as an intended

feature that enables emissions reductions to occur where they can be achieved most efficiently across the economy.

Finally, assessment should adopt a long-term perspective. For many industrial facilities, decarbonisation is constrained not only by cost, but also by technology readiness, infrastructure availability, permitting requirements, supply chain constraints and project delivery timelines. Evaluations should therefore consider whether the Safeguard Mechanism is creating the conditions necessary for sustained investment in industrial decarbonisation and R&D, rather than focusing exclusively on short-term onsite emissions reductions. For example, operators are actively evaluating and progressing onsite abatement opportunities, including carbon capture and storage, electrification, renewable integration and other emissions reduction projects. These opportunities often require substantial capital investment, long development timelines, enabling infrastructure, regulatory approvals and technical validation before they can be implemented. Therefore, the policy certainty and long-term stability of the Safeguard Mechanism remain a key priority for the industry.

#### **4. Carbon Credit Use and Limitations (Question 10)**

As highlighted above, IETA seeks to reaffirm that the primary objective of the Safeguard Mechanism should be to support the achievement of Australia's emissions reduction targets through economically efficient, technology-neutral and market-based measures. The Scheme should continue to allow facilities to determine the lowest-cost compliance pathway, without unduly restrictions or arbitrary market interventions.

We are concerned by proposals explored by CCA in the consultation to introduce quantitative limits on the use of ACCUs or to discount their abatement value within the Safeguard Mechanism. Such measures would increase compliance costs without addressing the underlying technical, commercial and infrastructure barriers that currently constrain onsite emissions reductions in many hard-to-abate sectors. At the same time, they would risk significantly undermining investor confidence, weaken fungibility, reduce abatement in non-covered sectors and challenge the central design principle of the Safeguard Mechanism around economic efficiency.

Instead of undermining the ACCU market by introducing arbitrary restrictions, confidence in the scheme should be strengthened through continued methodological improvements, scientific assessments of environmental integrity, international alignment with ICVCM and Paris Agreement crediting principles, and improved transparency, e.g. by aligning disclosure with the G20's Common Carbon Credit Data Model. In particular, the ACCU Registry should provide public access to key project documentation, including project design documents, monitoring reports, and validation and verification reports, to improve market confidence, strengthen price

discovery and facilitate independent assessment of project quality. Overall, this would help support the growing demand for high-integrity Australian carbon credits ensure that both onsite emissions reductions and ACCU use deliver credible contributions to Australia's emissions reduction targets.

As the Safeguard Mechanism continues to mature and demand for SMCs and ACCUs increases, consideration should be given to the future use of high-integrity international carbon credits authorised under Article 6 of the Paris Agreement. Subject to robust environmental integrity standards, corresponding adjustments, and appropriate quantitative and qualitative limits, eligible Internationally Transferred Mitigation Outcomes (ITMOs) could enhance market liquidity, improve cost containment, strengthen links with strategic partner countries, and support Australia's long-term decarbonisation objectives.

Already, a growing number of jurisdictions around the world, including Japan, the Republic of Korea, Singapore and the European Union, are actively incorporating Article 6 credits into their compliance markets and carbon pricing frameworks. To deliver on its 2035 NDC targets, Australia should accelerate its evaluation of how Article 6 and cooperative approaches can complement domestic abatement opportunities, whether through integration into the Safeguard Mechanism, sovereign procurement, or other frameworks. Early piloting approaches to advance capacity building, market readiness and bilateral cooperation will be critical to allow for dedicated supply to scale up in time.

IETA stands ready to support the Australian Government and continue this dialogue ahead of the 2026 United Nations Climate Change Conference COP31 in Türkiye and beyond.

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### In Conclusion

In conclusion, IETA encourages the Australian Government to build on the strong foundations of the Safeguard Mechanism by providing long-term policy certainty, preserving market flexibility, strengthening the integrity and transparency of the ACCU Scheme, and considering future international linkages under Article 6. Together, these measures can support Australia's 2035 emissions reduction objectives while enhancing industrial competitiveness and ensuring emissions reductions are achieved at lowest cost.

IETA looks forward to continuing its engagement with the Climate Change Authority and the Australian Government to support the ongoing evolution of the Safeguard Mechanism in line with international best practice. By maintaining a predictable, technology-neutral and market-based framework, Australia can strengthen its industrial competitiveness, deliver emissions reductions at lowest cost, and position itself as a global leader in green competitiveness and high-integrity carbon markets.

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### ABOUT IETA

The International Emissions Trading Association (IETA) is a non-profit business association with a membership of [over 300 leading international organisations](#) operating in compliance and voluntary carbon markets around the world. In Australia, we our membership represent some of the largest and most active participants in the Safeguard Mechanism & ACCU market.

Since its foundation in 1999, IETA has been the leading voice of business on ambitious market-based solutions to climate change. We are a trusted adviser to governments to support them in developing international policy and market frameworks to reduce greenhouse gases at lowest cost, increase climate ambition, and build a credible path to net zero emissions. See [www.ieta.org](http://www.ieta.org) for more information.