



Australian
Industry
Greenhouse
Network

AIGN submission

Department of Climate Change, Energy, the Environment and Water Safeguard Mechanism Review Consultation Paper

September 2026

1 Summary

AIGN supports Australia's obligations under the Paris Agreement to help limit global warming and raise climate ambition over time, so the world reaches net zero emissions by mid-century. Australia's path to net zero must strike a balance between ambition, investment, and competitiveness.

The Safeguard Mechanism is an important part of Australia's climate policy suite; however, Australia's emissions reduction commitments are economy-wide and should be met through a framework in which all sectors contribute and abatement is pursued where it can be delivered efficiently. Safeguard-covered entities are pursuing decarbonisation opportunities in a wide variety of ways, and the Safeguard Mechanism should continue to support decarbonisation both within and outside the scheme.

Maintain policy stability

The first two years of the reformed Safeguard Mechanism indicate that it is operating as intended, therefore this review should preserve overall policy stability by making targeted changes only where there is a clear, evidence-based case for change.

Recognise whole-of-system interconnectedness

Safeguard settings are interconnected. Changes to one element (e.g. coverage, flexibility settings, TEBA assistance, baseline decline rate, cost compliance) can affect compliance costs, carbon market demand, competitiveness and investment elsewhere in the system. The review should assess these settings as an integrated package.

Competitiveness and carbon leakage are essential considerations

Safeguard-covered industries make important contributions to Australia's energy and fuel security, regional economies, sovereign manufacturing capability, and critical minerals development, among other priorities. It is therefore necessary to support their competitiveness and effectively address carbon leakage, which is both an economic and an environmental risk.

Trade-Exposed Baseline Adjusted (TEBA) arrangements should remain focused on mitigating carbon leakage. Any proposals for change around a sectoral TEBA and catch-up mechanism must be carefully examined for their ability to fulfil this purpose.

Additional measures to address carbon leakage may be required. AIGN supports detailed design work on a potential border carbon adjustment, recognising that no single approach will necessarily address every carbon leakage pathway. Existing TEBA arrangements must remain available until a border measure is operating successfully.

Maintain compliance flexibility

Flexible compliance is fundamental to the operation of the Safeguard Mechanism, and to efficient, economy-wide abatement, including for liable entities without near-term onsite abatement options available. Crucially, access to credible ACCUs and SMCs is the only viable compliance pathway for some facilities while technologies, infrastructure and major abatement projects develop.

AIGN supports continued access to credible ACCUs, and the creation and banking of SMCs. In principle, future access to high-integrity international units should remain an option as Article 6 markets develop.

Cost containment must remain effective

The cost containment measure (CCM) is an essential compliance backstop. The review should provide clarity on how the CCM will operate beyond 2030 when its current replenishment pathway ends. It must remain a genuine safety net alongside a functional, liquid carbon market.

Evidence-based approach to coverage

A change to Safeguard Mechanism coverage should proceed only where a material benefit can be demonstrated, taking into account emissions outcomes, administrative costs, competitiveness and optimising the policy suite to encourage economy-wide abatement.

Australia's 2035 target is economy-wide

Safeguard-covered facilities should be required to contribute no more than a proportional share toward Australia's 2035 emissions reduction task. The methodology to establish this share should be stable and reproducible, and should be considered in the context of the policy framework applying to the whole economy, in which other sectors are also delivering their corresponding contribution to the national target.

Post-2030 decline rates

Post-2030 decline rates should support early investment certainty. Safeguard-covered facilities are exposed to a compounding incentive to pursue decarbonisation, and a higher decline rate will not necessarily produce more onsite abatement. It may instead increase unit demand and compliance costs.

2 Introduction

The Australian Industry Greenhouse Network (AIGN) welcomes the opportunity to provide input to the Australian Government's 2026 – 27 review of the Safeguard Mechanism.

AIGN is a network of industry associations and businesses representing a broad cross-section of the Australian economy, including many of Australia's largest energy producers, energy users, manufacturers, resources companies and exporters. Many AIGN corporate members are directly subject to the National Greenhouse and Energy Reporting Scheme (NGERS) and the Safeguard Mechanism and are actively investing in emissions reductions across industrial manufacturing and resource operations.

AIGN provides a forum through which industry can contribute valuable experience and technical expertise to the development of climate policy. Our members are directly engaged in implementing Australia's climate policy framework and making the long-term operational and capital investment decisions that will underpin the transition to net zero. Their experience provides an important perspective on how policy settings operate in practice, including their interaction with technology availability, infrastructure, international competitiveness and investment cycles. AIGN encourages the Department to continue engaging closely with AIGN members and subject matter experts throughout the review, and to consider this submission alongside submissions made by individual AIGN members.

2.1 Policy stability and a whole-of-economy framework

The consultation paper rightly observes that policy stability is a priority and that a measured and predictable emissions reduction trajectory is important to support long-term investment decisions. Major industrial decarbonisation projects can require substantial capital, long development and approvals processes, enabling infrastructure and technologies that are not yet commercially available at scale.

The first two years of post-reform data are encouraging, and the Safeguard Mechanism appears to be operating broadly as intended at an aggregate level. Two years is, however, a short period over which to assess reforms of this scale, particularly given industrial investment lead times and the limited availability of major onsite abatement options in some sectors. AIGN therefore supports the Government's intention to preserve overall policy stability while making targeted, evidence-based changes where a clear case for intervention has been demonstrated.

The Safeguard Mechanism is one part of Australia's broader climate policy architecture. Australia's targets are economy-wide and should be met through a framework in which all sectors contribute equitably and abatement is pursued where it can be delivered efficiently. This was reinforced through the 2023 reforms with the adoption of a market-based framework recognising verified emissions reductions outside the Safeguard

Mechanism via Australian Carbon Credit Units (ACCUs), and the creation of tradable Safeguard Mechanism Credits (SMCs) to enable facilities with fewer near-term onsite abatement options to support abatement at other facilities. The Safeguard Mechanism should contribute appropriately to this effort; facilities should not be required to compensate if there are insufficient emissions reductions elsewhere in the economy.

Safeguard Mechanism settings are interlinked. Changes to one setting can interact with other aspects of the scheme (e.g. baseline decline rates, coverage, access to units, banking, trade-exposed assistance, cost containment). Compliance costs, carbon-market demand, competitiveness and investment incentives may be impacted. The review should assess these interactions and ensure that design elements are not treated in isolation. Furthermore, the review should consider interactions with other relevant policies introduced since the 2023 reforms, such as the Net Zero Plan and supporting sector plans, and Australia's 2035 Nationally Determined Contribution (NDC).

It is also important to recognise that emissions reduction objectives are connected to Australia's other economic, industrial and strategic objectives. The transition to net zero needs to support the competitiveness and investability of Australian industry, sovereign manufacturing capability, the Government's Future Made in Australia agenda, and Australia's energy and fuel security. These objectives should be addressed through a coherent policy framework that provides consistent investment signals, supports the deployment of commercially viable emissions reduction technologies and enables emissions reductions to be achieved efficiently across the economy.

3 Competitiveness and carbon leakage

Competitiveness and carbon leakage are central to the effectiveness and durability of the Safeguard Mechanism, and to the achievement of many of the Government's economic and transition objectives. For this reason, the 2023 reforms introduced measures to support competitiveness and allow flexibility for liable entities to coordinate their abatement activity with broader investment and operational strategies.

Australia's climate policy suite must maintain the competitiveness of export- and import-competing industries and should not expose them to costs that equivalent competitors in other countries do not face.

3.1 Competitiveness through the transition

Industries covered by the Safeguard Mechanism are crucial to the national economy. They support domestic energy and fuel security, export earnings, regional employment, critical minerals and processing, manufacturing capability and interconnected domestic supply chains. They are also relevant to wider Government priorities, including sovereign manufacturing and the Future Made in Australia agenda.

These industries are facing significant challenges as they seek to undertake a substantial capital and technology transition while competing in international markets. The barriers to onsite abatement are not solely questions of carbon price. They can include technology readiness, project and approvals timing, supply chain delays exacerbated by a series of global crises, policy uncertainty, customer and offtake risk, access to transmission, land, labour and ports, and the availability of enabling infrastructure (e.g. electricity, transmission, low-emissions fuels, and CO₂ transport and storage infrastructure). These factors affect both the pace at which emissions can be reduced and whether investment is made in Australia.

AIGN supports the Government's objectives relating to sovereign capability, Future Made in Australia and energy and fuel security. While the Safeguard Mechanism is part of the suite of policies impacting on the relevant industries, it is necessary to consider what complementary climate, energy and industrial policies can contribute to address the broader conditions needed to retain and decarbonise strategically important industries in Australia. The relevant question for this review is how Safeguard settings interact with these wider objectives.

3.2 Carbon leakage risks

Carbon leakage can occur in several ways, including substitution by imports, loss of export market share, the diversion of new investment or reinvestment to other jurisdictions, and the closure or curtailment of domestic facilities. Where displaced production occurs in a jurisdiction with equivalent or higher emissions intensity, Australia can lose economic activity and industrial capability without a corresponding reduction in global emissions. Carbon leakage is therefore both a competitiveness risk and an environmental risk.

The appropriate comparison in terms of competitiveness is not simply the headline carbon price faced in different jurisdictions. Competitors may face different emissions obligations, exemptions, free allocations, energy costs, subsidies, tax settings, infrastructure support and other policy measures. Leakage risk also varies between sectors, products and facilities, and between import-exposed and export-exposed activities.

No single policy instrument necessarily addresses every leakage pathway. A border measure may address some forms of import competition but not export exposure, investment diversion or other sources of competitive disadvantage. Assistance may also operate within the Safeguard Mechanism or through complementary policy.

This reinforces the need to consider the Safeguard Mechanism as an interconnected system. Baseline decline rates, Trade-Exposed, Baseline-Adjusted (TEBA) settings, unit prices and availability, coverage, cost containment and complementary investment

support can each change the effective burden faced by trade-exposed facilities and the distribution of that burden across covered industry.

3.3 Trade-exposed baseline adjustments (TEBA)

Currently, TEBA is the principal Safeguard Mechanism measure for facilities facing material scheme cost impacts and trade exposure. Its purpose should be to mitigate carbon leakage risks and support the Safeguard Mechanism's emissions reduction objective. The Government's Carbon Leakage Review has identified that existing arrangements may not be sufficient for some industries over the medium to long term. Changes to TEBA should therefore be assessed against whether they improve its ability to address these underlying risks, or if additional measures are required.

The consultation paper's proposed sectoral approach to TEBA may improve consistency within a defined sector and allow a broader assessment of leakage risk. However, sector-wide treatment can obscure material differences between facilities and sub-sectors, alter the distribution of the Safeguard abatement task between covered industries, and extend or withdraw assistance from facilities in ways that do not reflect their actual exposure. The proposed higher minimum decline rates for sectoral TEBA would also reduce the level of assistance available to some facilities. In addition to direct competitiveness impacts, changing decline rates may also result in higher input costs for facilities exposed to carbon leakage risk via cost pass-through. These effects and potential unintended consequences need to be understood before choosing whether to move away from facility-based assessment.

The proposed 'catch-up' mechanism raises a different risk. Convergence may appear to improve consistency between facilities over time, such as helping to avoid non-TEBA facilities carrying an increasingly disproportionate share of the emissions reduction task. However, an automatic requirement for a facility to make up later for assistance received can turn TEBA into a closed loop: relief provided because of a genuine competitiveness constraint becomes an additional future compliance burden. This may defer rather than resolve carbon leakage risk, create a future compliance cliff and weaken the investment certainty that trade-exposed assistance is intended to support.

More broadly, neither shifting TEBA from a facility to a sector basis nor requiring later catch-up resolves the central limitation identified by the Carbon Leakage Review. Reducing a facility's Safeguard burden does not necessarily equalise the effective costs faced by Australian producers and their overseas competitors. The review should make the risks and trade-offs transparent and avoid changes that simply reallocate costs within the Safeguard Mechanism without improving the management of carbon leakage. It is essential that changes to TEBA do not further erode the competitiveness of trade-exposed industries, including those trade-exposed facilities that do not receive TEBA assistance.

3.4 Border measures and complementary policy

The Carbon Leakage Review, which is an input to the current review of the Safeguard Mechanism, recommends a border carbon adjustment for some industries.

AIGN supports the Government progressing detailed design work on a border carbon adjustment for cement and clinker in the first instance, as recommended by the Carbon Leakage Review, in consultation with affected industries. Existing TEBA provisions should remain available until any border measure is operational and has been demonstrated to adequately address competitiveness and leakage risks.

The effectiveness of such a measure would depend on its detailed design, including which leakage pathways would be addressed. For example, an import-focused measure may improve comparability between domestic and imported production for covered commodities, but would not directly address export competitiveness, investment leakage or activities outside its product scope.

The introduction of a potential border measure should therefore be accompanied by a process to determine whether other leakage measures, such as TEBA, continue to be required. It is crucial that the measures in place demonstrably address competitiveness and leakage risk.

4 Flexible compliance

The Safeguard Mechanism is designed to align with the economy-wide effort to reach Australia's net emissions reduction targets as expressed in our Nationally Determined Contributions (NDCs) and net zero by 2050 target. AIGN supports the consultation paper's framing that Safeguard covered entities should be able to choose the nature and timing of their emissions reduction efforts and implement the pathway that best reflects their circumstances. Flexible compliance is central to the Safeguard Mechanism's market-based design and to efficient, economy-wide emissions reduction that recognises each tonne of verified abatement delivers the same climate outcome, regardless of where it originates..

For some facilities, flexibility is not simply a choice between onsite abatement and a lower-cost alternative. There can be periods when economically and technically viable onsite abatement is extremely limited or unavailable, while Safeguard obligations continue to apply. Access to compliance units may therefore be the only viable pathway to remain compliant while technologies mature, infrastructure becomes available or major projects are implemented. For these facilities, 'stronger incentives' merely increase the cost of compliance without changing abatement options available to them.

The Safeguard Mechanism was designed to deliver emissions reductions through a combination of onsite abatement and flexible market-based compliance options.

Declining baselines establish the emissions reduction obligation, while ACCUs and SMCs enable facilities to meet it in an economically efficient manner.

This is consistent with the broader objective of achieving emissions reductions efficiently across the economy. Abatement opportunities, costs and timing differ substantially between facilities and sectors (both within and outside the Safeguard Mechanism). A flexible market framework enables abatement to occur where it is currently feasible and efficient, while maintaining the incentive for covered facilities to invest in onsite emissions reductions as those opportunities become available. Restricting flexibility does not, of itself, make unavailable technologies commercially viable or overcome non-cost barriers to deployment.

4.1 Onsite abatement and technology development

AIGN members are actively developing and implementing onsite decarbonisation plans where viable opportunities exist. The Safeguard Mechanism provides an increasing incentive to pursue those opportunities as baselines decline, and complementary policies can help remove technology and infrastructure barriers. The work of ARENA, the CEFC and other Government agencies, can also deliver meaningful support in this space. Existing funding and financing institutions, including ARENA, the CEFC and the Powering the Regions Fund, should be reviewed to ensure their mandates, eligibility criteria, co-funding requirements and project timelines are capable of supporting the full range of technology-neutral abatement opportunities at Safeguard facilities, including feasibility, demonstration and first-of-its-kind deployment.

Industrial emissions pathways are not necessarily smooth or linear. Large reductions may depend on plant replacement, major upgrades, enabling infrastructure, supply chains, or developments to enable abatement technologies to be deployed at scale. Importantly, industrial decarbonisation will not necessarily occur through smooth annual emissions reductions but in steps. The timing of these investments is unlikely to align neatly with linear baseline decline rates. Where barriers are non-price barriers, increasing the compliance cost or restricting access to units will not bring forward on-site decarbonisation.

Flexibility and onsite abatement should therefore be treated as complementary, not competing, elements of the transition. Removing or materially constraining flexible compliance would increase costs without necessarily bringing forward emissions reductions where the underlying barrier is technological, infrastructure-related or economic. AIGN members and relevant industry associations are well placed to provide the Department with detailed information on the specific barriers and technology pathways applying to individual industries and facilities.

4.2 Domestic offsets

The Climate Change Authority (CCA) notes that the use of ACCUs for Safeguard Mechanism compliance has become the main source of demand driving the ACCU market. AIGN supports continued access to credible ACCUs for Safeguard compliance and does not support quantitative limits or discounting that could leave facilities without a viable compliance pathway. ACCUs allow verified abatement elsewhere in the Australian economy to be accessed where onsite opportunities are higher cost or unavailable, consistent with efficient economy-wide abatement. As the CCA confirmed in its 2026 review, the ACCU Scheme is working efficiently, and ongoing reforms further solidify the integrity of this world-leading policy

AIGN does not support the consultation paper's suggestion that an advantage of ACCU discounting would be forcing Safeguard covered entities to deliver abatement over and above the Safeguard Mechanism's assigned target. This would interfere with the principle of economy-wide, efficient emissions reductions and place a greater abatement and cost burden on these entities, to the benefit of uncovered sectors. AIGN is strongly in favour of ensuring the whole economy contributes toward Australia's emissions reduction goals, and that the Safeguard Mechanism is assigned no more than a proportional share of this target.

The relationship between onsite abatement and ACCU use should not be characterised as a binary choice. The ACCU Scheme provides a mechanism through which Safeguard facilities can support and access genuine, verified emissions reductions and removals elsewhere in the economy. Access to that abatement allows sectors with relatively high cost or temporarily unavailable onsite abatement opportunities to meet their obligations while supporting emissions reductions in sectors where abatement is currently feasible. This is a practical expression of the whole-of-economy and least-cost principles that underpin an efficient approach to climate policy.

The consultation paper recognises that two years of ACCU and SMC surrender data is an insufficient basis for understanding long-term trends, and that emissions projections anticipate a continued need for ACCUs to achieve Safeguard Mechanism targets in an efficient manner. This in turn supports other Australian Government objectives around sovereign capability, economic transition, and energy security.

Questions about ACCU market integrity should be addressed through the integrity framework for the ACCU Scheme. They are distinct from questions about the Safeguard price signal or a policy preference for onsite abatement. Long-term clarity is also important for market functioning. Changes to ACCU eligibility or other use rules can affect existing holdings, contracting, liquidity and forward price signals. Certainty is required to enable investment in these projects, which can take more than five years to start producing ACCUs. Any future changes should therefore be assessed for their

effect on the availability of a credible compliance pathway as well as on the broader ACCU and SMC markets.

4.3 International units

AIGN continues to support, in principle, access to credible, high-integrity international units where they can be appropriately authorised and accounted towards Australia's Paris Agreement commitments. Preserving this option as Article 6 markets develop can broaden access to genuine abatement and support market flexibility.

Access to international units should not be characterised as a means of avoiding genuine emissions reductions or as a substitute for industrial decarbonisation. Any future access should depend on robust integrity, transparency, verification and accounting requirements, and should be considered alongside its implications for domestic carbon markets, with the objective of expanding the pool of credible abatement available to support an efficient transition.

Domestic abatement, access to credible international units and onsite industrial decarbonisation are complementary. Australian facilities will continue to face a strong signal to invest in onsite emissions reductions as technologies become viable. Access to high integrity international units could provide additional flexibility and help manage periods in which domestic abatement opportunities are constrained, while contributing appropriately towards the global emissions reduction goals of the Paris Agreement.

AIGN recognises that access to international units will not be an outcome of this review. However, it should identify the integrity, accounting, legal, interoperability and market-readiness criteria that would need to be satisfied before such access could be considered. This work should commence shortly, in preparation for future consideration. Any proposal to link the Australian carbon market with international markets should be subject to separate consultation.

5 Inter-temporal flexibility and cost containment measure

Inter-temporal flexibility is an important part of the Safeguard Mechanism and a functioning carbon market. It allows facilities to manage short-term operational variability and the uneven timing of major abatement investments while preserving the overall emissions trajectory.

5.1 Banking, borrowing and multi-year monitoring

AIGN supports continued banking, including the ongoing creation, use and banking of SMCs beyond 2030. SMCs support liquidity and preserve an incentive for early onsite abatement. AIGN also supports continued borrowing as a practical way to manage short-term variability. Multi-year monitoring has had more limited uptake, but remains a

legitimate flexibility option and should continue to be available where it assists facilities to manage timing while maintaining environmental integrity.

To better allow multi-year monitoring periods to manage the often step-change nature of abatement, they should not be limited to use within a five-year NDC period. The requirement to be below the baseline at the end of the period should be removed; a step-change project may not bring emissions below the baseline but the multi-year monitoring period can nevertheless encourage onsite abatement and help manage the compliance burden during a major capital project.

5.2 Cost containment measure

A well-functioning cost containment measure is a crucial setting supporting the successful operation of the Safeguard Mechanism. It must be capable of ensuring that covered entities retain a pathway to compliance in exceptional market conditions, particularly where onsite abatement cannot be accelerated to meet obligations. This function is important not only for managing price volatility, but for the stability and credibility of the Safeguard Mechanism.

The consultation paper identifies a material post-2030 design question. The reserve is finite and its current source of replenishment through exits from existing carbon abatement contracts ends on 31 December 2030. At the same time, compliance demand is expected to rise as baselines decline. A mechanism that cannot be replenished may provide temporary price protection but cannot operate as an enduring safety net.

The review should therefore provide clear line of sight to how cost containment will function beyond 2030 and test its adequacy against plausible ACCU and SMC supply and demand conditions. The objective should not be to suppress normal carbon market price signals or delay onsite abatement – indeed, there is no evidence suggesting this has been occurring. The cost containment measure is, and should remain, a genuine backstop, calibrated so that it does not discourage investment in cost-effective onsite abatement or distort the operation of ACCU and SMC markets. Equally, a cost containment measure that exists in principle but cannot reliably be accessed when exceptional market conditions arise would not provide covered entities with the compliance certainty for which it was established.

This should be considered together with unit eligibility, SMC banking, baseline decline rates and other settings that influence market depth and compliance demand.

6 Coverage

AIGN supports broad and equitable participation in Australia's emissions reduction task. Consistent with our longstanding policy principles, Australia should pursue a

whole-of-economy approach in which the costs of meeting national targets are distributed efficiently and equitably.

The consultation paper notes that any extension of Safeguard coverage should proceed strictly where a material benefit can be demonstrated. Any proposed change to the current threshold should be subject to a transparent, evidence-based assessment of the additional emissions and abatement opportunities captured, the compliance and administrative costs imposed, competitive impacts, and the availability of alternative policy approaches.

Broadening coverage would also interact with other Safeguard settings, including baseline decline rates, ACCU and SMC demand, trade-exposed assistance, carbon-market liquidity and the cost containment measure. Any proposal to lower the threshold should therefore be assessed as part of the broader policy framework, with modelling and consultation to demonstrate that the change would deliver a clear material benefit without creating unintended consequences elsewhere in the scheme.

7 Meeting the 2035 target

Australia's 2035 target of reducing emissions by 62–70% below 2005 levels is an economy-wide commitment. The Safeguard Mechanism has an essential role, but should not be expected to carry a larger share of the national task simply because it is an established regulatory mechanism. AIGN supports a whole-of-economy approach in which all sectors contribute and abatement is pursued efficiently.

7.1 Proportional share approach

AIGN supports a no-more-than proportional-share approach to determining the Safeguard Mechanism's contribution to the 2035 target, as part of an equitable distribution of the national emissions reduction task.

The methodology used to establish that share should be transparent and robust, explaining the effect of revisions to Australia's emissions inventory and the implications for the relative emissions reduction effort expected across the economy. It should also be capable of accommodating any changes to coverage arising from this review. If additional emissions are brought into the Safeguard Mechanism, the corresponding contribution of the mechanism to national emissions will change but should not result in existing covered facilities facing a larger emissions reduction obligation.

The methodology should be stable and reproducible, and should not increase the burden on existing facilities merely because of short-term changes in the composition of reported emissions. The Government should also distinguish clearly between the Safeguard Mechanism's share of the national emissions budget and its share of the national abatement task.

More broadly, the proportional-share calculation should be considered in the context of the policy framework applying to the remainder of the economy. A proportional approach is meaningful only if emissions reduction policies across other sectors are also delivering their corresponding contribution to the national target. This will support the enhanced alignment across policies referred to in Australia's NDC Investment Blueprint, to attract the investment needed to achieve our emissions reduction targets.

7.2 Safeguard target and reserve

AIGN recognises the need for the Safeguard target and baseline decline rate to account for uncertainty in production, new entrants and access to concessional baseline arrangements. A reserve can provide a feasible mechanism for managing these uncertainties and helping ensure the Safeguard target can be reliably achieved.

The reserve should be calibrated transparently and for its intended purpose. It should manage reasonable uncertainty in factors such as production growth and new entrants rather than operate as an additional source of emissions reduction ambition beyond the agreed proportional contribution.

The proposal to take advantage of the 62–70% target range by setting the formal Safeguard target towards one end of the range while calibrating baseline decline rates towards the other would need to be carefully considered before being implemented, including in light of other Safeguard settings such as flexibility settings and treatment of trade-exposed facilities, as well as broader considerations such as sovereign capability and support transition-aligned investment in Australia. Potential impacts on investment certainty should also be considered.

Whatever approach is adopted, the modelling and assumptions used to determine the reserve, the Safeguard emissions budget and the associated decline rate should be published to the greatest extent possible. This should include assumptions regarding production growth, entry and exit of facilities, uptake of concessional baselines and other material Safeguard settings. Transparency will be important both for confidence in the proportional-share methodology and for the long-term investment decisions being made by covered businesses.

7.3 Decline rates after 2030

Post-2030 baseline decline rates will be one of the most consequential outcomes of this review for Safeguard-covered facilities. They will shape compliance costs, emissions reduction investment and the competitiveness of Australian industry during a period in which significant capital investment and technology transformation will be required.

AIGN supports early visibility of the 2030–35 trajectory so that facilities can incorporate future obligations into long-lived capital decisions. The decline rate should be derived from the agreed proportional contribution and supported by transparent modelling.

That modelling should reflect real-world conditions for industrial decarbonisation, including technology readiness, enabling infrastructure, approvals and project lead times, access to ACCUs and SMCs, carbon leakage risk and the interaction with other climate, energy and industrial policies. A higher decline rate does not produce greater onsite abatement where the binding constraint is technology, infrastructure or project timing; it may instead increase unit demand and compliance costs. AIGN agrees that factors including expected production, new entrants and exits, access to concessional baselines and changes to other Safeguard settings will need to be incorporated into this calculation as well.

The consultation paper's longer-term discussion of baselines reaching zero is also pertinent. Australia's net-zero objective is economy-wide and does not necessarily imply zero gross emissions at every covered facility. As a result, a trajectory in which Safeguard baselines reach zero must be part of an equivalent policy approach across the economy and based on credible assumptions about the treatment of residual emissions and compliance optionality.

Decline rates cannot be settled in isolation. They are closely tied to coverage, TEBA, access to ACCUs and SMCs, banking and borrowing, cost containment and the wider carbon leakage framework, including the likely cost to the economy and potential loss of industry due to carbon leakage. The Government should assess and model these settings as an integrated package before finalising the post-2030 trajectory.

8 Administrative certainty for baseline variations

AIGN members have identified an administrative timing issue arising from potential variations to facility-specific emissions intensity (FSEI) numbers under section 26 of the Safeguard Mechanism Rule. Where a change to an NGER methodology or other relevant regulatory change results in a material change to reported emissions, the Clean Energy Regulator may vary a facility's emissions intensity determination (EID), including with effect for the compliance year already being reported.

The timing of this process can create significant uncertainty for covered facilities. Once NGER reports are submitted, facility owners use the baseline position available through the Regulator's systems to determine their Safeguard compliance requirements. This can involve allocating liabilities between joint venture participants, internal management and board reporting, procuring ACCUs or SMCs, and notifying joint venture partners in accordance with contractual timelines. If the Regulator subsequently requests additional information and retrospectively varies the applicable

FSEI, facilities may not have certainty over their final baseline exceedance or unit surrender requirement until well into the compliance process.

This is particularly challenging where the underlying change is known in advance, such as an amendment to an NGER emissions factor. Regulatory processes should, wherever practicable, provide covered facilities with certainty over the emissions intensity that will apply before they finalise their NGER reporting and commence compliance planning.

Where a regulatory or methodology change requires an EID variation for a particular compliance year, the Regulator should bring forward its information-gathering and assessment process so that any resulting change to the applicable FSEI is finalised before the NGER reporting deadline for that year. The FSEI re-baselining trigger will reduce in relevance as facilities increasingly transition towards default or international best practice emissions intensities.

For other circumstances that may require a resubmission of historic data, the process should not automatically deem facilities as non-compliant with their Safeguard obligations. Instead, the Regulator should give relevant reporters a defined time period (for example, 4 weeks) after receiving revised Safeguard Position Statements, to allow them to undertake additional notification and procurement activities to remain in a compliant position.

9 Conclusion

AIGN supports a stable, predictable and flexible Safeguard Mechanism that contributes appropriately to Australia's economy-wide emissions reduction targets. The review should focus on targeted, evidence-based changes and preserve the market mechanisms that allow covered facilities to manage differing technology pathways and investment timelines as they transition toward net zero by 2050.

The Safeguard Mechanism sits within the broader climate, energy, trade and industrial policy framework. Changes in one area can alter costs, competitiveness, carbon market demand and investment incentives elsewhere.

AIGN appreciates the opportunity to contribute to Department's review of the Safeguard Mechanism and looks forward to continuing to engage constructively as this work progresses.