July 2025

AUSTRALIA SAFEGUARD MECHANISM

Years in operation	Since 1 July 2016. Reformed from 1 July 2023 with declining baselines and crediting mechanisms.
Overall cap and trajectory	Hard cap applies to total emissions from covered facilities to align with national targets. From 2023–24, baselines decline annually by up to 4.9% to 2030. In FY24, 17 facilities received site-specific baseline decline rates set at a heavily discounted 1%.
Emissions reduced to date	A reduction in net- and actual emissions occurred for the first time in FY24. Covered emissions – before surrender – decreased by 2.7 $MtCO_2e$ to 136 $MtCO_2e$ in the most recent reporting year. Net emissions – post surrender – dropped 7% to 127.8 $MtCO_2e$.
Target(s)	Reduce industrial emissions covered by the Safeguard Mechanism by 30% from 2020 levels by 2030 (a reduction of ~38 $MtCO_2e$ to 99 $MtCO_2e$ net emissions), contributing to broader emissions reduction target (43% by 2030 and net zero by 2050).
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Sectors covered	Facilities with greater than 100,000 tCO_2e in annual Scope 1 emissions. The scheme is sector agnostic but with current compliance thresholds, covers the oil and gas, mining, manufacturing, transport, and waste sectors only.
GHGs covered	All Scope 1 greenhouse gas emissions – carbon dioxide, methane, and nitrous oxide.
Number of covered entities	219 facilities are covered as of FY24.
Use of offsets and linking	If Safeguard facilities exceed their baseline, they can use ACCUs, generated by project proponents, or SMCs, credited to other Safeguard facilities with remaining headroom to meet their targets.
Other features	• Entities can earn SMCs for emissions below a facility's baseline, which can be sold or banked for future use. • Multi-year monitoring periods apply in limited circumstances, primarily for new facilities or major expansions. • Tailored treatment available for emissions-intensive trade-exposed (EITE) businesses, with adjusted decline rates.
Penalties for non-compliance	A facility's failure to reduce emissions to or below its baseline by the deadline may result in compliance and enforcement action, including a maximum civil penalty of A$330 per tonne of CO_2e.

MARKET COMMENTARY

The ACCU market traded within a relatively narrow band in 2024 and the first half of 2025 following momentum and firming prices, with generic ACCUs trading mostly in the A$30-43 range. Market stratification has remained a key feature, with premium units - particularly afforestation and those with biodiversity or Indigenous co-benefits attracting prices of A$50 and beyond. This reflects the growing emphasis placed by corporate and institutional buyers on broader ESG outcomes beyond pure carbon abatement.

Demand-side dynamics shifted significantly in 2024 and 2025, driven by increased purchasing due to tighter baselines under the reformed Safeguard Mechanism and a rise in compliance-related buying. On the supply side, constraints emerged from the end of new project registrations under the market's largest method category, Human-Induced Regeneration (HIR), further compounded by a slowdown in the development of new methods.

Liquidity improved noticeably in the second half of 2024 as Safeguard facilities met their compliance obligations, with monthly trading volumes across spot, forward, and derivative markets peaking at over 4.35 million units in October. Throughout 2024, average monthly liquidity exceeded 2.33 million units, totalling 27.9 million units exchanged.

At the same time, the pace of new project registration has slowed, due in part to the lack of method options and increasing costs of project development. This has raised concerns around medium-term supply, particularly from 2030 onward, and prompted a growing number of entities to pursue offtake agreements or invest directly in carbon project development.

Market participants are monitoring developments under Article 6 of the Paris Agreement and VCMI frameworks, with some firms laying early groundwork for integration of international credits into their offset strategies, both for voluntary and potential compliance purposes. Overall, the market has matured significantly in recent years, with a clear trend toward long-term strategic positioning.

MAJOR DEVELOPMENTS – SAFEGUARD MECHANISM

Baseline decline – 2023-24 was the first year in which facilities' emissions baselines reduced year-on-year. It was also the first reporting year in which some facilities in EITE industries were permitted a trade-exposed baseline adjusted determination (TEBA), designed to assist facilities exposed to international export markets.

SMCs – SMCs were generated for the first time in the 2023–24 compliance year. Facilities with emissions headroom can earn tradable credits, creating a baseline-and-credit scheme structure. The creation and trade of SMCs, which was dominated by aluminium and LNG producers, established a new market and price signal alongside ACCUs, with implications for hedging and portfolio optimisation. SMCs have traded at a <$1.50 discount to generic ACCUs to date (as at July 2025).

Hard cap on emissions – New legislation introduced a declining hard cap on net emissions under the Safeguard Mechanism, limiting total emissions permitted across all covered facilities in line with national climate targets. Prior to 2023 reforms, Safeguard Mechanism baselines were set above then-current emissions levels for many facilities, meaning there was little to no decarbonisation incentive.

MAJOR DEVELOPMENTS – VOLUNTARY MARKET

The sovereign backed Climate Active carbon neutrality certification scheme remains the primary driver of voluntary market activity, despite recent issues and pending reform.

The scheme is undergoing a major government-led review to strengthen integrity and transparency. Some of the proposed reforms include:

- Renaming "carbon neutral" to a more accurate term.
- Requiring emissions reduction targets (short- and long-term) across Scope 1, 2 & 3 emissions.
- Reducing reliance on offsets; prioritising direct emissions reductions.

The scheme is awaiting reform, which is being further pressured by concerns related to greenwashing. As a result, participation has been dropping in recent years with over 100 organisations having exited the program since 2023.

The government is expected to release outcomes from the 2023 consultation process and implement updated certification standards, which is expected to boost confidence in the scheme and broader voluntary market.

Similar to other international markets, voluntary participants are preferencing nature-based removals credits, however due to supply constraints is has been a challenge for many buyers to secure access to quality units at prices that are budget-aligned.

AREAS TO WATCH

2035 Nationally Determined Contribution (NDC) – The Australian Federal Government is expected to hand down their 2035 NDC in 2025. Australia's 2035 NDC will have significant implications for economy-wide decarbonisation, influencing emissions targets across sectors and impacting ACCU demand pending changes to the Safeguard Mechanism (see below).

Safeguard Mechanism Review - The Safeguard Mechanism will be reviewed in FY2027 to assess its effectiveness in reducing emissions in line with Australia's 2030 and 2035 climate targets. This will involve a re-examination of the scope and application of the Safeguard Mechanism (including the consideration of international credit eligibility), which has the potential to dramatically change Australia's carbon market dynamics.

Method Availability – The market is awaiting the completion of the Integrated Farm and Land Management method, which is largely seen as a substitution for the recently closed HIR method and anticipated to be the key source of supply moving forward.

Australian Sustainability Reporting Standards (ASRS) - Mandatory climate disclosure rules are also coming into force. The ASRS, aligned with global ISSB guidance, requires large companies to report Scope 1 and 2 emissions from FY25–26, aligning corporate governance with Safeguard compliance. It also requires disclosure on companies' planned use of offsets, including whether they plan to use removals or avoidance units.

Carbon Leakage Review (CBAM) – The Australian Government initiated a Carbon Leakage Review to ensure that emissions reduction actions do not have unintended impacts to domestic industries.

Preliminary findings identify significant risks in certain industries, typically industrial and manufacturing related, and those with high trade and investment exposure. The final report is due back to government by end of 2025 and will make a recommendation on potential approaches such as a Carbon Border Adjustment Mechanism which could apply to cement, lime and clinker exports in the first instance.

SMC Banking and borrowing rules – The Clean Energy Regulator is committed to reviewing the rules governing Safeguard Mechanism Credits (SMCs) as part of a broader assessment in FY2026/2027, with potential implications for flexibility mechanisms such as banking and borrowing. These could significantly affect abatement investment timing and market dynamics.

USEFUL LINKS

Safeguard Mechanism

Australian Carbon Credit Unit Scheme

Climate Active

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