



Implications of an expanded Safeguard Mechanism :

A Create Advisory perspective on who may enter the Safeguard Mechanism at a 25kt threshold



The Safeguard Mechanism is entering its third redesign this one is likely to matter most for industry economics.

The Safeguard Mechanism is the Commonwealth’s regulatory framework for managing greenhouse gas emissions from Australia’s largest industrial facilities. Any facility that emits more than 100,000 tonnes of CO₂-equivalent per year in scope 1 emissions is covered by the scheme. In practice, this means the largest mines, LNG plants, refineries, smelters, cement kilns, and transport operations in the country.

HISTORY OF THE SCHEME:



HOW IT WORKS

- Covered facilities have individual baselines that decline 4.9% a year to 2030; excess emissions must be covered with ACCUs or SMCs, creating a direct cost for non-compliance.
- Facilities below baseline generate SMCs that can be sold or banked, creating a market incentive to outperform.
- Trade-exposed facilities receive TEBA support, with decline rates as low as 1–2% a year to moderate competitiveness impacts.

WHY THE REVIEW MATTERS NOW

- The review will shape the scheme’s post-2030 architecture, not just its near-term settings.
- Key questions now include decline rates, offset use, trade-exposure treatment and who remains in scope.
- For industry, the review matters because it may change both compliance costs and decarbonisation strategy.

Safeguard Mechanism Credit (SMC): A Safeguard Mechanism Credit is a tradeable unit issued to a Safeguard facility for each tonne of emissions it achieves below its baseline in a year.

Australian Carbon Credit Unit (ACCU): An ACCU is a tradeable unit issued for each tonne of verified emissions reduction or removal achieved by an eligible project under the ACCU Scheme.

Trade-exposed baseline-adjusted (TEBA): A Safeguard TEBA facility proves it is trade-exposed and is given a slower-declining emissions baseline to reduce carbon-cost impacts on its competitiveness.

The review is moving from scheme maintenance to scheme redesign and the threshold question is live again.

The 2024–25 compliance data shows the mechanism remains in structural exceedance: covered emissions fell to 132.8 Mt, but baselines fell faster and 69% of facilities remained above baseline. The review will need to decide how tightly the current scheme should operate, and whether it becomes the vehicle for broader, productivity-framed reform.

68%

of facilities exceeded baseline in 2024–25

+48.9%

YoY growth in total exceedance volume*

13.7 Mt

total exceedance, up from 9.2 Mt in 2023–24*

\$36–37/t

current ACCU spot price (Feb 2026)

WHAT THE DATA SHOWS

- **Covered emissions fell 2.3% to 132.8 Mt in 2024–25**, but the Clean Energy Regulator (CER) notes reductions reflect a mix of genuine abatement and operational factors: production softness, facility closures, price-driven output changes.
- **Cumulative baselines fell 7.3%, to 126.2 Mt**, faster than actual emissions. The gap between what facilities emit and what their baselines allow is widening each year.
- **141 of 208 facilities (67.8%) exceeded their baselines.** Facilities surrendered 13.4 million units, up from about 8.5 million units in 2023–24, a ~57% increase, indicating that aggregate exceedance is growing, not stabilising.
- In 2024–25, **54 facilities received Safeguard Mechanism Credits (SMCs), down from 62 in 2023–24, a reduction of about 13%**. This shows the pool of facilities earning credits for being below baseline is shrinking as baselines decline faster than emissions at most sites.

WHAT THE REVIEW MUST RESOLVE

- **The coverage threshold is the decision that expands the audience (focus of this analysis).** The Productivity Commission has recommended 25,000 tCO₂-e, framed as productivity reform rather than climate policy tightening.
- **Post-2030 decline rates are the single most consequential decision.** Meeting even the lower bound of the 2035 NDC (62% below 2005 levels) implies a post-2030 decline rate of approximately 4.82%. At the top of the NDC range (70%), the required rate rises to 6.85%.
- **ACCU eligibility is under pressure.** With 69% of facilities in exceedance and the offset market absorbing the gap, there is limited pressure on physical decarbonisation. The review must decide whether to accept, constrain, or shift that dynamic.
- Two concurrent reviews must resolve interdependent outcomes simultaneously. The Safeguard review and the CCA's ACCU Scheme review are running in parallel.

The Productivity Commission has led the debate, advocating for reduced thresholds to expand the scheme

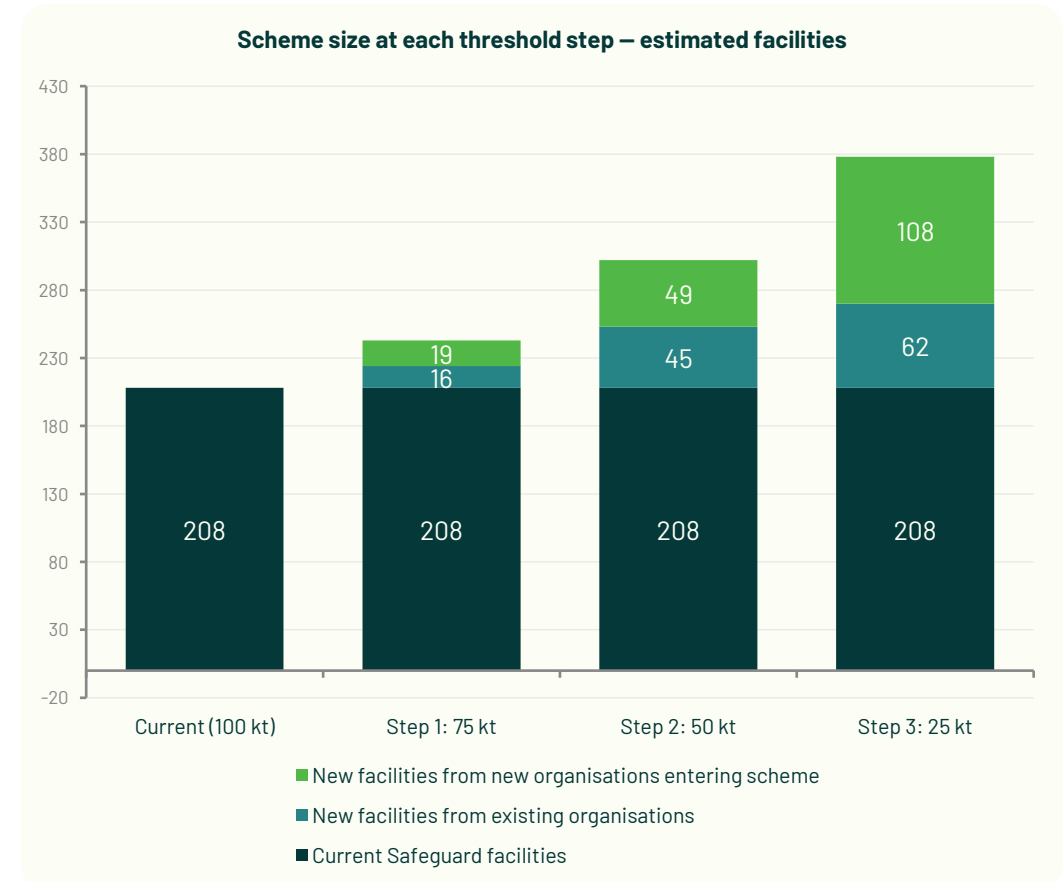
The Productivity Commission has anchored the review debate at 25,000 tCO₂-e. A progressive path from 100 to 75 to 50 to 25 kt CO₂-e remains perhaps the most plausible route. Reducing the threshold is one of the cleanest ways to broaden the scheme: it extends coverage, reduces uneven treatment across firms, and gives government a productivity-based rationale for reform.

Arguments for reducing the threshold

- **It reduces uneven treatment across industry.** Similar facilities can currently face very different policy obligations depending on whether they sit just above or below 100 kt; a lower threshold narrows that cliff-edge.
- **Expanding the scheme enables more lower cost emissions reduction to be adopted.** More consistent treatment of firms and broader incentives to lift operational efficiency, not only tighter climate ambition.

Implications of reducing the threshold

- 1. Expansion accelerates below 50 kt.** Our analysis suggests a reduction to 75 kt adds ~35 facilities, 50 kt adds ~94, and 25 kt adds ~170 relative to today. The biggest marginal increase comes in the 25–50 kt band, not the first step.
- 2. Lower thresholds bring in new corporate groups, not just more facilities.** At 25 kt, around 60 new facilities are within existing safeguard organisations, while ~110 come from firms not currently covered. This shifts the focus from deepening obligations on incumbents to onboarding a broader mid-market cohort.
- 3. A phased pathway still matters.** A progressive path from 100 → 75 → 50 → 25 kt helps sequence baselines, systems and support as the scheme moves from a relatively concentrated set of reporters to a more dispersed group with less compliance experience.

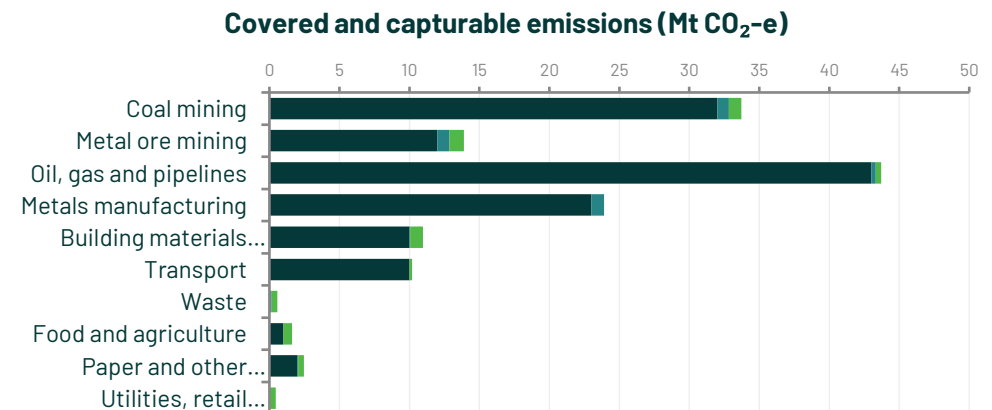


Lowering the threshold to 25,000 tCO₂-e expands the scheme by ~80% more facilities, but adds only ~6% more emissions.

Create Advisory analysis suggests a 25,000 tCO₂-e threshold would increase Safeguard coverage from 208 to around 379 facilities, while total covered emissions rise from 132.8 Mt to 141.3 Mt. The expansion is concentrated in a more diversified long tail of smaller facilities, so the policy change is more about extending compliance reach than materially increasing abatement volume.

Reducing the threshold brings in new industries and facilities not previously covered by the scheme:

- **Coal, metal ore and oil & gas remain the core of the scheme on both counts.** In facility numbers, coal mining, metal ore mining, and oil-gas-pipelines and account for the overwhelming majority of covered and capturable emissions.
- **Threshold reduction pulls in a much more diversified long tail, but that tail contributes modest additional emissions.** Many of the new facilities at lower thresholds sit in building materials, transport, food and agriculture, waste, and smaller industrial categories. This shows up as substantial extra facility counts but only relatively small increments in the emissions chart.
- **New entrants are more about compliance reach and market-building than about headline abatement volumes.** The new facilities from existing organisations and entirely new organisations add significantly to the number of sites under Safeguard-style obligations, especially in non-mining sectors, but they add only a small share of total potential emissions.
- **Lowering the threshold means facilities that cut emissions toward or below 100 kt do not simply fall out of the Safeguard altogether.** Instead, they remain within the policy perimeter as they decarbonise, especially across smaller and non-mining sectors.



Create Advisory conservative estimate; other published estimates range from 172 (CMI/CORE, Oct 2025) to 267 (Productivity Commission, Dec 2025) new facilities



Let's talk

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