

ASFI Submission to Government's Safeguard Mechanism Review Consultation (September 2026)

1. Introduction

ASFI is the peak body for sustainable finance in Australia. We work with our members - leading financial institutions across banking, investment, insurance and financial services – as well as government and regulators to mobilise capital for sustainability.

The Safeguard Mechanism is a key element of Australia's climate policy architecture and has an important role to play in supporting the transition of Australia's industrial economy. For investors and lenders, clear and credible emissions reduction requirements provide an important signal about the direction and pace of transition, helping to strengthen the business case for investment in industrial decarbonisation.

The settings adopted through this Review will therefore be important not only to ensuring that the Safeguard Mechanism contributes appropriately to Australia's 2035 emissions reduction target, but also to creating the certainty and incentives needed to bring forward private finance and investment in the technologies, infrastructure and productive assets required for Australia's transition and future economic competitiveness.

ASFI considers that the Review provides an important opportunity to strengthen this investment signal while maintaining appropriate flexibility. Our recommendations are intended to support a Safeguard Mechanism that drives earlier and more cost-effective emissions reduction, supports investment in genuine industrial decarbonisation, and helps position Australian industry to remain productive and competitive through the transition.

2. Summary of Key Policy Positions for the Safeguard Mechanism Review

1. **Safeguard Mechanism Target:** ASFI supports alignment of Safeguard Mechanism with the upper end of Australia's 2035 emissions reduction target (ie 70%)
 - a. This sends an important investment signal that the Government is serious about meeting its target, and allows for any scheme wide under-performance (for example due to increased production) to be absorbed.

2. **Baseline decline rates:** ASFI supports an average baseline decline rate for Safeguard Mechanism facilities of 7%, with scope for differentiated decline rates that reflect industries' different transition pathways, access to abatement, and expected role in a net zero economy.
 - a. IGCC/EY [modelling](#) suggests that baseline decline rates of 7% from 2031-35 would drive an additional 15 Mt abatement per annum, with only modest increases in abatement costs.
 - b. IGCC/EY modelling indicates that differential decline rates for fossil fuel facilities versus other facilities would incentivise greater onsite abatement, encouraging fossil fuel facilities to take up available low-cost abatement options in the near term, while providing a longer runway for industrial manufacturers that have less access to low cost abatement and tighter margins. Differentiated rates would have little or no effect on system-wide compliance costs.
3. **Coverage:** ASFI supports lowering the Safeguard Mechanism threshold to 75,000 tCO₂-e from 2031. The Government should signal threshold changes in 2027 to give affected facilities sufficient time to plan and prepare. There is also a strong case for considering a subsequent reduction to 50,000 tCO₂-e.
 - a. Broader coverage would strengthen and extend the carbon price signal across the economy, creating a more consistent incentive to reduce emissions and a larger pool of abatement opportunities.
 - b. IGCC/EY [modelling](#) suggests that lowering the facility emission threshold in three steps to 25,000 tCO₂-e from 2031 to 2037 could achieve ~5Mt per annum of additional abatement by 2040 and improve efficiency of climate policy, while only moderately impacting ACCU prices. We recommend the Government undertake further analysis on the costs and benefits of lowering the threshold to 25,000 tCO₂-e.
4. **Access to ACCUs:** The scheme should maintain access to ACCUs as a key flexibility mechanism, particularly for facilities that have limited low-cost abatement options in the near term but an important role to play in a net zero economy. ASFI supports reforms to the Safeguard Mechanism that would sharpen the incentive for on-site abatement, including consideration of a potential "Reinvestment Contribution" to support on-site emissions reductions activities, funded through a modest surcharge on each ACCU surrendered. The design of the cost containment measure should be considered alongside access to ACCUs, as the effective ACCU price ceiling also weakens incentives to invest in on-site abatement.

- a. Current scheme settings are not sufficiently motivating even low-cost abatement options, and the Government's own analysis indicates that meaningful on-site abatement will not take place before 2040.
- 5. **Support for decarbonisation investments:** Government support for industrial decarbonisation should be reviewed to consider where it can be better targeted, more efficient and provide a clearer enabler for investment. Support should prioritise industries with a credible long-term role in a net zero economy and avoid allocating public funds to investments likely to become stranded or deliver poor value as the transition progresses.
 - a. Public funding is available through a range of Government mechanisms for investment in industrial decarbonisation but uptake has been limited in part because accessibility is challenging or complex. More accessible and certain (i.e. long-term, non-discretionary) decarbonisation funding for industries that have a clear role in a net zero economy would support the competitiveness of Australian industry and accelerate productivity benefits associated with the transition.
 - b. As noted above, Government should also consider options for additional funding, including a potential "Reinvestment Contribution": a modest surcharge on each ACCU surrendered the proceeds of which are deployed by Government towards industry abatement projects.
- 6. **Trade-exposed industries:** ASFI supports the introduction of a Carbon Border Adjustment, in line with the recommendations of the Carbon Leakage Review, to address carbon leakage risks. Where a Carbon Border Adjustment provides effective protection for a sector, TEBA arrangements should be removed and baselines aligned with those applying to non-TEBA facilities.
 - a. A well-designed Carbon Border Adjustment would provide a more transparent and consistent means of addressing carbon leakage, while maintaining incentives for domestic decarbonisation. Replacing concessional baseline treatment with a clearer and more durable framework would also improve certainty for investment and help level the playing field between facilities.
- 7. **Electricity sector coverage:** Government should pursue interventions that provide greater confidence in the timing of coal-fired generation closures. Options include bringing electricity generators into the active operation of the Safeguard Mechanism from their stated closure dates.
 - a. Greater certainty around coal generation closure dates would provide a clearer investment signal for new renewable generation, storage and other infrastructure needed to replace retiring coal capacity and meet

growing electricity demand. Reducing uncertainty about the future supply mix could help bring forward private investment and reduce the need for ongoing government intervention to underwrite new capacity.

8. **Transition / abatement plans** There is merit in requiring Safeguard facilities to develop carbon abatement plans to support identification of opportunities for on-site abatement and provide greater transparency to Government and market participants. Any new requirements should be designed to avoid unnecessary duplication with existing reporting requirements, particularly climate-related financial disclosures.
 - a. Carbon abatement plans could help facilities identify and plan for on-site emissions reductions, while providing greater visibility of expected abatement activity and future demand for ACCUs and Safeguard Mechanism Credits. Linking concessional treatment or public support to clear plans and reporting would also strengthen accountability for public policy and investment outcomes.
9. **Measures outside the Safeguard Mechanism:** while the Safeguard Mechanism is an important policy for industrial decarbonisation, it should be considered within the broader policy context. The Government should consider and address other regulatory settings that may be inhibiting industrial decarbonisation – for example, the Diesel Fuel Tax Rebate as a disincentive to mine-site electrification.
 - a. A strong carbon price signal will be less effective if other policy and regulatory settings create countervailing incentives. Identifying and addressing these barriers would improve the effectiveness of the Safeguard Mechanism, strengthen the business case for low-emissions investment and help ensure that government policy is working coherently to support industrial decarbonisation.

3. Detailed Responses to Consultation Questions

3. Review of current settings	
3.1 Flexible compliance	
3.1.1 Emissions reduction technologies Are Safeguard policy settings and Government support mechanisms suitable for developing and deploying emissions reduction technologies for the industrial sectors? Are there any remaining barriers to undertaking on-site	<i>Barriers to investment in on-site abatement</i> Investments in decarbonisation in industrial facilities are capital intensive. ASFI members have observed that significant upfront capital requirements, coupled with knowledge gaps, can make investment timing and business cases challenging even where economical onsite emissions reduction opportunities have been identified. ASFI members noted that in some cases, low or zero emissions technologies have

abatement, including sector-specific barriers? Are there any important areas that are not covered by government policy or programs?	not yet been proven at full commercial scale, particularly for hard-to-abate processes in sectors such as steelmaking. They also identified access to competitively priced, firm renewable energy, as well as the need for continued improvements in transmission, grid connections and other enabling infrastructure, as key conditions for enabling on-site abatement in industrial facilities. Delays associated with planning and permitting processes, together with workforce and skills shortages, were identified as factors inhibiting the deployment of industrial decarbonisation projects. They stressed the value of policy certainty to support corporate decisions to invest in decarbonisation. While the Safeguard Mechanism appears to be operating as intended in achieving emissions reductions, it is not incentivising on-site abatement. IGCC/EY modelling shows that under current settings, investment in onsite decarbonisation is unlikely to occur until 2040 or later.¹ These results, and the ongoing presence of barriers to decarbonisation outlined above, indicate that there is a strong case for the Safeguard Mechanism Review to identify and implement reforms that more effectively stimulate on-site abatement in the near to medium term. <i>Financial support for on-site abatement activities</i> ASFI members have observed for companies that have undertaken abatement projects on-site, government funding has often been an important enabler. However, accessing existing government funding can be challenging and application processes are often complex and resource intensive. We recommend the Government consider options to improve the accessibility and certainty of funding programs for industrial decarbonisation so these can be more easily
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¹ IGCC, “[Futureproofing Industry: Investor Priorities for a Reformed Safeguard Mechanism](#)” 2026

	factored into capital investment decisions and plans for industrial facilities. Further, we note that IGCC/EY modelling found that Government financial support (such as grants or tax concessions) could increase on-site abatement by around 20% by 2035 and reduce costs to industry. This suggests that well designed government subsidies would have a significant impact on industrial decarbonisation and on the future competitiveness of Australia's industrial sector. We note the proposal put forward by IGCC, based on analysis by Hatfield-Dodds and Jotzo (2026), for a Reinvestment Contribution: a modest surcharge on each ACCU surrendered, the proceeds of which are used to fund industry abatement projects. This would provide a revenue neutral approach for supporting industrial transition through the Safeguard Mechanism. Any Government funding for industrial decarbonisation should be carefully designed to prioritise transformation of industries of the future. Generally, government should avoid supporting capital investment in abatement at facilities with a declining role in the Australian economy where this risks creating stranded assets or poor-value investments. This is consistent with how commercial lenders and investors are assessing opportunities, and with emerging approaches to defining 'transition' finance. We also recommend considering opportunities to remove barriers outside the Safeguard Mechanism scheme that may be disincentivising investment in abatement, including regulatory barriers (see further our response under section 3.4.2 below) .
3.1.2 Domestic offsets Are new policy measures for ACCU use needed to accelerate industrial decarbonisation?	The Consultation Paper outlines a strong rationale for ensuring that the Safeguard Mechanism incentivises on-site abatement while allowing compliance flexibility for facilities that need it. ASFI supports this position: while ACCUs are an important flexibility mechanism to lower average compliance costs, the current availability

If policy measures are needed, what would be the best way to reduce reliance on ACCU use without unduly disrupting the carbon market and when should any such measures start?	of ACCUs at low prices is dulling the signal to invest in on-site decarbonisation. The Australian Government’s analysis that businesses will continue to rely on ACCUs to 2040 to meet their Safeguard Mechanism compliance obligation is consistent with results of modelling commissioned by IGCC. As noted above, this strongly suggests that adjusted policy measures are needed to accelerate industrial decarbonisation. ASFI supports reforms to the Safeguard Mechanism that would sharpen the incentive for on-site abatement, while maintaining access to flexibility for firms that have an important role in a net zero economy but limited near term access to cost-effective abatement, and supporting a well-functioning carbon market. We note the analysis undertaken by Hatfield-Dodds and Jotzo (2026)² on options to support on-site abatement and encourage the Government to consider this analysis in determining the most appropriate reforms with respect to ACCUs. In particular, we note the proposal from IGCC based on this analysis and the modelling that IGCC commissioned from EY for a Reinvestment Contribution which provides an efficient, revenue neutral approach to incentivising on-site abatement.
Are requirements to submit carbon abatement plans needed to improve transparency and help inform future supply and demand for ACCUs and SMCs? How would any such requirements complement or duplicate corporate climate disclosure requirements?	Requiring facilities to submit carbon abatement plans could support facilities to consider and identify opportunities and strategies for onsite abatement, while providing transparency to Government and market participants including investors and lenders. Duplication with existing reporting arrangements should be avoided, and in particular the Government should consider how a requirement to produce a carbon abatement plan would intersect with obligations under the Climate Related Finance Disclosures regime.

² Steve Hatfield-Dodds and Frank Jotzo (2026), “[Assessment of Safeguard Mechanism options to motivate on-site abatement and support the transition to a competitive and sustainable low-carbon Australian economy](#)”

	Linking concessional treatment or public support to clear plans and reporting would also strengthen accountability for public policy and investment outcomes.
3.1.3 International units Is there any ongoing interest in using international offsets for Safeguard Mechanism compliance in the future and what is the rationale for this? How would the market need to develop before inclusion in the Safeguard Mechanism could be considered at future review points and what considerations should be given regarding interoperability, recognition and integrity?	ASFI supports the Government's position to focus on domestic abatement for the purpose of Safeguard Mechanism compliance. This is consistent with supporting Australia's transition and positioning Australian industries to be competitive in a low-carbon future.
3.2 Inter-temporal flexibility and the cost containment measure	
3.2.1 Banking Is banking working to encourage businesses to reduce their emissions ahead of schedule? Are there any strong reasons why banking should not extend beyond 2030?	No response.
3.2.2 Borrowing Are current borrowing arrangements working to help businesses manage short-term exceedance? Should borrowing continue beyond 2030?	No response.
3.2.3 Multi-year monitoring Should the current policy that prevents multi-year monitoring periods from extending beyond 2030 be retained? Are there circumstances that could benefit from access to multi-year monitoring after 2030?	No response

3.2.4 Cost containment measure Is the current design of the cost containment measure sufficient to allow businesses to manage upside price risks? Could the current cost containment measure price deter investments in emissions reduction activities?	The effective guarantee of a price ceiling on ACCUs of \$75 (coupled with the ability to purchase and bank ACCUs at current low prices) is likely a disincentive for undertaking on-site abatement. The impact of the cost containment measure should be considered alongside other options to encourage on-site abatement (see further our response to questions in section 3.1.1 above).
3.3.3 Trade exposed baseline adjustments Do current arrangements that link TEBA eligibility to scheme cost impacts create equity concerns among competing facilities or discourage uptake of on-site abatement? Would a sectoral approach to TEBA eligibility better target carbon leakage risks and help to address any equity concerns?	Yes, current arrangements for TEBA assessment appear to raise equity issues and create a perverse incentive to defer onsite abatement. ASFI supports consideration of a sectoral approach to TEBA eligibility.
Could a 'catch-up mechanism' be introduced for TEBA to better distribute the effort between TEBA recipients and other Safeguard facilities?	No comment
Feedback is sought on options for improving TEBA that would continue to effectively manage carbon leakage, and deliver Safeguard Mechanism objectives, including emissions targets and incentives for on-site abatement.	No comment (but see response to questions in 3.3.4 below)
3.3.4 A Border Carbon Adjustment Should a border carbon adjustment be introduced for cement and clinker?	ASFI supports introduction of a border carbon adjustment (BCA) to address leakage risks for import commodities, consistent with the Carbon Leakage Review recommendations.

If a BCA is implemented, what elements should be included in any process for considering and consulting on the inclusion of further commodities over time?	ASFI supports consultation on BCA design including consideration of expanding Safeguard Mechanism threshold to cover all or substantively all production facilities in order to maintain a level playing field.
Should TEBA provisions for a commodity be removed once a BCA is fully implemented for that commodity? What would the appropriate timing and mechanics be for removing TEBA provisions for a commodity covered by a BCA?	ASFI supports the removal of TEBA provisions for a commodity coincident with the implementation of a BCA for that commodity, as the competitiveness and leakage concern would then be addressed through the BCA.
3.4 Sector Specific Issues	
3.4.1 Coal mining Should baseline arrangements for coal facilities after 2030 remain unchanged or be aligned with baseline arrangements for other sectors?	ASFI supports baseline arrangements that avoid the allocation of head room to coal facilities. This helps ensure that facilities do not receive preferential treatment relative to other types of Safeguard Mechanism facilities, and helps to preserve the investment signal for abatement. Given the availability of relatively low-cost abatement options for coal facilities in the form of methane abatement, ³ there is an argument that baselines should tighten and shift towards global best practice over time.
Are there specific circumstances where current settings do not operate as intended to encourage coal facilities to manage and reduce their emissions? Are current settings sufficient to allow businesses to manage shut-downs or extended periods of low production? How could this be addressed while remaining consistent with the Safeguard's output-based architecture and retaining incentives to manage and reduce all coal mining emissions?	No response.
3.4.2 Road and rail transport Could removing optionality about state and territory versus national	The consultation paper outlines a strong rationale for moving towards national reporting for

³ IGCC, "Futureproofing Industry: Investor Priorities for a Reformed Safeguard Mechanism" 2026

reporting for transport facilities help to improve land transport sector coverage? Would a mandatory national facility definition for transport sectors create any unintended consequences for land transport or other sectors, such as aviation or shipping?	transport facilities to more accurately reflect the cross-border operations of facilities in this sector.
Are there particular freight corridors where there is high freight contestability?	No response
Can stakeholders provide information about potential overlap and competitive distortions?	No response.
Are there other changes to Safeguard Mechanism design that could address potential distortions consistent with Safeguard Mechanism objectives?	The Safeguard Mechanism has an important role to play in supporting industrial transition. However, it is not operating in isolation. We encourage the Government to consider whether there are policy settings outside the Safeguard Mechanism that should be reformed or introduced to complement and promote effectiveness of the Safeguard Mechanism. This includes the Diesel Fuel Tax rebate which could be reformed to sharpen the signal to invest in mine-site electrification.⁴
3.5 Coverage	
Should the Safeguard Mechanism cover a larger portion of national emissions?	ASFI considers there is a strong case for increasing Safeguard Mechanism coverage. This would expand the effective carbon price across the economy – increasing the investment signal for decarbonisation, leveling the playing field (subject to individual sector impacts), and offering a larger pool of abatement opportunities that could place downward pressure on overall compliance costs. IGCC/EY modelling indicates that lowering the facility emission threshold in three steps to 25,000 tCO₂ from 2031 to 2037 could achieve ~5Mt per annum of additional abatement by 2040

⁴ See e.g., Fortescue, “[Diesel Fuel Tax Credit Reform](#)”.

	and improve efficiency of climate policy, while only moderately impacting ACCU prices. ⁵
Should the Safeguard Mechanism threshold be lowered and, if so, when?	ASFI strongly supports lowering the threshold to 75,000 tonnes from 2031. This will help ensure facilities don't fall out of the scheme as their emissions reduce as well as supports increased coverage (which yields benefits outlined above). We also consider there is a strong case for a subsequent threshold reduction to 50,000 tonnes. We would see value in further analysis on the costs and benefits of further lowering the threshold to 25,000. This would have the advantage of introducing a carbon price across more of the economy but should be considered in light of anticipated additional abatement achieved and compliance costs as well as industry specific impacts. If a BCA is introduced, the Government should consider including facilities in sectors covered under the BCA to avoid competitive distortions.
How should baselines be set for facilities that would enter the Safeguard Mechanism as a result of a lower threshold?	Early notice of proposed changes to Safeguard Mechanism coverage is essential to allow facilities to plan and prepare. The Government should signal threshold changes in 2027. ASFI considers that Option 1 (set baselines for new entrants in the same way as existing facilities) would support a level playing field for industry participants.
What new production variables would be needed for facilities below the current 100,000 tonne CO ₂ -e threshold?	No response.
4 Meeting the 2035 Target	
4.1 Safeguard Share of the 2035 Target	
Should the proportional share be updated from 28.1% to 29.8% to reflect data in the two years prior to the commencement of the reforms or is there an alternative method that would retain a proportional share?	No response.

What factors should be considered in setting the Safeguard Mechanism target for 2035? How should the reserve be set for 2035 to account for variation in production and new entrants?	ASFI supports setting a Safeguard Mechanism that is aligned with the upper end of Australia's 2035 emission target. This sends a signal that the Government is serious about meeting its targets, and supports the investment case for decarbonisation. It also allows for any scheme wide under-performance (for example due to increased production or other factors) to be absorbed while still ensuring the Safeguard Mechanism achieves its proportional share of the 2035 target.
4.2 Decline rates after 2030	
What factors should be taken into account when determining an appropriate baseline decline rate to apply from 2030-31 to 2034-35, noting that it must be calibrated to meet the agreed target?	ASFI supports an average decline rate of 7 per cent, aligning with the upper end of Australia's 2035 target range. IGCC/EY modelling suggests that baseline decline rates of 7% from 2031-35 would drive an additional 15 Mt abatement per annum.⁶ This decline rate is projected to increase ACCU costs from \$50-60 per tonne to around \$100 per tonne, but only modestly impact the average abatement cost. Within the 7% average, ASFI also supports consideration of differential decline rates. This would reflect that industries covered by the Safeguard Mechanism differ significantly with respect to the role they are expected to play in a net zero economy, and their relative access to low cost abatement. IGCC/EY modelling indicates that adjusting decline rates for fossil fuels versus other types of facilities would incentivise greater onsite abatement, encouraging fossil fuel facilities to take up low cost abatement options in the near term, while providing a longer runway for industrial manufacturers that have less access to low cost abatement.⁷ This approach would have little or no effect on system-wide compliance costs.

⁶ IGCC, "[Futureproofing Industry: Investor Priorities for a Reformed Safeguard Mechanism](#)" 2026

⁷ IGCC, "[Futureproofing Industry: Investor Priorities for a Reformed Safeguard Mechanism](#)" 2026

	The setting of decline rates could be based on a range of considerations and should include whether the industry/activity has a declining role in a net zero future, its access to near-term low-cost abatement opportunities, and its ability to absorb costs.
Other matters – electricity sector	We recognise that consideration of how the Safeguard Mechanism applies to the electricity sector is not within scope of this Review. Nevertheless, supporting electricity sector transition is critically important for reaching Australia’s climate goals, and ensuring access to reasonably priced energy for Australian homes and businesses. Significant progress has been made in introducing renewables to Australian electricity system. However, uncertainty regarding closure dates for coal fired generators is (among other factors) impeding investment in new renewable generation that will be needed to replace those generators and service additional demand as the Australian economy continues to electrify.⁸ Consideration should be given to proposals to bring electricity within the active operation of the Safeguard Mechanism.⁹ One option that would support market certainty with respect to future electricity demand is applying a Safeguard Mechanism liability to generators from the point of their stated closure date.¹⁰ This could complement NEM Review reforms currently underway and take pressure off the Capacity Investment Scheme. It should be pursued alongside measures to address delays in permitting and approvals, and support workforce availability to support renewable generation projects.

⁸ See, for example, Clean Energy Investor Group, “[2026 Clean Energy Outlook](#)”

⁹ See, for example, Grattan Institute “[Bills down, emissions down: a practical path to net-zero electricity](#)”

¹⁰ See, IGCC, “[Futureproofing Industry: Investor Priorities for a Reformed Safeguard Mechanism](#)” 2026