

# ON THE WAY TO NET-ZERO: SAFEGUARD MECHANISM REFORMS



"In a lot of business cases, 'heading in the right direction' is good enough, but in the case of climate change there's a finite time to act. With decarbonisation, the risk is we might be heading in the right direction but not get there fast enough."

**Christophe Denoux, Westpac Head of Sustainable Trading**

## THE EMISSIONS REDUCTION TIMELINE



**2022-23 TO 2030**

Safeguard mechanism's annual emissions are projected to fall from **143 million tonnes** to **no more than 100 million tonnes** by the end of the decade.



**1 JULY 2023**

Federal Government reforms to the Safeguard Mechanism are scheduled to kick in.



**FY2024**

Industrial facilities' first emissions reporting under the new regime with 31st March 2025 the deadline to surrender any ACCUs or SMC's.



**2050**

Australia's goal to achieve net-zero emissions.



**2030**

The reformed Safeguard Mechanism is expected to deliver an **estimated 205 million tonnes of abatement** by the end of the decade.



**2026-27**

The Safeguard Mechanism policy settings are slated for review.

## KEY TERMS

### NET-ZERO

The [United Nations](#) defines the term as "cutting greenhouse gas emissions to as close to zero as possible, with any remaining emissions reabsorbed from the atmosphere by oceans and forests".

### BASELINE

Facilities' net-emissions levels must stay at or below an agreed baseline, or penalties will be imposed. Reforms propose a 'hybrid approach' for facilities with an existing baseline, initially set at site-specific levels and transitioning to industry average benchmarks by 2030.

### SAFEGUARD MECHANISM

A decarbonisation framework introduced in 2016 that applies to Australian industrial facilities that release at least 100,000 tonnes of direct emissions a year.

### CARBON BORDER ADJUSTMENT MECHANISM (CBAM)

The European Union's tool designed to put a fair price on the carbon emitted during the production of carbon intensive goods that are entering the EU, and to encourage cleaner industrial production in non-EU countries.

### SAFEGUARD MECHANISM CREDITS

Industrial facilities will be able to earn tradable credits if their emissions are below the agreed limits proposed to apply from 1 July 2023.

### AUSTRALIAN CARBON CREDIT UNITS (ACCUS)

Awarded to carbon-abatement projects that result in reduced greenhouse gas emissions.



**1**

ACCU issued by the Clean Energy Regulator.



**1**

tonne of carbon dioxide equivalent (tCO<sub>2</sub>-e) removed or avoided by a project.



## FAST FACTS

**4.9%**

Average annual cut to emissions for about **215** industrial facilities under the reformed Safeguard Mechanism.

Source



**28%**

Proportion of Australia's overall carbon emissions accounted for by facilities covered by the mechanism. It's the nation's second-largest emitting sector, behind electricity generation.

Source



**2%**

The lower baseline decline rate being considered for emissions-intensive and trade-exposed industries most significantly impacted by international competitors from markets with less stringent decarbonisation regulations.

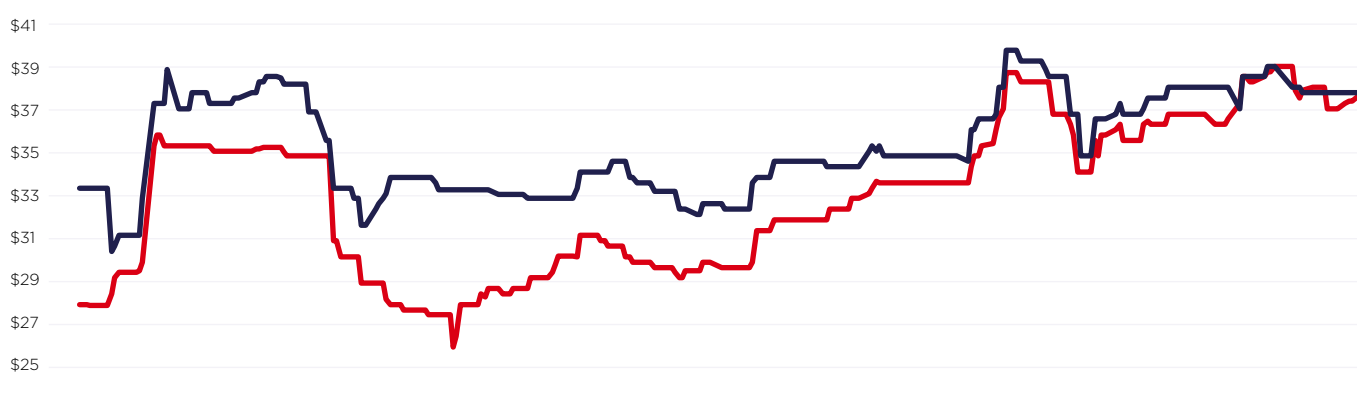
Source



## THE CARBON PRICE ROLLERCOASTER

ACCU spot (HIR) ■  
ACCU spot (Generic) ■

### RepuTex ACCU spot price (90 days)



Source: RepuTex EnergyIQ Platform (as of 3/5/23)

### SECOND HALF OF 2021

ACCU spot price surges from **AUD 19.75**, reaching a peak of **AUD 57** in late January 2022.

Source

### MARCH 2022

The price falls rapidly to around **AUD 30**, after controversial changes allow entities to opt out of Emissions Reduction Fund (ERF) fixed-delivery contracts and enter the open market.

Source

### MAY 2022

Prices rise to above **AUD 35** a tonne following the election of the Labor Government.

Source

### EARLY 2023

ACCU trading volumes hit **3.2 million** in early January after the release of the proposed Safeguard Mechanism changes. This pushes the price of ACCUs to about **AUD 39**, up from **AUD 34.50** at the time.

Source

## FUTURE FOCUS

**74%**

The proportion of emissions cuts estimated to be made onsite by facilities under the reformed Safeguard Mechanism in 2030. Around half the emissions covered by the mechanism will be hard to directly reduce, predicts consultancy RepuTex, but the firm foresees ample low-cost opportunities for cuts.

Source



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